2014

Annual Report 2014

Central 1®

Financial Review
2014

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Cautionary Note Regarding Forward-Looking Statements

From time to time, Central 1 makes written forward looking statements, including in this 2014 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", "will", "may", "should", "could" or "would" and similar expressions.

Forward-looking statements, by their nature, require Central 1 to make assumptions and are subject to inherent risks and uncertainties, which give rise to the possibility that predictions, forecasts or conclusions will not prove to be accurate, that assumptions may not be correct and that financial objectives, vision and strategic goals will not be achieved. Central 1 cautions readers 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. See "Overview" for detail risk factors that may affect our business.

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

Management's Discussion and Analysis

As at March 3, 2015

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, 2014, 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 ("B.C.") credit union system" or "B.C. system" and the "Ontario credit union system" or "Ontario system". Where the term "system" appears without regional designation, it refers to Central 1's total membership, encompassing credit unions in both provinces.

Financial information for the B.C. system has been provided by the Financial Institutions Commission of British Columbia ("FICOM"), the provincial credit union regulator, 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.

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 B.C. 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 B.C. and 84 in Ontario as at December 31, 2014, operated over 872 branches and delivered 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) digital, 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 liquidity and excess liquidity pools and fostering the system's

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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 Liquidity Pool ("MLP") 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 B.C. 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 allow them to offer mobile banking, phone banking, and business-to-business products to their individual members.

Central 1's payment and settlement operations encompass processing paper items and electronic transactions such as Automated Funds Transfer and Bill Payments on behalf of member credit unions. Central 1 also provides other payment services, including domestic and foreign wire transfers and Interac e-transfers.

Central 1 is a Group Clearer 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 B.C. and Ontario credit union systems, identifying and promoting dialogue on relevant issues, providing government relations and legislative representation and promoting the system's collective interests with all levels of government.

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 serving member credit unions, Central 1 has historically expanded the scope of its business to provide services to non-Class A 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. Central 1 also prices many of its services to its Class A members 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. The Stabilization Fund Corporation previously administered the Master Insurance program ("MIP") on behalf of Ontario credit unions. Effective July 1, 2014, the MIP was transferred to the CUMIS Group Limited ("CUMIS") and the Stabilization Fund Corporation will continue any support for claims related to policies in place prior to the transition of the MIP to CUMIS.

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 Cautionary Note 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 uncertainty in financial markets. Factors such as interest rates, inflation, consumer spending and business spending not only impact residential real estate lending, the primary 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.

The Office of the Superintendent of Financial Institutions ("OSFI") has outlined Liquidity Adequacy Requirements ("LAR") for the industry. Under the LAR, certain OSFI regulated financial institutions are required to maintain a minimum Liquidity Coverage Ratio ("LCR"). The LCR measures whether an institution has sufficient High-Quality Liquid Assets ("HQLA") to survive a 30 day liquidity stress scenario. The definition of HQLA includes cash and a prescribed list of certain high quality, non-financial institution securities that can be converted into cash at little or no loss of value in private markets. As a result, the market demand for HQLA, together with securities that meet the eligibility requirements of the Bank of Canada's Standing Liquidity Facility has increased and has driven down the yield of these securities.

During the year, the Federal Government tabled Bill C-43 in the House of Commons. This bill proposes to repeal Part XVI of the *Cooperative Credit Associations Act* which permits provincial centrals to operate with oversight from OSFI. As a result of this proposed change, provincial governments would become exclusively responsible for the oversight of provincial centrals. This change will come into force at a date to be determined through dialogue between the federal government and the credit union system.

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 from changes in credit spreads and swap spreads affects Central 1's earnings.

System-Specific Factors
Demand for Central 1's products and services reflect 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 services providers. Non-financial companies can also offer members/customers a range of competing service and product options.

In 2012, the Federal Government proclaimed legislative amendments to the *Bank Act* (Canada) ("Act") 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.

During 2014, the Federal Government announced its intention to provide temporary transitional support to eligible provincial credit unions that have provincial acceptance to move to the federal framework. At this point in time, Central 1 is not aware of any credit unions transitioning to the federal framework.

Also during the year, the Ontario Minister of Finance commenced its five-year review of the *Credit Unions and Caisses Populaires Act, 1994*. The B.C. Minister of Finance commenced a review of the *B.C. Financial Institutions Act* in 2014.

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"), the Foreign Account Tax Compliance Act and changes to the Canadian payments system as a result of governmental reviews.

During 2014, FICOM designated Central 1 as a domestic systemically important financial institution ("D-SIFI") with 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 connection with its 2014 budget, the federal government announced that it plans to consult with both the provinces and industry on a plan to eliminate joint supervision of provincial credit union centrals by OSFI.

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 continuing under the *Act* cannot be readily determined. In such cases, Central 1's mandatory 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 of this MD&A.

In connection with the designation of Central 1 as a D-SIFI, FICOM has provided Central 1 with additional requirements related to the MLP and ELP. These requirements reflect the important role Central 1 plays in the stability of the credit union system. FICOM's intent with their requirements is to ensure that Central 1 is sufficiently capitalized, 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.

Investments in the MLP are comprised of unencumbered high quality liquid securities that can be readily converted into cash without incurring undue loss under normal and stressed market conditions. Central 1 manages its investment portfolios to meet or exceed all regulatory requirements for the oversight and management of liquidity and funding risk. Central 1 also manages its investment portfolios to meet the collateral requirements under the Bank of Canada's Standing Liquidity Facility.

FICOM's requirements for investments in the MLP are contained in the Cash and Liquid Securities section below and FICOM's 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 be maintained by Standard & Poor's or DBRS Limited 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.

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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 judgements. Central 1 may also 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.

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 and related plans and decisions. Central 1’s future performance is also dependent on its ability to attract, develop and retain key management personnel.

Risk Management

Central 1’s risk management framework is designed to be business supportive, cost effective, and risk disciplined. In keeping with the organization’s designation by FICOM as a D-SIFI, it focuses on managing risk both at the level of the enterprise and at that of the credit union system.

Central 1 has adopted the “Three Lines of Defence” 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 operates a “Dual Stream Adjudication Process”, whereby all risk exposures are recommended by the business and concurred with by the Risk Management Group (“RMG”). 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. The Board of Directors has delegated risk management oversight to the Risk Review and Investment and Loan Committee (“RRILC”) while maintaining its risk management responsibility and authority. The RRILC is responsible for overseeing Central 1’s enterprise-wide risk management framework.

Central 1’s risk management framework is based upon risk policies, management standards, and specific procedures. Included within the framework is the organization’s Risk Appetite Framework and Risk Appetite Statement (“RAS”), which defines the types and amounts of risk that Central 1 is willing to take in pursuit of its strategic objectives. The RAS covers 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 Board reviews and approves the RAS annually, and delegates limits for risk-taking activities to the President & Chief Executive Officer (“CEO”).

In September 2014, Central 1 appointed David Finnie as Chief Risk Officer (“CRO”). Reporting to the CEO, the CRO leads Central 1’s independent risk oversight function, assures adherence and consistency of strategic initiatives with the organization’s risk appetite and tolerances and maintains a sound enterprise-wide risk management governance framework.

In 2014, Central 1’s risk management organizational structure continued to evolve. Headed by the CRO, the RMG consists of four risk-specific departments: Market & Liquidity Risk Management, Credit & Counterparty Risk Management, Operational Risk Management, and Compliance. Also part of the RMG is the Integrated Risk Management department, which is mandated to provide a holistic, comprehensive view of Central 1’s risk profile across the organization and the Middle Office, which monitors and reports Central 1’s risk exposures.

Central 1’s Management Risk Committee (“MRC”) is the management body responsible for overseeing risk management at Central 1. It 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. Specific risks are considered by the MRC’s subordinate committees, including the Operational Risk Committee, Management Credit Committee (“MCC”) and Asset Liability Committee.

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.

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 unencumbered high quality liquid securities 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.

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)

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. 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 MLP and the ELP. The RMG 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 is exposed to interest rate changes.

Central 1 regularly monitors its exposure to interest rate changes and their potential effects on financial margin. Central 1's Corporate Risk Management 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 summarizes carrying amounts by the earlier of their contractual repricing or maturity dates as at year-end. *Note 42* to the consolidated financial statements provides additional information on the fair value of financial assets and liabilities compared to their carrying value.

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

December 31 (Millions of dollars)	Floating	Within Three Months	Three Months to One Year	One Year to Five Years	Over Five Years	Not Rate Sensitive	Total
Total Assets	$ 333.5	$ 1,461.2	$ 1,182.7	$ 9,171.4	$ 210.1	$ 694.0	$ 13,052.9
Total Liabilities and Equity	1,198.4	2,390.3	2,542.3	5,185.2	200.2	1,536.5	13,052.9
On-Balance Sheet Gap	(864.9)	(929.1)	(1,359.6)	3,986.2	9.9	(842.5)	–
Off-Balance Sheet Gap	–	4,792.5	(716.1)	(3,911.3)	(165.1)	–	–
Total Gap 2014	**$ (864.9)**	**$ 3,863.4**	**$ (2,075.7)**	**$ 74.9**	**$ (155.2)**	**$ (842.5)**	**$ –**
Total Gap 2013	$ (727.2)	$ 1,715.3	$ (1,254.0)	$ 1,050.6	$ 37.4	$ (822.1)	$ –
Total Gap 2012	$ (613.7)	$ (706.6)	$ 101.5	$ 2,087.8	$ (36.2)	$ (832.8)	$ –

Central 1's RAS defines acceptable limits for interest rate risk in terms of the dollar value of a basis point ("DV01"). The maximum permissible aggregate negative impact to Central 1 is $300 thousand and $400 thousand for the MLP and the ELP, respectively. Central 1 did not exceed these limits during the year.

Credit spread risk arises from the possibility that changes in credit spreads will have a negative effect on the value of financial instruments. Credit spread risk is calculated by a proprietary, independently reviewed model, and is monitored and evaluated regularly. 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 three years (based on a 95.0% 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 41* to the consolidated financial statements provides additional information regarding Central 1's foreign currency exposure.

Credit and Counterparty Risk

Credit and counterparty 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 and Digital and Payments operations, Central 1 incurs credit risk loans, payment services and purchasing credit instruments.

Central 1's policies establish the parameters within which the organization manages its credit and counterparty 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; and
- continuous monitoring of credit exposures so as to promptly identify deteriorating situations and take appropriate action.

Central 1's Board of Directors delegates credit risk approval authority through the CEO to the officers, who are responsible for overseeing and approving all credit risk exposure incurred by the organization. Any credit exposure that exceeds the authority of the CEO is referred to the Board of Directors 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 facilities based on quantitative and qualitative credit assessments.

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.

Problem commercial loans are monitored and appropriate management action is taken to minimize the possibility of loss. 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 activities within the MLP 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.

Counterparty Risk is managed through the selection of strong counterparties, and 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 prior to receipt of covering funds. Central 1 mitigates this risk by reviewing and approving credit risk limits on its members, taking security, and 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 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 and collateral.

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 robust monitoring.

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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. 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 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.

Central 1 manages this type of risk through implementing 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.

In 2014, 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.

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 2014, Central 1 reported Net financial income of $72.4 million and Profit for the year of $53.6 million. Net financial income was down $16.3 million from the prior year, as Interest margin decreased by $5.4 million to $27.9 million, and realized and unrealized gains declined by $11.0 million to $44.4 million.

The following summaries of the economic environment, the state of financial markets and performance by both provincial systems in 2014 offer a context for interpreting Central 1's year-over-year results and an insight into its future.

The Economic Environment

The world economy underperformed most analysts' expectations in 2014 as the International Monetary Fund has estimated 2014 world economic growth at 3.3%, which is no better than 2013 and below the average of about 3.8% observed since 2000. While overall growth in 2013 is estimated to be similar to 2013, the drivers of that growth have shifted.

The U.S. economy grew by an estimated 2.4% in 2014 which is an improvement over the 1.8% recorded in 2013. Despite a weather induced contraction in the first quarter, the U.S. economy rebounded to achieve annualized growth of 5.0% in the third quarter of 2014. Household consumption, housing and business investment and investment showed substantial improvement in 2014 underpinning modest employment growth. Momentum is expected to carry-over into 2015 and lift annual growth to 3.5%.

China's economy decelerated last year to 7.4% marking the lowest level in more than two decades. While high growth is not sustainable in perpetuity, China's economy slowed faster than anticipated as it moved to de-risk credit, real estate and investment growth. This may have worked too well, as mild stimulatory measures were put in place over the course of the year as growth deteriorated.

Europe remained in low growth mode as it struggled under persistently high unemployment, a weak banking sector and relatively tight fiscal policy. Economic sanctions against Russia and weaker Chinese growth has impeded export growth. Europe's economy expanded by less than 1.0% in 2014 with inflation ending the year near-zero %, partly a result of lower oil prices.

Oil prices which had held range-bound near $100 U.S. per barrel during the first half of the year, collapsed in the second half of the year and ended the year at $52 U.S. per barrel. Growing fears of a U.S. shale supply glut, and the surprising unwillingness of traditional swing producer Saudi Arabia to stem the slide through production cuts contributed to the decline which continued into 2015 as oil prices fell below $50 U.S. per barrel.

While the oil price shock is broadly positive for global economic, the decline has created both winners and losers. Net importing countries, particularly those that are energy intensive, benefit, while economic growth in net exporting countries dampens. Canada is among the latter group, and low oil prices are expected to put a drag on the national economy. The Canadian dollar retreated against the U.S. dollar toward the end of 2014 reflecting the Loonie's status as a petro-currency. The lower Canadian dollar and anticipated growth should boost non-commodity exports but that will not fully offset the negative impact of lower oil prices on the Canadian economy.

After staying on the sidelines throughout 2014, the Bank of Canada shocked the market with a rate cut in January 2015. The bank lowered its target for the overnight rate from 1.00% to 0.75% citing concerns that the sharp decline in oil prices would have a negative impact on Canadian economic growth.

Financial Markets

As the year began most economists were expecting a dramatic rise in market interest rates as the Federal Reserve ended its Quantitative Easing purchases and the global recovery picked up. The consensus year-end forecast for the ten-year U.S. Treasury yield was 3.4% at the beginning of 2014. Plummeting inflation expectations, weak global economic data, declining oil prices, and a shortage of high-quality collateral contributed to the ten-year U.S. Treasury yield being only 2.2% at the end of 2014.

Yields on Government of Canada securities were declined across the yield curve during 2014. The yield on the five-year benchmark bond declined more than 50 basis points ("bps") in 2014, while the yield on the ten-year benchmark bond declined almost 100 bps. The move by the Bank of Canada to cut rates resulted in a further downward shift in yields on Government of Canada securities subsequent to the end of the year.

Corporate credit spreads narrowed modestly over the year while corporate issuance declined compared to the previous period. There was strong demand for provincial debt over the year as some provinces made headway narrowing deficits and the demand for high quality liquid securities permeated through the government debt markets. Swap spreads widened significantly in the last quarter of the year as Canadian Banks found more attractive funding in foreign markets.

British Columbia

British Columbia's economy improved modestly in 2014 following a mild 2013 as stronger than anticipated consumer spending and housing market activity added to a recovering export sector. Central 1 estimates that GDP growth climbed to 2.5% in 2014 – which was broadly in line with national growth. Low commodity prices for metals and minerals produced in the province were a drag on the economy through diminished spending on exploration, development and capital expenditure, while government spending remained restrained.

The bid for B.C. to become a global liquefied natural gas powerhouse saw some progress in 2014. While early-stage investment was ongoing, no final investment decisions were made by any major project proponents. Current conditions remain fluid given volatility in global energy markets and the recent decline in oil prices could result in further delays before final decisions are made.

B.C.'s labour market was again subdued in 2014 despite stronger economic growth. Unemployment declined from 6.6% in 2013 to an average of 6.0% in 2014. While this is the lowest level since 2008 there was a decline in labour force participation as some unsuccessful job seekers temporarily stopped searching while others may have turned to skills and education upgrades.

Despite mild employment and population gains, housing provided a lift to B.C.'s economy as the extended low-interest rate environment and modest economic improvements lifted sales, prices and new home starts. Annual MLS® sales surged 15.0% to 84,050 sales, marking the highest level since 2009, albeit still below-mid 2000 highs. Despite persistence of excess housing supply in some markets, tighter market conditions along with changes in geographic and product compositions lifted the average price by nearly 6.0% to $568,400.

B.C.'s economy is anticipated to improve in 2015 and thereafter. Economic growth is anticipated to reach 2.7%. While a soft Canadian economy could temper interprovincial trade, lower oil prices and interest rates lift household spending and lower costs for businesses. Meanwhile, a declining Canadian dollar and stronger U.S. growth provide the conditions for stronger export activity. Economic growth is set to accelerate in 2016 onwards as major project construction gets underway.

Ontario

Ontario's economy transitioned into a moderate growth phase in 2014 as a rotation towards export-oriented demand gathered steam. While average annual growth in 2014 is estimated at a modest 2.0%, it primarily reflected weather-induced weakness in the first quarter. The economic growth trend rebounded to average 3.5% during the second and third quarters.

A strengthening U.S. economy and favourable exchange rate has buoyed Ontario's export sector, with real goods and services exports activity accelerating to a level unseen since 2007. Gains have largely been driven by international demand which has far outpaced exports to other Canadian provinces, evidence that U.S. growth is doing the heavy lifting for Ontario's recovery. International merchandise exports climbed about 7.0% last year, although higher prices contributed to more than half of the increase. Export drivers included consumer goods, aircraft-related manufactures, forestry and energy. The influential auto-related sector was generally flat in comparison to 2013. Government spending remained a drag, with flat current expenditures and low growth capital investments, which is not entirely surprising given high provincial debt levels and federal fiscal restraint.

Given mild economic growth, Ontario's labour market generated few new jobs in 2014. Average LFS employment climbed only 0.8%, which was down from 1.8% in 2013. Payroll statistics pointed to a similarly mild performance with growth of about 1.0% through October. Unemployment held steady at 7.3% owing in part to lower labour force participation. Similarly, population growth struggled, falling below 1.0% for the first times since 2009 due in large part to a drop in international migration.

Housing provided little in the way of growth for Ontario's economy in 2014 despite modest home sales growth. Sales rebounded from a tempered start to the year, as households shook off the winter blues and geared off low interest rates

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to propel sales 4.0% higher, marking the second highest level of sales since 2000. Meanwhile the average price climbed 7.0% to $430,980.

Economic growth is forecast to climb to 2.7% this year as the U.S. growth cycle, lower Canadian dollar and oil price decline lift Ontario's export economy. Domestic demand lags this externally driven cycle, but does get a temporary boost from the Pan-Am Games. Growth is forecast to move moderately higher and approach 3.0% by 2017.

British Columbia Credit Union System Performance 2014

The B.C. credit union system continued to grow and to be profitable in 2014, although subdued loan growth, narrower spread and higher non-interest expense cut into earnings. B.C. system NOI totaled $295.2 million, down 4.4% from $308.7 million in 2013. Return on equity ("ROE") was 6.2%, down 73 bps from 2013. Net income totaled $246.1 million, down 2.8% year-over-year.

NOI declined slightly in 2014 as higher non-interest expenses outweighed higher Net interest and Non-interest income. Non-interest expenses increased 4.4%, led by salaries, benefits and loan expense. Net interest income increased 2.4% as financial assets grew 4.3% while the spread declined three bps. Loan yields declined more than the yields on deposits and equity while yields on borrowings increased. Growth in Non-interest income was led by deposit services, wealth management and trust services.

Assets of the B.C. system totaled $61.5 billion at the end of 2014, up $2.5 billion or 4.3% from a year earlier. Asset growth was concentrated in commercial mortgages. See *Chart 2* for details of loan composition.

Asset growth was financed almost entirely with deposits, up $2.5 billion from a year earlier to $54.4 billion. Non-registered term deposits increased 4.6% to $26.0 billion, non-registered demand deposits grew 5.6% to $19.8 billion, and registered deposits were up 3.3% to $8.6 billion. Borrowings declined 6.7% to $2.1 billion, securitizations increased 52.7% to $1.2 billion and retained earnings grew 6.0% to $3.6 billion.

The 90-day delinquency rate at year-end stood at 35 bps of the loan portfolio, an improvement of nine bps from a year earlier. Net loan loss expense for the year was seven bps of average assets, up from 0.06% a year earlier. Reserves held against loan losses totaled 32 bps of the portfolio at year-end, unchanged from a year earlier.

The B.C. system's regulatory liquidity and capital ratios improved in 2014 and remained well above minimum requirements.The pooled liquidity ratio stood at 10.4% at year-end, up from 9.9% a year earlier. The risk-weighted capital adequacy ratio finished the year at 14.9%, up from 14.7% at the end of 2013.

B.C. credit union membership stood at 1,904,008 at the end of 2014, a year-over-year gain of 1.4% or 26,068 members. Province-wide staffing totaled 8,470 full-time equivalent positions, a 1.2% increase of 97 positions. B.C. had 43 local credit unions at year-end, unchanged from a year earlier. The number of branches in B.C. was down to 365 from 371 a year earlier, while the system's ATM network remained unchanged at 565 units.

Ontario Credit Union System Performance 2014

Central 1's Ontario credit union system continued to consolidate, grow and profit in 2014. Eighty-four credit unions reported financial results at year-end, down from 90 in December 2013. There were seven mergers or acquisitions involving 17 credit unions. One new entrant to Central's system, Ontario Civil Service Credit Union, arose through a merger with Provincial Alliance Credit Union that formed Rapport Credit Union.

System NOI totaled $150.4 million in 2014, down 8.6% from 2013, while ROE for 2014 was 5.4%, down 139 bps from a year earlier. Higher non-interest expenses, led by salaries, benefits, administration, advertising and communication, outweighed higher net interest income while non-interest income inched up.

Net interest income increased 4.6% in 2014 as loan growth of 10.8% outweighed a seven bps decline in the lending spread. Loan growth was driven by residential mortgages and commercial loans and mortgages. The lending spread narrowed as the cost of funds increased four bps while loan yields fell three bps.

Asset growth for the Ontario system was strong over the year, with assets of Central 1's Ontario members totaling $36.2 billion at year-end, up 9.5% year-over-year. The addition of Ontario Civil Service Credit Union to Central's Ontario system added $150 million to aggregate year-end assets, accounting for 0.5% of asset growth.

System deposits totaled $30.0 billion at the end of 2014, up 7.3% from 2013. Deposit growth was mostly in non-registered demand and term products. System borrowings totaled $3.1 billion at year-end, up 30.0% from a year earlier. Members' equity capital totaled $2.4 billion at year-end, up 7.4% year-over-year, largely due to retained earnings.

The system saw a decrease in loan impairment in 2014 as the overall 90-day delinquency rate was down 10 bps to 50 bps at year-end, while total loan loss reserves ended the year at 30 bps of the portfolio, down two bps year-over-year. The rate of loan loss expense was 10 bps in 2014, unchanged from a year earlier.

The system's liquidity and capital ratios remained well above regulatory minimums on individual credit unions in 2014. The regulatory liquidity ratio ended the year at 10.6%, down from 11.5% a year earlier. Class 2 credit unions, which represent approximately 99.0% of the system's assets, finished the year with a risk-weighted capital adequacy ratio of 12.9%, down 25 bps year-over-year.

Ontario system membership increased 0.7% in 2013 to 1,334,200. Staffing totaled 5,888 full-time equivalent positions at year-end, up 4.2%. There were 84 credit unions in Ontario affiliated with Central 1 at year-end, down from 90 a year earlier. The number of branches increased to 507 at the end of 2014 from 502 a year earlier, while the system's ATM network totaled 575, down from 588.

Chart 2 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)		2014	%		2013	%		2012	%
Residential Mortgages	$	34,686	65.6 %	$	34,090	67.0 %	$	33,144	67.8 %
Commercial Mortgages		13,215	25.0 %		12,426	24.4 %		11,699	23.9 %
Personal Loans		1,205	2.3 %		1,189	2.3 %		1,154	2.3 %
Lines of Credit not secured by mortgages		1,241	2.3 %		1,229	2.4 %		1,251	2.6 %
Other Commercial Loans		1,066	2.0 %		964	1.9 %		825	1.7 %
Leases		282	0.5 %		249	0.5 %		240	0.5 %
Securitizations		1,157	2.2 %		747	1.5 %		592	1.2 %
Total	$	52,852	100.0 %	$	50,894	100.0 %	$	48,905	100.0 %

Ontario Credit Union System

(Millions of dollars)		2014	%		2013	%		2012	%
Residential Mortgages	$	16,417	52.3 %	$	14,921	52.5 %	$	13,698	53.0 %
Commercial Mortgages		8,939	28.5 %		8,001	28.2 %		7,283	28.2 %
Personal Loans		2,129	6.8 %		2,119	7.5 %		2,072	8.0 %
Lines of Credit not secured by mortgages		–	– %		–	0.0 %		–	0.0 %
Other Commercial Loans		1,354	4.3 %		1,241	4.4 %		1,163	4.5 %
Leases		–	0.0 %		–	0.0 %		–	0.0 %
Securitizations		2,548	8.1 %		2,094	7.4 %		1,622	6.3 %
Total	$	31,387	100.0 %	$	28,376	100.0 %	$	25,838	100.0 %

B.C. and Ontario Credit Union Systems Combined

(Millions of dollars)		2014	%		2013	%		2012	%
Residential Mortgages	$	51,103	60.7 %	$	49,011	61.8 %	$	46,842	62.7 %
Commercial Mortgages		22,154	26.3 %		20,427	25.8 %		18,982	25.4 %
Personal Loans		3,333	4.0 %		3,308	4.2 %		3,226	4.3 %
Lines of Credit not secured by mortgages		1,241	1.5 %		1,229	1.5 %		1,251	1.7 %
Other Commercial Loans		2,420	2.9 %		2,205	2.8 %		1,988	2.6 %
Leases		282	0.3 %		249	0.3 %		240	0.3 %
Securitizations		3,705	4.4 %		2,841	3.6 %		2,214	3.0 %
Total	$	84,238	100.0 %	$	79,270	100.0 %	$	74,743	100.0 %

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Financial Overview

Profit for the year decreased by $14.9 million or 21.7% from 2013 to $53.6 million, on average assets of $12.9 billion. Return on average assets of 41 bps decreased 11 bps from the prior year, while return on average equity of 5.9% declined 3.3% from 2013. The decline in return on equity reflects both lower Profit for the year as well as higher capital levels. Earnings per share were 17.0 cents, down from 23.3 cents in 2013 reflecting lower earnings and an increase in Class A shares outstanding *(Chart 4)*.

Central 1's total assets at year-end amounted to $13.1 billion, an increase of $0.9 billion or 7.4% from 2013. Approximately half the increase in assets in 2014 is attributable to growth in mandatory deposits from Class A members, while an increase in debt securities outstanding accounted for the other half of the increase *(Chart 12)*.

Interest margin of $27.9 million was 16.2% lower than the $33.3 million in 2013. As a percentage of average assets, Interest margin declined from 25.3 bps in 2013 to 21.6 bps. Central 1 has taken steps to transition its investment portfolios to comply with OSFI's LAR which has resulted in lower yields on assets compared to 2013.

During the year, Central 1 recorded realized gains of $7.2 million on the sale of financial instruments. Net unrealized gains on trading financial instruments were $37.2 million and, taken together, Central 1 recorded an overall gain of $44.4 million on its financial assets and liabilities, compared to a net gain of $55.4 million in the previous year.

Other income increased 3.3% to $119.7 million from $115.8 million in 2013, reflecting higher levels of income across most business lines. Operating expenses increased 2.1% to $129.5 million, from $126.8 million a year earlier.

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

Chart 3 - Major Components – Revenue and Expenses

(Millions of dollars — % of Net Financial and Other Income*)	2014			2013			2012		
Net Financial Income*	$	72.4	37.7 %	$	88.7	43.4 %	$	91.5	46.1 %
Other Income	$	119.7	62.3 %	$	115.8	56.6 %	$	106.9	53.9 %
Net Financial and Other Income*	$	192.1	100.0 %	$	204.5	100.0 %	$	198.4	100.0 %
Operating Expenses	$	129.5		$	126.8		$	115.1	
Productivity Ratio %		67.4 %			62.0 %			58.0 %	
Productivity Ratio % - Non-Financial		108.2 %			109.5 %			107.7 %	

**Excluding loss provisions*

Central 1's productivity ratio (defined as the ratio of Operating expenses to the sum of Net financial income and Other income) showed a decline of 5.4%, from 62.0% in 2013 to 67.4% in 2014. The decline in Net financial income accounts for 5.3% of the increase in the productivity ratio in 2014.

The productivity ratio 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. In addition to an overall corporate productivity ratio, Central 1 calculates a productivity ratio for Non-financial income and expense items which excludes the impact of realized and unrealized gains.

Additionally, being a wholesale provider of services to its credit union members, Central 1 prices many of its services on a cost-recovery basis, rather than at levels that would enhance Profit and improve return 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 improvement from 109.5% in 2013 to 108.2% in 2014.

Chart 4 sets out selected financial information for 2014 together with comparable information for 2013 and 2012.

Chart 4 - Selected Financial Information

As at December 31	2014	2013	2012
Earnings (Millions of dollars)			
Net Financial & Other Income – after provisions	**$ 192.1**	$ 205.8	$ 200.7
Profit for the year	**$ 53.6**	$ 68.5	$ 74.1
Earnings Per Share (cents)			
Basic	**17.0**	23.3	26.5
Diluted	**17.0**	23.3	26.5
Return On			
Average Assets	**0.41 %**	0.52 %	0.51 %
Average Equity	**5.94 %**	8.19 %	9.58 %
Statement of Financial Position Data (Millions of dollars)			
Total Assets	**$ 13,053**	$ 12,194	$ 14,157
Average Assets	**$ 12,948**	$ 13,178	$ 14,443
Long-Term Liabilities	**$ 5,385**	$ 4,748	$ 4,978
Weighted Average Shares Outstanding	**$ 315**	$ 294	$ 280
Share Information			
Outstanding $1 par value shares (Thousands of dollars)			
Class A – Credit Unions	**$ 333,074**	$ 307,141	$ 290,255
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	**7.14**	4.75	2.00
Classes B and C	**1.40**	1.38	2.00
Class E	**–**	–	200.00

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Financial Objectives

Central 1 exceeded all of its four financial objectives for 2014 *(Chart 5)*. 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% of system assets, a requirement under the ICLA.

Chart 5 - Financial Objectives

Objective	2014	2013	2012	Regulatory Requirement
Exceed Return on Average Equity Target				
Actual Return	**5.94 %**	8.19 %	9.58 %	
Budgeted Return	**3.00 %**	3.80 %	4.48 %	
Maintain Regulatory Capital in Excess of 15% of Risk Weighted Assets at the Year-End	**60.64 %**	47.50 %	39.40 %	≥ 10 %
Maintain Borrowing Multiple at a Ratio of between 12:1 and 14:1 in 2014 *(compared to 14:1 to 17:1 in 2013 and 2012)*	**12.4:1**	12.5:1	14.4:1	≤ 20.0:1
Maintain 6% or greater of System Assets in Liquid Form	**12.0 %**	11.1 %	10.9 %	

Return on equity declined from 8.2% in 2013 to 5.9% in 2014. This reflects lower earnings in 2014 and a higher capital base. Financial income declined in 2014 as Central 1 increased its weighting of high quality liquid securities which has reduced Interest margin in the MLP and ELP investment portfolios. This along with an increased capital base is anticipated to result in Central 1 achieving a lower Return on equity in future years than that achieved in 2013.

Selected Annual Information and Results of Operations

This part of the report discusses Central 1's financial performance for the year ended December 31, 2014 in more detail, and compares 2014 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 46)*.

Statement of Profit or Loss

Financial Income

Central 1's Net financial income in 2014, after provision for credit losses, was $72.4 million compared to $89.9 million in 2013, a decrease of $17.5 million. Central 1's Interest margin was $27.9 million, 16.2% lower than the previous year's $33.3 million. Expressed as a percentage of average assets, Central 1's Interest margin fell to 21.6 bps compared to 25.3 bps earned the previous year. An extended period of low interest rates has resulted in a decline in yields on financial assets over the past several years. Central 1 has increased its weighting of high quality liquid securities within its investment portfolios in consideration of OSFI's LAR and the Bank of Canada's Standing Liquidity Facility. Thus, yields on Central 1's interest bearing assets declined relative to its cost of funds.

Government of Canada yields ended the year lower as the yield curve flattened, with longer-term bond yields falling more than shorter maturities. Credit spreads on provincial and corporate securities narrowed, which benefitted Central 1 by increasing the valuation of the securities portfolio.

In 2014, Central 1 recorded a net increase in the fair value of financial instruments (*Note 32* to the consolidated financial statements) of $37.2 million, together with gains on disposal of financial instruments (*Note 31* to the consolidated financial statements) of $7.2 million. Total net gains on financial instruments amounted to $44.4 million compared to a net gain of $55.4 million in 2013.

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

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

Long-term financial liabilities of $5.4 billion increased from $4.7 billion at year-end 2013. The increase relates to the $0.5 billion in new debt, $0.3 billion in new Canada Mortgage Bond ("CMB") obligations, $0.2 billion relating to securities sold short, offset by a decrease in long term credit union deposits of $0.3 billion. Credit union mandatory deposits represent about 53.2% of Central 1's liabilities; non-mandatory deposits from member credit unions account for 21.9%; obligations related to the CMB Program account for a further 4.9% and external deposits, borrowings and other liabilities make up the remainder.

Chart 6 - Comparative Interest Income & Expense

December 31 (Millions of dollars)	2014 Average Balance	2014 Interest	2014 Average Rate	2013 Average Balance	2013 Interest	2013 Average Rate	2012 Average Balance	2012 Interest	2012 Average Rate
Assets									
Cash & Securities	**$ 10,837**	**$ 162.63**	**1.50 %**	$ 9,893	$ 159.43	1.61 %	$ 8,833	$ 151.29	1.71 %
Deposits with Regulated Financial Institutions	**6**	**0.13**	**2.17 %**	14	0.29	2.07 %	49	0.30	0.61 %
Reinvestment Assets under CMB and IMPP programs	**227**	**3.06**	**1.35 %**	1,116	34.75	3.11 %	2,311	90.08	3.90 %
Loans	**1,062**	**24.73**	**2.33 %**	1,311	29.92	2.28 %	1,936	42.58	2.20 %
Secured Loans to Members	**95**	**3.02**	**3.18 %**	398	9.07	2.28 %	864	19.93	2.31 %
Total Interest Earning Assets	**12,227**	**193.57**	**1.58 %**	12,732	233.46	1.83 %	13,993	304.18	2.17 %
Other Assets	**721**			446			450		
Total Assets	**$ 12,948**	**$ 193.57**	**1.50 %**	$ 13,178	$ 233.46	1.77 %	$ 14,443	$ 304.18	2.11 %
Liabilities and Equity									
Debt Securities Issued	**$ 1 ,338**	**$ 21.13**	**1.58 %**	$ 1,021	$ 16.11	1.58 %	$ 706	$ 14.01	1.98 %
Deposits									
Credit Union Mandatory Deposits	**6,169**	**88.98**	**1.44 %**	5,824	83.12	1.43 %	5,395	82.06	1.52 %
Credit Union Current Accounts	**841**	**7.30**	**0.87 %**	789	7.71	0.98 %	766	7.99	1.04 %
Credit Union Other	**1,114**	**14.53**	**1.30 %**	1,512	22.65	1.50 %	2,048	31.90	1.56 %
Non Credit Union	**647**	**8.54**	**1.32 %**	557	9.25	1.66 %	550	7.69	1.40 %
Obligations under the CMB and IMPP programs	**656**	**14.95**	**2.28 %**	1,706	52.73	3.09 %	3,134	111.61	3.56 %
Securities under Repurchase Agreements	**127**	**1.63**	**1.28 %**	144	2.05	1.42 %	180	2.49	1.38 %
Subordinated Liabilities	**280**	**8.61**	**3.08 %**	169	6.54	3.87 %	169	6.55	3.88 %
Total	**11,172**	**165.67**	**1.48 %**	11,722	200.16	1.71 %	12,948	264.30	2.04 %
Other Liabilities	**874**			620			721		
Equity	**902**			836			774		
Total Liabilities and Equity	**$ 12,948**	**$ 165.67**	**1.28 %**	$ 13,178	$ 200.16	1.52 %	$ 14,443	$ 264.30	1.83 %
Interest Margin		**27.90**	**0.22 %**		33.30	0.25 %		39.88	0.28 %
Realized and Unrealized Gains on Financial Instruments		**44.45**	**0.34 %**		55.44	0.42 %		51.58	0.36 %
Net Financial Income		**$ 72.35**	**0.56 %**		$ 88.74	0.67 %		$ 91.46	0.64 %

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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 are offered on a fee-for-service basis. In addition, certain key services of general benefit to Central 1's Class A members are funded by membership dues. Central 1 also collects a provincial advertising assessment from its Class A members in British Columbia to fund the Province-Wide Communications Program.

Income generated by Central 1's non-interest sources in 2014 exceeded that derived from financial instruments. 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.

Chart 7 provides details on the sources of Central 1's Non-financial income and summarizes Central 1's Operating Expenses. *Chart 8* summarizes Central 1's financial results by business line. Central 1 reported Other income of $119.7 million in 2014, up from $115.8 million in 2013. Meanwhile, Operating expenses increased from $126.8 million in 2013 to $129.5 million in 2014. This resulted in Net Operating Expense decreasing from $11.0 million in 2013 to $9.8 million in 2014.

Chart 7 - Other Income & Operating Expense

Year ended December 31 (Millions of dollars)	2014 Amount	2014 % of Income	2013 Amount	2013 % of Income	2012 Amount	2012 % of Income
Other Income						
Membership dues	$ 8.93	7.5 %	$ 8.73	7.5 %	$ 8.40	7.9 %
Provincial advertising assessment	1.43	1.2 %	2.52	2.2 %	1.24	1.2 %
Equity interest in affiliates	6.14	5.1 %	6.76	5.8 %	3.85	3.6 %
Insurance premiums and assessments	3.85	3.2 %	5.10	4.4 %	6.91	6.5 %
Digital and Payment Services						
Processing fees	47.32	39.5 %	43.76	37.8 %	40.98	38.3 %
Direct banking fees	24.85	20.8 %	22.73	19.6 %	20.26	19.0 %
Total Digital and Payment Services	72.17	60.3 %	66.49	57.4 %	61.24	57.3 %
Treasury Related Services						
Treasury services and foreign exchange income	6.44	5.4 %	3.70	3.2 %	5.19	4.9 %
Lending fees	5.79	4.8 %	5.26	4.5 %	5.10	4.8 %
Trust services	2.32	1.9 %	2.34	2.0 %	2.27	2.1 %
Other	1.53	1.3 %	2.03	1.8 %	0.71	0.6 %
Total Treasury Related Services	16.08	13.4 %	13.33	11.5 %	13.27	12.4 %
Trade and Other Services						
Product compliance and design	1.53	1.3 %	1.68	1.5 %	1.53	1.4 %
Property rents	0.70	0.6 %	0.70	0.6 %	1.08	1.0 %
Cooperative risk solutions	2.63	2.2 %	2.65	2.3 %	2.72	2.5 %
Marketing and research programs	3.72	3.1 %	4.85	4.2 %	2.67	2.5 %
Employee benefits and retirement services	1.37	1.1 %	1.21	1.0 %	1.19	1.1 %
Other	1.19	1.0 %	1.81	1.6 %	2.76	2.6 %
Total Trade and Other Services	11.14	9.3 %	12.90	11.2 %	11.95	11.1 %
Total Other Income	119.74	100.0 %	115.83	100.0 %	106.86	100.0 %
Operating Expenses						
Salaries and employee benefits	70.13	58.6 %	64.73	55.9 %	62.02	58.0 %
Premises and equipment	9.63	8.0 %	9.50	8.2 %	10.35	9.7 %
Other Administrative Expenses						
Cost of sales and services	10.81	9.0 %	13.35	11.5 %	8.18	7.7 %
Cost of payments processing	14.57	12.2 %	13.73	11.9 %	12.26	11.5 %
Insurance claims and premiums	2.00	1.7 %	3.24	2.8 %	4.98	4.7 %
Automobile and travel	1.44	1.2 %	1.49	1.3 %	1.53	1.4 %
Projects and business development	6.27	5.2 %	4.80	4.1 %	4.47	4.2 %
Professional services	7.44	6.2 %	9.18	7.9 %	4.62	4.3 %
Directors and officers	1.21	1.0 %	1.27	1.1 %	1.15	1.1 %
Membership fees	4.45	3.7 %	4.46	3.9 %	4.83	4.5 %
Other	1.53	1.3 %	1.02	0.9 %	0.67	0.6 %
Total Operating Expense	129.48	108.1 %	126.77	109.5 %	115.06	107.7 %
Net Operating Expense	$ (9.74)	(8.1) %	$ (10.94)	(9.5) %	$ (8.20)	(7.7) %

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The Provincial advertising assessment, which is collected from Central 1's Class A members in B.C. declined $1.1 million. These fees are recognized in income based on activity in the Province-Wide Communications program which declined in 2014.

Insurance premiums and assessments decreased by $1.2 million. On July 1, 2014, Central 1 transferred the MIP that was previously administered by the Stabilization Fund Corporation on behalf of Ontario credit unions to CUMIS. Transferring the MIP to CUMIS resulted in lower insurance premiums and assessment income being earned in 2014 compared to 2013.

Revenues in the Digital and Payment Services Group increased from $66.5 million in 2013 to $72.2 million in 2014. This includes processing fees which increased by $3.6 million from $43.7 million to $47.3 million, reflecting increased paper payment processing fees and increased electronic payment processing volumes. Direct banking fees increased $2.1 million over the prior year. This is due to an increase of $1.4 million in maintenance fees attributed to an increase in the number of online members using MemberDirect® and an increase of $1.2 million in development fees is due to an increase in the number of transactions. This is offset by lower client services revenues of $0.8 million primarily due to a decline in implementation services for a non credit union member.

Treasury Related Services revenues increased from $13.3 million in 2013 to $16.1 million in 2014. Included in Treasury Related Services is foreign exchange income which includes fees from member credit unions as well as foreign exchange translation gains and losses. Foreign exchange fees increased $2.7 million over 2013 reflecting increases in foreign exchange transaction volumes.

Revenues earned from Trade and Other Services declined from $12.9 million in 2013 to $11.1 million in 2014. Included in Trade and Other Services area are revenues earned by Central 1's Marketing department which declined by $1.1 million. Prior to this year, Central 1 held an annual Trade Show which contributed approximately $0.6 million in revenue in 2013. Additionally, some onetime revenues were earned by this group in 2013 under marketing contracts with member credit unions.

Operating expenses for 2014 of $129.5 million were up $2.7 million from Operating expenses of $126.8 million in 2013. Salaries and employee benefits of $70.1 million in the current year were up from $64.7 million in the previous year. During 2014, Central 1 incurred expenses of $4.3 million for amounts payable under contractual arrangements with certain members of Central 1's Executive Management Team ("EMT"). These contractual arrangements contained termination provisions totaling $3.6 million and retention and relocation provisions totaling $0.7 million.

In 2013, Central 1 incurred a restructuring charges totalling $4.9 million including a charge related to the transfer of Ontario payments operations to Central 1's head office. Additionally, Central 1 incurred expenses for amounts payable under contractual arrangements with two members of Central 1's EMT who left the organization in 2013.

After adjusting for the one time impact of these costs, overall employee Salaries and employee benefits expenses increased from $59.8 million in 2013 to $65.8 million in 2014. The overall increase in Salaries and employee benefits expenses in 2014 reflects an increase in the number of employees and an increase in market based wages. This includes an increase of $2.4 million in our Digital and Payment Services group due to an increase in number of staff and market based wages mostly attributed to the development and implementation of new PaymentStream® and MemberDirect® projects. In addition, the current year included incremental Salaries and employee benefits expenses of $1.7 million in the RMG as Central 1 has continued to improve its risk oversight framework.

Other administrative expenses decreased from $52.5 million in 2013 to $49.7 million in 2014. Cost of sales and services decreased $2.5 million compared to the same period in 2013. The decrease is largely due to the decline of $1.5 million related to Marketing and research programs, the $1.3 million related to Province-Wide Communications Program and $1.2 million in Insurance claims and premiums. This is offset by the increases of $1.0 millon in Cost of sales and services in our Digital & Payment Services business. Projects and business development expenses increased by $1.5 million, primarily due to $1.1 million in costs associated with the ongoing operations of Central 1's new treasury system. Professional fees decreased by $3.3 million related to the implementation of Central 1's enhanced risk oversight capabilities declining in 2014, but were partially offset by $1.9 million in costs related to the review of Central 1's governance structure and board related activities.

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Chart 8 - Results by segment

For the year ended December 31 (Thousands of dollars)	Mandatory Liqiquidity Pool	Wholesale Financial Services	Trade Services	Other	Total
Net financial income, including recovery of credit losses	$ 29,838	$ 49,439	$ 294	$ (7,201)	$ 72,370
Other income	(307)	73,082	22,621	24,349	119,745
Net financial and other income	29,531	122,521	22,915	17,148	192,115
Operating expenses	7,082	72,330	24,802	25,267	129,481
Profit (loss) before income taxes	22,449	50,191	(1,887)	(8,119)	62,634
Income taxes (recoveries)	3,502	7,830	(294)	(1,994)	9,044
Profit (loss) for the year	$ 18,947	$ 42,361	$ (1,593)	$ (6,125)	$ 53,590
Total assets at December 31, 2014	$ 6,958,964	$ 5,844,120	$ 20,373	$ 229,423	$ 13,052,880
Total liabilities at December 31, 2014	$ 6,530,195	$ 5,385,429	$ 549	$ 211,864	$ 12,128,037
Total equity at December 31, 2014	$ 428,769	$ 458,691	$ 19,824	$ 17,559	$ 924,843

Central 1's operations and activities are organized around three key business segments; MLP, Wholesale Financial Services and Trade Services. All other operating activities, including internal support functions, have been included in "Other" in Chart 8. The Trade Services operating segment delivers operational support, strategies consulting and research services tailored to the needs of the member credit unions. Segmented reporting by business line was introduced in 2014 and therefore has no comparatives.

For the year ended December 31, 2014, the MLP segment had a Profit of $18.9 million. Net financial income, including recovery of credit losses, was $29.8 million. This is comprised of Interest margin of $14.2 million, trading gains of $8.6 million and changes in unrealized gain of $7.0 million.

The Wholesale Financial Services segment had a Profit of $42.4 million. Net financial income, including Recovery of credit losses, was $49.4 million. This is comprised primarily of Interest margin of $20.4 million, trading losses of $1.1 million, and changes in unrealized gains of $30.1 million. Other income was $73.1 million for the year ended December 31, 2014. Operating expenses were $72.3 million for the year. Included in Wholesale Financial Services is foreign exchange income which includes fees from member credit unions as well as the foreign exchange translation gains and losses. Foreign exchange fees increased $2.7 million over 2013 reflecting increases in foreign exchange transaction volumes.

Trade Services' operations resulted in a loss of $1.6 million in 2014. Trade Services' Other income was $22.6 million in 2014 and Operating expenses were $24.8 million. Trade Services ongoing operations resulted in a profit of $0.1 million in 2014. Separate from ongoing operations, Central Risk and Insurance Management Services Ltd. ("CRIMS") reported a loss of $0.8 million, which includes $0.4 million for restructuring. Insurance premiums and assessments were lower by $1.2 million as a result of the transfer of the MIP program to CUMIS. In addition, flow-through dues contributed $0.6 million loss in 2014. Central 1 incurred membership dues expense to support CUCC's operations and collects dues from its members to cover a portion of those expenses. In 2014, it absorbed CUCC dues of $1.0 million which were partially offset by a rebate of $0.4 million related to 2013 performance that was passed through to members in 2014. Also included in 2014 is a loss of $0.4 million related to Central 1's equity interest in CUCCC.

Central 1's Other operating segment reported a loss of $6.1 million. Included in the Other operating segment was income recognized under the equity method of accounting from Central 1's affiliates as well as dividends from entities affiliated with the credit union system which, in aggregate were $8.1 million. Also included in the Other segment are expenses of $3.6 million for termination amounts payable pursuant to contractual arrangements with certain members of Central 1's EMT. Professional fees decreased by $3.3 million related to the implementation of Central 1's enhanced risk oversight capabilities, but were partially offset by $1.9 million in costs related to the review of Central 1's governance structure and board related activities.

Profit for the year

Central 1 posted Profit for the year of $53.6 million in 2014 *(Chart 9)*, a decrease of $14.9 million from 2013. The decline is largely due to a year-over-year decline of $11.0 million in fair value gains on financial instruments and gains on disposal of financial instruments, from $55.4 million in 2013 to $44.4 million in 2014. Operating expenses increased year-over-year by $2.7 million, from $126.8 million in 2013 to $129.5 million in 2014.

Operating expenses from 2013 increased $2.7 million, bringing the year's Operating expenses to $129.5 million. As a result, Profit before income taxes was $62.6 million, compared to $79.0 million in 2013.

Chart 9 - Profit For The Year

Year ended December 31 (Millions of dollars - %)	2014	2013	2012
Profit before income taxes	**$ 62.6**	$ 79.0	$ 85.7
Return on Average Assets	**0.48 %**	0.60 %	0.59 %
Return on Average Share Capital	**19.90 %**	26.86 %	30.56 %
Return on Average Equity	**6.94 %**	9.45 %	11.07 %
Profit for the year	**$ 53.6**	$ 68.5	$ 74.1
Return on Average Assets	**0.41 %**	0.52 %	0.51 %
Return on Average Share Capital	**17.03 %**	23.27 %	26.45 %
Return on Average Equity	**5.94 %**	8.19 %	9.58 %

Other Comprehensive Income

Central 1 recorded Other comprehensive loss of $12.0 million during 2014, compared to $4.4 million loss in 2013. 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 2014 primarily reflect the recycling of unrealized gains recorded in previous periods from other comprehensive income into profit or loss. This was partially offset by mark-to-market gains on securities resulting from lower interest rates and credit spreads. In 2013 results primarily reflected 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 42* 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 $7.2 million during 2014 from a net loss position of $28.9 million as at December 31, 2013, compared to a net loss of $21.7 million as at December 31, 2014.

Statement of Financial Position

Cash and Liquid Securities

Central 1's cash and liquid securities were $11.4 billion at December 31, 2014. Of this amount, $65.5 million comprises reinvestment assets which are designated to offset obligations under the CMB program. The balance of $11.4 billion, summarized by type in the accompanying chart *(Chart 10)* comprises the MLP and ELP and represents 87.8% of Central 1's total assets excluding CMB program assets, compared to $10.0 billion and 85.5% a year ago.

Investment activity in the MLP and ELP, as well as Central 1's overall portfolio, continued to be conservative in 2014 with investments made primarily in government debt (federal and provincial) and senior bank debt. As at December 31, 2014, Central 1 had no holdings of European sovereign debt.

Central 1 maintains in the MLP high quality liquid securities that can be readily converted into cash without incurring undue loss under normal and stressed market conditions. FICOM also released supervisory requirements that Central 1 will meet the current Bank of Canada's Standing Liquidity Facility eligibility requirements and further prohibits the use of derivatives, repurchase agreements and short selling.

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% of system assets (See *Chart 5*).

Chart 10 - Cash and Liquid Securities

December 31 (Millions of dollars - % of total)	2014 MLP	2014 ELP	2014 Total		2013 MLP	2013 ELP	2013 Total		2012 Total	
Government & Guarantees	$ 5,518.8	$ 2,360.5	$ 7,879.3	69.1 %	$ 4,718.1	$ 864.5	$ 5,582.6	56.0 %	$ 4 ,159.6	45.0 %
Cash	148.4	(3.2)	145.2	1.3 %	–	74.2	74.2	0.7 %	90.2	0.9 %
	5,667.2	2,357.3	8 ,024.5	70.4 %	4 ,718.1	938.7	5,656.8	56.7 %	4,249.8	45.9 %
Corporate & Financial Institutions AA or Greater*	1,256.5	1,600.3	2,856.8	25.1 %	1 ,713.9	2,385.3	4,099.2	41.1 %	4,764.3	51.5 %
Other	–	518.0	518.0	4.5 %	12.7	194.3	207.0	2.2 %	235.8	2.6 %
Total	$ 6,923.7	$ 4,475.6	$ 11,399.3	100.0 %	$ 6,444.7	$ 3,518.3	$ 9,963.0	100.0 %	$ 9,249.9	100.0 %
% of Central 1 Year-End Assets (excluding CMB program assets)			87.8 %				85.5 %		77.5 %	
% of System Year-End Assets			29.8 %				10.8 %		10.5 %	

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

Loans

Central 1 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. Clearing lines of credit, available in two currencies, are used to cover daily swings arising from the settlement of transactions. Short and medium-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 pools of mortgage loans from member credit unions to provide them with liquidity. Central 1 may resell these assets to other credit unions or securitize them. Most pools acquired by Central 1 are held for short periods, pending their resale to other credit unions or pending their securitization as described on *page 30*.

Chart 11 provides a breakdown of the different categories of loan balances on Central 1's consolidated Statement of Financial Position.

Chart 11 - Loans

December 31 (Millions of dollars - % of total)	2014		2013		2012	
Loans to Credit Unions	$ 610.3	58.3 %	$ 879.8	76.0 %	$ 1,834.3	88.8 %
Syndicated commercial loans	206.0	19.7 %	168.2	14.6 %	167.8	8.1 %
Non syndicated commercial loans	27.0	2.6 %	16.4	1.4 %	21.4	1.0 %
Other loans	11.1	1.1 %	12.2	1.1 %	13.6	0.7 %
Mortgage pools	11.2	1.1 %	13.6	1.2 %	17.4	0.8 %
Securities acquired under reverse repurchase agreements	181.7	17.3 %	66.9	5.8 %	11.5	0.6 %
	$ 1,047.3	100.0 %	$ 1,157.1	100.0 %	$ 2,066.0	100.0 %

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

In addition to the $1,047.3 million in loans outstanding as at December 31, 2014, Central 1 had issued standby letters of credit of $222.9 million on behalf of its members. By comparison, at year-end 2013, Central 1 had $1,157.1 million in loans outstanding and had issued $184.7 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 increased by approximately $0.06 million while the collective provision increased by $0.02 million. Total provisions at the end of 2014 remained stable at 0.3% of total commercial loans outstanding.

Borrowings

Central 1's total borrowings as at December 31, 2014 are summarized in *Chart 12* together with comparative numbers for 2013 and 2012. Total Debt securities issued as at December 31, 2014 were $1.6 billion compared to $1.1 billion a year earlier. Of the total amount outstanding as at December 31, 2014, $0.9 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 $8.3 billion as at December 31, 2014, an increase from $7.9 billion a year earlier. Credit union mandatory deposits grew by $0.5 billion over the year, to reach $6.4 billion at December 31, 2014, reflecting the growth in assets of both the B.C. and the Ontario credit union systems during the same period.

Chart 12 - Borrowings

December 31 (Millions of dollars)	2014	2013	2012
Debt securities issued			
Commercial Paper issued	**$ 668.2**	$ 527.2	$ 586.9
Medium-term notes issued	**900.6**	570.3	583.9
	1,568.8	1,097.5	1,170.8
Deposits and Trading Liabilities by type			
Mandatory Deposits	**6,447.3**	5,971.2	5,719.6
Non-mandatory Deposits	**1,828.1**	1,879.2	2,663.3
Deposits from member credit unions	**8,275.4**	7,850.4	8,382.9
Deposits from non-credit unions	**656.1**	716.1	467.5
	8,931.5	8,566.5	8,850.4
Securities under repurchase agreements	**105.7**	106.7	201.4
Total Borrowings	**$ 10,606.0**	$ 9,770.7	$ 10,222.6

Securitization Activities

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

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

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

In 2014, nine credit unions in B.C. and 12 credit unions in Ontario, as well as Central 1, issued 137 NHA MBS pools representing over $1.6 billion in issuance. The total outstanding NHA MBS issuance for all credit unions and Central 1 at the end of 2014 was $3.5 billion. During 2014, Central 1 had $400 million to $670 million outstanding in commercial paper at attractive spreads as compared to short term debt instruments offered by Canada's largest chartered banks.

Statement of Changes in Equity

Central 1's equity increased by $48.5 million during 2014 to $924.8 million, compared to an increase in equity of $69.2 million during the same period in 2013.

The increases in equity for both 2014 and 2013 was primarily due to increases in retained earnings.

Statement of Cash Flows

Central 1 had a net cash outflow from operating activities of $0.8 billion in 2014 compared to an outflow of $1.1 billion in 2013 with most of the decrease attributable to the changes in deposits and trading assets. Cash inflows from investing activities were $0.6 billion in 2014 compared to an inflow of $2.6 billion in the previous year. The change was mostly due to the inflow resulting from the decrease in reinvestment assets under the CMB programs. Net cash inflows from financing activities were $0.3 billion due to debt securities issued of $0.5 billion that was offset by the repayment of obligations under the CMB program.

Overall, cash at the end of the year had increased by $71.1 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 31.0%. Central 1's effective tax rate for the year was 14.4%, increasing from 13.3% in 2013. *Note 36* 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 that will no longer benefit from a credit union deduction.

During the year, the Government of B.C. 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 B.C.'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% (less up to 1.0% for cash balances) of their aggregate debt and other liabilities as deposits with Central 1. Excepted are credit unions for which 8.0% of aggregate deposits and other debt liabilities exceeds 1.5% of B.C. system assets; these credit unions are required to maintain deposits with Central 1 equal to 1.5% of B.C. system assets. There are currently two such credit unions, which together account for approximately 50.0% of total B.C. system assets. Notwithstanding regulatory requirements, these credit unions have agreed to maintain deposits with Central 1 equal to at least 6.0% of their aggregate deposits and other debt liabilities.

Ontario class 2 credit unions, which represent nearly 99.0% 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, all Ontario member credit unions are required to enter into a Liquidity Agreement with Central 1. Under the terms of the agreement, Ontario member credit unions must maintain deposits with Central 1 of at least 6.0% of assets.

Central 1's liquidity management framework is designed to ensure that reliable and cost-effective funding 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 unencumbered high quality liquid securities that can readily be converted to cash, ongoing access to diversified sources of wholesale funding and participation in the ICLA. Central 1 will meet or exceed all regulatory requirements for the oversight and management of liquidity and funding risk.

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Average Borrowings

During the year, Central 1's total average borrowings increased by $503.0 million. This reflects both an increase in mandatory deposits and an increase in debt securities, which were partially offset by lower non-mandatory deposits.

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, 2014, $670.0 million was borrowed under the short-term commercial paper facility (2013 - $528.0 million) and $900.0 million was borrowed under the medium-term note facility (2013 - $570.0 million). As at December 31, 2014, Central 1 had $218.0 million of subordinated debt outstanding (2013 - $169.1 million). During 2014, Central 1 issued $300.0 million in Floating Rate Notes ("FRN") maturing November 2016, and $200.0 million in Subordinated Notes maturing April 2024.

Note 25 to Central 1's consolidated financial statements provides details of subordinated liabilities issued by Central 1. As at December 31, 2014, Central 1 had $218.0 million of subordinated debt outstanding (2013 - $169.1 million).

Central 1's regulatory borrowing multiple averaged 11.6:1 in 2014, compared to 13.1:1 in 2013 and 14.4:1 in 2012. Through a combination of positive earnings and lower borrowings, Central 1 managed to lower its borrowing multiple compared to the previous year.

CHART 13 - Average Borrowings for Regulatory Purposes

December 31 (Millions of dollars)	2014		2013		2012	
Short-term Unsecured Notes	**$ 556.0**	**5.2 %**	$ 592.5	5.9 %	$ 398.5	4.1 %
Mid-term Unsecured Notes	**800.3**	**7.6 %**	428.8	4.2 %	307.0	3.2 %
Non Credit Union Deposits	**642.7**	**6.0 %**	584.1	5.8 %	549.7	5.7 %
Credit Union Deposits	**8,145.3**	**76.4 %**	8,125.5	80.4 %	8,209.5	84.5 %
Obligations under the CMB program	**388.5**	**3.6 %**	232.1	2.3 %	54.6	0.6 %
Securities under repurchase agreements	**126.8**	**1.2 %**	143.9	1.4 %	180.2	1.9 %
Total Average Borrowings	**$ 10,659.6**	**100.0 %**	$ 10,106.9	100.0 %	$ 9,699.5	100.0 %
Average borrowing multiple	**11.6**		13.1		14.4	

Chart 14(a) and (b) show the average balances of Central 1 and the two provincial credit union systems, individually and combined, for the past three years.

Chart 14 (a) - Central 1 Credit Union – Average Balances

December 31 (Millions of dollars - % Avg Assets)		2014			2013			2012	
Central 1 Credit Union									
Cash & Liquid Assets	$	10,837	83.7 %	$	9,893	75.1 %	$	8,833	61.2 %
Deposits with regulated financial institutions	$	6	0.0 %	$	14	0.1 %	$	49	0.3 %
Loans	$	1,062	8.2 %	$	1,311	9.9 %	$	1,936	13.4 %
Debt securities issued	$	1,338	10.3 %	$	1,021	7.7 %	$	706	4.9 %
Deposits	$	8,771	67.7 %	$	8,682	65.9 %	$	8,759	60.6 %
Members' Equity	$	902	7.0 %	$	836	6.3 %	$	774	5.4 %
Average Total Assets	$	12,948		$	13,178		$	14,443	

Chart 14 (b) - Provincial Credit Union Systems – Average Balances (Unaudited)

December 31 (Millions of dollars - % Avg Assets)		2014			2013			2012	
B.C. Credit Union System									
Cash & Liquid Assets	$	7,421	12.3 %	$	7,034	12.1 %	$	7,081	12.8 %
Other Assets	$	1,262	2.1 %	$	1,020	1.8 %	$	999	1.8 %
Loans	$	52,779	87.6 %	$	49,763	85.8 %	$	47,092	85.1 %
Borrowings	$	2,109	3.5 %	$	2,447	4.2 %	$	2,925	5.3 %
Deposits	$	54,822	91.0 %	$	51,007	87.9 %	$	48,150	87.0 %
Members' Equity	$	4,058	6.7 %	$	3,647	6.3 %	$	3,407	6.2 %
Average Total Assets	$	60,259		$	58,013		$	55,364	

December 31 (Millions of dollars - % Avg Assets)		2014			2013			2012	
Ontario Credit Union System									
Cash & Liquid Assets	$	3,437	9.9 %	$	3,676	11.5 %	$	3,572	12.1 %
Other Assets	$	628	1.8 %	$	587	1.8 %	$	545	1.8 %
Loans	$	60,036	173.0 %	$	27,173	84.7 %	$	24,655	83.8 %
Borrowings	$	2,759	7.9 %	$	2,062	6.4 %	$	1,704	5.8 %
Deposits	$	29,063	83.7 %	$	27,386	85.3 %	$	25,270	85.8 %
Members' Equity	$	2,361	6.8 %	$	2,187	6.8 %	$	2,031	6.9 %
Average Total Assets[1]	$	34,710		$	32,097		$	29,438	

December 31 (Millions of dollars - % Avg Assets)		2014			2013			2012	
B.C. and Ontario Credit Union System Combined									
Cash & Liquid Assets	$	10,858	11.4 %	$	10,710	11.9 %	$	10,652	12.6 %
Other Assets	$	1,890	2.0 %	$	1,607	1.8 %	$	1,544	1.8 %
Loans	$	112,815	118.8 %	$	76,936	85.4 %	$	71,747	84.6 %
Borrowings	$	4,868	5.1 %	$	4,509	5.0 %	$	4,629	5.5 %
Deposits	$	83,885	88.3 %	$	78,393	87.0 %	$	73,421	86.6 %
Members' Equity	$	6,419	6.8 %	$	5,834	6.5 %	$	5,438	6.4 %
Average Total Assets	$	94,969		$	90,110		$	84,802	

[1]2012 Average Total Assets reclassified to include credit unions that subsequently became Class A members

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 member credit unions and as deposits grow, total assets increase. Since the mandatory deposits that must be maintained with Central 1 is a function of credit unions' assets (Ontario) or liabilities (B.C.), 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; the reverse is also true.

Solid deposit growth continued to fuel growth of member credit union assets, which increased by 6.8% system-wide to reach $78.4 billion (2013 - $73.4 billion). However, Central 1's average assets were lower year-over-year at $12.9 billion (2013 - $13.2 billion), due to the maturity of approximately $508.0 million of obligations under the legacy CMB program.

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 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 this MD&A, credit unions and Central 1, as approved NHA MBS Issuers and Sellers to 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.

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 member credit unions vary widely. Credit unions are distinct legal entities and are not permitted under provincial legislations 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, 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 either B.C. or Ontario.

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.

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. 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%. Additionally, Central 1 must maintain a risk-weighted capital ratio of at least 10.0% to enable B.C. credit unions to risk-weight their deposits with Central 1 at 0.0%.

During the year, FICOM confirmed requirements for Central 1 to maintain a federal borrowing multiple of no more than 16:1 for the MLP and no more than 14:1 for the ELP. Subsequently, Central 1 revised the MLP operating borrowing multiple range to 15:1 to 15.5:1 and the ELP operating range to 10:1 to 12:1. As indicated below, Central 1 had sufficient regulatory capital as at December 31, 2014 to meet these new requirements.

Under the terms of the Capital Policy, Central 1's Class A members are required to subscribe to additional Class A shares on a semi-annual basis to ensure that Central 1's MLP borrowing multiple is within the operating borrowing multiple range. As Class A members contribute the funding and capital, net earnings in the MLP are to be distributed to Central 1's Class A members as dividends on their Class A shares.

While federal regulations allow for a borrowing multiple of 20:1, the overall corporate borrowing multiple is constrained by the FICOM requirements for the MLP and the ELP. The MLP and ELP constitute the majority of Central 1's regulatory capital and borrowings. By maintaining borrowing multiples for the MLP and ELP below the levels required by FICOM, it will result in Central 1's overall corporate borrowing multiple being maintained well below the OSFI requirement.

Central 1 sought to operate at the lower end of its target range of 12:1 to 14:1 (previously 14:1 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 15* and *Chart 16)*.

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. Central 1's operating capital target for the MLP is 15:1 and its operating target for the ELP is 12:1.

In October 2014, OSFI published the federal leverage requirements that apply certain 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. B.C.'s Ministry of Finance is 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 15 - Risk Adjusted Assets

December 31 (Millions of dollars)	Risk Weight	2014 Gross Assets	2014 Risk Adjusted	2013 Gross Assets	2013 Risk Adjusted	2012 Gross Assets	2012 Risk Adjusted
On Balance Sheet							
Cash	0-20 %	**$ 145.2**	**$ 19.3**	$ 74.2	$ 13.9	$ 90.2	$ 17.6
Securities	0-100 %	**11,319.6**	**750.0**	10,496.1	1,081.5	10,898.1	1,155.7
Deposits with regulated FIs	20-100 %	**6.2**	**1.2**	7.1	1.4	106.3	21.2
Loans	20-100 %	**1,047.6**	**387.3**	1,158.0	375.2	2,613.5	557.2
Other	0-100 %	**534.2**	**162.1**	459.0	95.6	448.4	122.0
		13,052.9	**1,319.9**	12,194.4	1,567.6	14,156.5	1,873.7
Off-Balance Sheet							
Derivatives (credit equivalent amounts)	0-100 %	**183.5**	**36.6**	199.7	39.9	206.2	41.2
Credit Commitments	0-50 %	**3,561.8**	**186.5**	3,188.3	145.1	3,200.5	–
Guarantees & Letters of Credit	10-50 %	**91.4**	**18.3**	124.2	24.8	193.8	19.3
		3,836.7	**241.4**	3,512.2	209.8	3,600.5	60.5
Total Risk-Weighted Assets		**$ 16,889.6**	**$ 1,561.3**	$ 15,706.6	$ 1,777.4	$ 17,757.0	$ 1,934.2

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, 2014, Central 1's Tier 1 regulatory capital was $884.1 million *(Chart 16)* and total capital before deductions was $1,106.1 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. The computation of provincial capital base is similar to the federal regulatory capital.

Chart 16 - Summary of Regulatory Capital

December 31 (Millions of dollars)	2014	2013	2012
Share Capital	$ 333.1	$ 307.2	$ 290.3
Contributed Surplus	87.9	87.9	87.9
Retained Earnings	467.1	433.2	374.8
Less: Accum Net After Tax Gain in Investment Property	(4.0)	(4.3)	(4.5)
Tier 1 Capital	884.1	824.0	748.5
Subordinated Debt	218.0	168.0	168.0
Add: Accum Net After Tax Gain in Investment Property	4.0	4.3	4.5
Tier 2 Capital	222.0	172.3	172.5
Total Capital	1,106.1	996.3	921.0
Statutory Capital Deductions	(159.4)	(152.4)	(152.9)
Regulatory Capital (Federal)	$ 946.7	$ 843.9	$ 768.1
Borrowing Multiple - Consolidated	12.4:1	12.5:1	14.4:1
Borrowing Multiple - MLP	15.5:1	15.4:1	N/A
Borrowing Multiple - ELP	10.1:1	10.9:1	N/A
Capital Base (Provincial)	$ 946.8	$ 838.3	$ 752.4
Provincial Risk Weighted Assets	60.6 %	47.5 %	39.4 %

As at December 31, 2014, Central 1's borrowing multiple for its MLP business line was 15.5:1 and its borrowing multiple for ELP business lines were 10.1:1.

At the end of 2014, Central 1's borrowing multiple of 12.4:1 (2013 – 12.5:1) was within the target operating range of 12:1 to 14:1. The next scheduled share call for Central 1's Class A members is in May 2015 at which time it is anticipated that Class A members will subscribe to sufficient additional Class A Shares to reduce the MLP business line borrowing multiple to its target of 15:1.

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Contractual Obligations

The chart below summarizes Central 1's contractual financial obligations for each of the next five years and thereafter (*Chart 17*). 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. The chart does not incorporate management's expectation of future events where expected repricing or maturity dates differ significantly from the contractual dates.

Chart 17 - Contractual Obligations

December 31, 2014 (Millions of dollars)	< 1 Year	1 - 3 Years	4 - 5 Years	> 5 Years	Total
Mandatory deposits	$ 2,961.9	$ 2,316.6	$ 1,168.6	$ 0.2	$ 6,447.3
Non-mandatory deposits	2,125.2	175.4	183.6	–	2,484.2
Securities sold short	3.0	45.9	132.6	–	181.5
Other debt outstanding	1,074.7	705.3	489.7	–	2,269.7
Subordinated liabilities	–	–	–	217.6	217.6
Operating leases	1.0	2.0	1.9	3.7	8.6
Finance leases	0.5	0.4	–	–	0.9
Total	**$ 6,166.3**	**$ 3,245.6**	**$ 1,976.4**	**$ 221.5**	**$ 11,609.8**

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 15*. The fair value of derivative positions is presented in *Note 16* 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 17* provides a summary of Central 1's off-balance sheet commitments.

Transactions with Related Parties

There were no material transactions in 2014 with related parties, nor are there any contemplated at this time.

Proposed Transaction

In December 2014, Central 1, Concentra Financial Services Association and Credit Union Central of Saskatchewan signed a Memorandum of Understanding to explore opportunities to consolidate their trust services and wholesale financial lines of business. The three organizations are in the initial stages of investigating whether increasing the collective scale and market reach of their wholesale finance and trust services will provide enhanced levels of service and new solutions to the credit union system and improve credit unions' ability to compete with other financial institutions.

These early discussions may advance the establishment of a national, credit-union-owned, wholesale financial and trust provider.

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 18*.

Interest margin has declined quarter over quarter since mid-2011. The fourth quarter of 2014 showed a further decrease in Interest margin. 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 2013, Central 1 continued to increase the weighting of high quality liquid securities in its investment portfolio. Thus, yields on Central 1's interest bearing assets declined relative to its cost of funds.

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 18 - Central 1 Credit Union – Quarterly Earnings

December 31 (Thousands of dollars except as indicated)	Period Ended 31-Mar-14	30-Jun-14	30-Sep-14	31-Dec-14	Period Ended 31-Mar-13	30-Jun-13	30-Sep-13	31-Dec-13
Total Interest Income	$ 48,873	$ 47,131	$ 51,114	$ 46,453	$ 64,398	$ 62,001	$ 54,159	$ 52,898
Total Interest Expense	41,383	40,299	43,205	40,780	56,611	54,200	46,851	42,494
Interest margin	7,490	6,832	7,909	5,673	7,787	7,801	7,308	10,404
Gains (losses) on disposal of financial instruments	15,113	(21,252)	9,957	3,409	8,099	16,906	(3,910)	5,057
Changes in fair value of financial instruments	4,934	33,572	(2,716)	1,434	13,670	1,028	9,871	4,721
Recovery (provision) of credit losses	47	186	24	(242)	745	45	149	264
Other income	27,562	31,248	28,029	32,906	27,424	28,583	25,723	34,099
Operating expenses	(31,309)	(33,642)	(30,496)	(34,034)	(33,119)	(31,748)	(28,826)	(33,083)
Income taxes	(3,255)	(2,277)	(2,124)	(1,388)	(3,167)	(3,559)	(1,727)	(2,095)
Profit for the period	$ 20,582	$ 14,667	$ 10,583	$ 7,758	$ 21,439	$ 19,056	$ 8,588	$ 19,367
Shares (weighted average outstanding during the quarter)	307.2	311.6	316.0	325.0	291.4	293.3	293.5	298.4
Earnings per Share* (cents)	6.7	4.7	3.3	2.4	7.4	6.5	2.9	6.5
Earnings per Share fully diluted (cents)	6.7	4.7	3.3	2.4	7.4	6.5	2.9	6.5

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

Fourth Quarter 2014 compared to Fourth Quarter 2013

Central 1 reported Other income of $32.9 million for the fourth quarter of 2014, which decreased from $34.1 million reported in the fourth quarter of 2013.

Paper and electronic payments processing fees increased $0.8 million over the fourth quarter of 2013. The increase is due to increased processing fees on paper payments transactions and higher volumes on electronic payments transactions. Direct banking fees also increased from $5.9 million in the fourth quarter of 2013 to $6.1 million in the fourth quarter of 2014. The increase is attributed to increased maintenance and professional fees.

The Provincial advertising assessment revenues declined $0.5 million in the fourth quarter of 2014 as compared to the fourth quarter of 2013 due to timing of campaign activities. Marketing and research programs' income decreased by $0.9 million in the fourth quarter of 2014. This is due to a decline of $0.3 million for the National Ding Free marketing program that occurred primarily in 2013. In addition, a decline in income of $0.5 million related to the cancellation of the annual Trade Show and Conference in 2014 and a decline in the number and size of programs offered by Central 1 to its credit union members as compared to 2013.

The decline in revenues for the Provincial advertising assessment is offset by a decrease in Cost of sales and services. Marketing and research programs also had a decrease in Cost of sales and services associated with the specific campaigns associated with Other income.

Insurance premiums and assessments included in Other income declined by $0.8 million over the same period in the prior year. The decline is primarily from the transfer of the MIP previously administered on behalf of Ontario Credit Unions to CUMIS on July 1, 2014. Transferring the MIP to CUMIS has resulted in lower insurance income and expense during the last six months of 2014.

Operating Expenses

Operating expenses increased in the fourth quarter from $33.1 million in 2013 to $34.0 million in 2014. Salaries and employee benefits expenses increased overall from $13.2 million in the fourth quarter of 2013 to $17.4 million in the fourth quarter of 2014. The impact of termination costs of $0.7 million paid to non-executive employees and $0.3 million payable under retention provisions in a contractual arrangement with a certain member of the executive management team combined for an increase of $1.0 million compared to the same period last year. Operational costs associated with projects increased in the quarter compared to the same quarter in 2013, resulting in an increase to salaries and employee benefits expense of $3.1 million. Additionally, incremental Salaries and employee benefits expense associated with Central 1's RMG has resulted in an increase in Salaries and employee benefits expenses of $0.3 million over the same period last year. Salaries and benefits expense increased by $1.0 million in the fourth quarter of 2014 to expense an amount previously capitalized related to the development of an intangible asset.

Other administrative expenses decreased from $16.7 million in the fourth quarter of 2013 to $14.4 million in the fourth quarter of 2014. Included in Other administrative expenses are Costs of sales and services which declined $1.8 million in the fourth quarter of 2014 compared to the fourth quarter of 2013. The decrease is primarily related to a decline in Marketing programs and the activity in Province-Wide Communications program resulting in lower costs. Professional fees declined by $0.9 million in the fourth quarter of 2014 compared to the same quarter in 2013 as the costs associated with implementing the recommendations from the 2012 review of Central 1's capital management, and liquidity funding risk management processes was completed during 2013.

For the fourth quarter of 2014, MLP had a Profit of $3.0 million and showed strong performance with net financial income of $5.2 million. Wholesale Financial Services had a Profit of $4.7 million in the fourth quarter of 2014. Within Wholesale Financial Services, Net financial income, including recovery of credit losses, was $5.7 million and Other income was $18.5 million. Operating expenses were $18.6 million for the fourth quarter.

Within Trade Services Profit was $0.7 million for the fourth quarter of 2014 with Other income of $6.1 million and Operating expenses of $5.4 million.

Fourth Quarter 2014 compared to Third Quarter 2014

Other income of $32.9 million during the fourth quarter increased by $4.9 million compared to $28.0 million in the third quarter of 2014. Digital and Payment Services income increased by $1.3 million in the quarter, primarily due to revenue associated with project fees. Trade and Other revenues increased by $0.9 million in the fourth quarter as compared to the third quarter of 2013 primarily due to an increase in targeted marketing and research for specific credit union members and activities associated with the Province-Wide Communications Program. This was offset by an increase of $0.7 million in Operating expenses primarily associated with delivering the increased marketing programs and timing of expenses related to the Province-Wide Communications program.

Included in Other income is Central 1's Equity interest in affiliates which increased by $1.3 million compared to the third quarter of 2014. The current quarter reflects $0.5 million equity pickup from one of Central 1's affiliates. In addition, an increase of $0.8 million in dividends received from another of Central 1's affiliates is offset to member credit unions.

In aggregate, Operating expenses were $34.0 million in the fourth quarter of 2014 compared with $30.5 million in the third quarter of 2014. Salaries and employee benefits expenses increased by $0.9 million from $16.5 million in the third quarter to $17.4 million in the fourth quarter. Termination costs of $0.7 million were paid to non-executive employees in the fourth quarter and Central 1 incurred expenses of $0.9 million pursuant to contractual arrangements with members of Central 1's executive management team in the third quarter. Additionally, Salaries and employee benefits expenses associated with a specific development project increased in the fourth quarter.

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Other administrative expenses increased from $11.4 million in the third quarter of 2014 to $14.4 million in the fourth quarter. Cost of sales and services increased in the fourth quarter by $1.1 million which is primarily represented by the flow through of $0.8 million in dividend received from one of Central 1's affiliates. Professional Services increased by $0.8 million in the current quarter primarily due to legal services associated with specific strategic initiatives.

Segmented Reporting Fourth Quarter 2014 compared to Third Quarter 2014

Chart 19 - Results by Segment

For the three months ended December 31, 2014 (Thousands of dollars)	Mandatory Liquidity Pool	Wholesale Financial Services	Trade Services	Other	Total
Net financial income, including recovery of credit losses	$ 5 ,199	$ 5,675	$ 66	$ (666)	$ 10,274
Other income	(107)	18,494	6,168	8,351	32,906
Net financial and other income	5,092	24,169	6,234	7,685	43,180
Operating expenses	1,561	18,558	5,414	8,501	34,034
Profit (loss) before income taxes	3,531	5,611	820	(816)	9,146
Income taxes (recoveries)	551	885	128	(176)	1,388
Profit (loss) for the period	$ 2,980	$ 4,726	$ 692	$ (640)	$ 7,758

Results by Segment

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

For the fourth quarter of 2014, MLP had a Profit of $3.0 million as compared to $4.8 million in the third quarter of 2014. Net financial income was $5.2 million in the fourth quarter as compared to $8.1 million in the third quarter of 2014. The ELP, within Wholesale Financial Services, generated after tax income of $4.1 million in the fourth quarter compared to $7.4 million in the third quarter of 2014.

Both portfolios experienced mark-to-market gains arising from the Government of Canada yield curve flattening and the narrowing of credit spreads on provincial debt and corporate debt. This resulted in net mark-to-market gains in both MLP and ELP. Realized and unrealized gains in the MLP totaled $2.0 million in the quarter compared to $2.8 million in the third quarter. Realized and unrealized gains in the MLP totaled $2.0 million in the quarter compared to $2.8 million in the third quarter. Realized and unrealized gains in the ELP totaled $3.2 million in the quarter compared to $4.3 million in the third quarter.

Wholesale Financial Services had a Profit of $4.7 million in the fourth quarter of 2014 as compared to $9.1 million in the third quarter. Net financial income, including recovery of credit losses, was $5.7 million in the fourth quarter as compared to $10.0 million in the third quarter of 2014. Net financial income declined in the fourth quarter primarily due to mark to market losses in December. Wholesale Financial Services' Other income declined from $19.4 million in the third quarter of 2014 to $18.5 million in the fourth quarter of 2014. Direct banking fees decreased by $1.1 million in the fourth quarter. Operating expenses in Wholesale Financial Services were $18.6 million for the fourth quarter as compared to $18.5 million in the third quarter of 2014.

Central 1's Trade Services segment had a Profit of $0.7 million in the fourth quarter of 2014 as compared to a loss of $0.6 million in the third quarter. Other income increased by $1.4 million mostly due to an increase in targeted marketing and research programs and increased activity in the Province-Wide Communications program. In addition, a $0.1 million decrease in Operating expenses primarily associated with delivering the increased marketing programs and timing of the Provincial advertising campaign and lower legal expenses of $0.7 million related to board activities that were moved to Central 1's Other segment.

Central 1's Other segment reported a loss of $0.6 million in the fourth quarter as compared to a loss of $2.8 million in the third quarter. Net financial income, including recovery of credit losses improved by $2.3 million in the fourth quarter due to the redemption of $150.0 million of par value of subordinated debt.

Accounting and Control Matters

Central 1's 2014 Annual Consolidated Financial Statements have been prepared in accordance with 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 2014 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 judgements about matters that are inherently uncertain.

In preparing Central 1's 2014 annual consolidated financial statements, management is required to make estimates and judgements 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 postemployment benefits, require management to make subjective or complex judgements. *Note 5* to Central 1's 2014 annual consolidated financial statements provides additional details regarding estimates and judgements used by management in preparing Central 1's financial statements.

Changes in Accounting Policies

Trade date accounting

On January 1, 2014, Central 1 changed its accounting policy from settlement date to trade date accounting for regular way purchases and sales of financial assets. Recognition of regular way purchases and sales of financial assets on a trade date basis provides more reliable and relevant information on Central 1's consolidated financial statements compared with settlement date accounting. IAS 39 provides entities with an option to use either settlement date or trade date accounting for the recognition of regular purchases and sales of financial assets as long as the method used is consistently applied for all purchases and sales of financial assets that belong to the same category.

In accordance with *IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors*, Central 1 has applied this new accounting policy retrospectively and restated the comparative information.

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The change in accounting policy resulted in no adjustments to Central 1's consolidated statements of financial position as at December 31, 2013. The following table summarizes the impact of change to trade date accounting as at December 31, 2012.

(Thousands of dollars) Statement of Financial Position	December 31, 2012	Change in Accounting Policy	As revised December 31, 2012
Assets			
Investment securities	$ 6,386,581	$ 7,078	$ 6,393,659
Liabilities			
Other Liabilities	$ 463,996	$ 7,078	$ 471,074

Operating segments

Under IFRS 8, an entity is required to disclose the information that is used internally by management to allocate resources and to assess the operating results of the segments of the entity. Previously, discrete information was not available for these operating segments. Effective January 1, 2014, Central 1 had changed its accounting policy by disclosing its operating units which meet the definition of operating segments in accordance with IFRS 8.

The change in accounting policy was not applied retrospectively as the discrete information for these operating segments was not available prior to 2014.

Future Changes in Accounting Policies

IFRS 9 – Financial Instruments

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014 which replaces IAS 39 Financial Instruments: Recognition and Measurement that relates to the classification and measurement of financial instruments.

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

IAS 39 was rule-based and contained many different classification categories and associated impairment models. This has made it complex and difficult to apply. IFRS 9 is principle-based and built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics.

Under IFRS 9, all financial assets that are currently in the scope of IAS 39 will be classified as one of the following:

- amortized cost;
- fair value through profit or loss; or
- fair value through other comprehensive income.

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. Financial assets classified and measured at fair value through other comprehensive income are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Any financial assets that are not held in one of the two business models mentioned above are measured at fair value through profit or loss. As such, fair value through profit or loss represents a 'residual' category and financial assets that are held for trading and those managed on a fair value basis are also included in this category.

For an investment in equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, to present all fair value changes from the investment in Other comprehensive income. No amounts recognized in Other comprehensive income would ever be reclassified to profit or loss at a later date.

For financial liability there were no changes to classification and measurement except for the recognition of changes in the fair value of an entity's own credit risk to be recognized in Other comprehensive income rather than in profit loss.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model for calculating impairment on financial assets. A loss event will no longer need to occur before an impairment allowance is recognized. This will accelerate the recognition of impairment losses.

IFRS 9 has a mandatory effective date for annual periods beginning on or after January 1, 2018, with early adoption permitted. It is required to be applied retrospectively when initially applied and it is expected that IFRS 9 will have a significant impact on Central 1's financial statements. However, Central 1 is not able to determine such impact at this time.

IFRS 15 - Revenue from Contracts with Customers

IASB published a new standard IFRS 15 Revenue from Contracts with Customers on May 28, 2014 to replace existing IFRS guidance. The standard introduces a new revenue recognition model for contracts with customers. It contains a single model that applies to contracts with customers and two approaches to recognizing revenue. Revenue may either be recognized over time, in a manner that best reflects the entity's performance, or at a point in time, when control of the good or services is transferred to the customer. Significant estimates and judgement thresholds have been introduced which may affect the amount and/or timing of revenue recognized. They include:

- estimating and recognizing variable consideration;
- identifying separate goods and services in a contract; and
- estimating stand-alone selling prices.

IFRS 15 is effective for annual periods beginning on or after January 1, 2017 with early adoption permitted. The standard may be adopted retrospectively, or as of the application date by adjusting retained earnings at that date and disclosing the effect of adoption on each line of profit or loss. Central 1 is not able to determine the impact that IFRS 15 will have on the consolidated financial statements at this time.

Controls and Procedures

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this MD&A, management evaluated Central 1's disclosure controls and procedures as required by Canadian securities laws.

Based on that evaluation, management has concluded that the disclosure controls and procedures were effective 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, 2014. Based on that evaluation, management has concluded that the design of its internal monitoring controls and procedures over financial reporting was effective.

During the year, phase 1 of a multi-phased treasury management system was implemented. This resulted in changes in the design of certain processes and controls related to accounting for investments. The evaluation of the design of internal controls included all changes that had been fully implemented at year end. Based on that evaluation, management has concluded that the design of its internal monitoring controls and procedures over financial reporting was effective.

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

December 31 (Millions of dollars unless otherwise indicated)	2014	2013	2012	2011	2010
Assets					
Cash	$ **145.20**	$ 74.15	$ 90.24	$ 100.80	$ 121.29
Deposits with regulated financial institutions	**6.20**	7.13	106.28	5.36	140.56
Pledged trading assets	**12.36**	64.44	135.57	51.65	160.75
Reinvestment assets under the CMB and IMPP Programs	**65.52**	306.92	1,652.24	2,205.74	1,643.99
Non-Pledged trading assets	**5,766.20**	4,312.41	2,678.96	3,998.71	4,253.13
Derivative assets	**42.16**	29.38	34.02	41.35	129.10
Loans	**1,047.64**	1,157.97	2,069.52	2,533.03	1,109.18
Investment securities	**5,475.56**	5,553.36	6,393.66	3,891.04	3,962.28
Secured loans to members	**–**	229.62	561.51	1,167.42	1,929.85
Current tax assets	**3.18**	4.34	–	–	3.18
Property and equipment	**18.39**	16.11	17.30	16.80	17.09
Intangible assets	**13.24**	12.20	6.41	2.57	4.11
Deferred tax assets	**10.34**	6.37	6.39	8.20	5.72
Investment in affiliates	**122.39**	120.11	110.17	108.83	128.22
Other	**324.50**	299.93	294.23	453.68	59.72
Total Assets	$ **13,052.88**	$ 12,194.44	$ 14,156.50	$ 14,585.18	$ 13,668.17
Liabilities					
Deposits designated as trading	$ **5,483.41**	$ 3,332.19	$ 2,274.59	$ 2,034.22	$ 2,072.59
Obligations related to securities sold short	**181.53**	66.70	11.49	–	–
Derivative liabilities	**104.17**	150.64	216.04	211.97	80.12
Debt securities issued	**1,568.84**	1,097.51	1,170.80	375.51	620.53
Deposits	**3,448.10**	5,167.62	6,564.33	7,154.65	6,535.91
Obligations under the CMB and IMPP Programs	**595.15**	831.76	2,259.99	3,246.23	3,280.11
Subordinated liabilities	**217.58**	169.14	168.86	168.57	200.58
Provisions	**2.96**	3.99	5.28	5.80	6.45
Securities under repurchase agreements	**105.70**	106.71	201.43	57.02	162.36
Current tax liabilities	**–**	–	2.58	4.28	–
Deferred tax liabilities	**5.98**	4.70	2.93	2.98	2.14
Other	**414.62**	387.14	471.08	602.92	114.85
Total Liabilities	**12,128.04**	11,318.10	13,349.40	13,864.15	13,075.64
Equity					
Share capital	**333.12**	307.19	290.30	272.06	164.98
Contributed surplus	**87.90**	87.90	87.90	87.90	87.90
Retained earnings	**467.07**	433.17	374.84	310.78	302.92
Accumulated other comprehensive income	**23.10**	35.08	39.46	35.92	22.75
Reserves	**3.75**	3.13	4.99	5.28	5.60
Total equity attributable to members of Central 1	**914.94**	866.47	797.49	711.94	584.15
Non-controlling interest	**9.90**	9.87	9.61	9.09	8.38
	924.84	876.34	807.10	721.03	592.53
Total Liabilities and Equity	$ **13,052.88**	$ 12,194.44	$ 14,156.50	$ 14,585.18	$ 13,668.17

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IFRS Profit and Loss – For the Years Ended

December 31 (Millions of dollars unless otherwise indicated)	2014	2013	2012	2011	2010
Interest income					
Securities	$ **162.63**	$ 159.43	$ 151.29	$ 184.30	$ 165.57
Deposits with regulated financial institutions	**0.13**	0.29	0.30	1.03	1.42
Loans	**24.73**	29.92	42.58	34.51	22.30
Secured loans and reinvestment assets	**6.08**	43.82	110.01	116.99	117.32
	193.57	233.46	304.18	336.83	306.61
Interest expense					
Debt securities issued	**22.75**	18.16	16.50	13.78	12.08
Deposits	**119.35**	122.73	129.64	142.80	116.49
Obligations under the CMB and IMPP programs	**14.95**	52.73	111.61	117.50	117.55
Subordinated liabilities	**8.61**	6.54	6.55	8.38	8.27
	165.66	200.16	264.30	282.46	254.39
Interest margin	**27.91**	33.30	39.88	54.37	52.22
Gains on disposal of financial instruments	**7.23**	26.15	66.62	98.41	44.00
Change in fair value of financial instruments	**37.22**	29.29	(15.04)	(109.74)	(18.79)
Net financial income	**72.36**	88.74	91.46	43.04	77.43
(Recovery) provision for credit losses	**(0.01)**	(1.20)	(2.42)	5.31	4.41
	72.37	89.94	93.88	37.73	73.02
Other income	**119.74**	115.83	106.85	101.93	99.63
Net financial and other Income	**192.11**	205.77	200.73	139.66	172.65
Operating expenses					
Salaries and employee benefits	**70.13**	64.73	62.02	59.28	56.76
Premises and equipment	**9.63**	9.50	10.35	10.36	10.08
Other administrative expenses	**49.72**	52.54	42.69	50.64	57.66
	129.48	126.77	115.06	120.28	124.50
Profit before income taxes	**62.63**	79.00	85.67	19.38	48.15
Income taxes	**9.04**	10.55	11.53	2.68	4.51
Profit for the year	**$ 53.59**	$ 68.45	$ 74.14	$ 16.70	$ 43.64

**Changes in accounting policy have not been restated in 2011 or 2010.*

Statistical	2014	2013	2012	2011	2010
Average Assets	$ 12,948.00	$ 13,178.00	$ 14,443.00	$ 14,456.00	$ 13,538.84
Average Cash, Securities and Deposits with regulated financial institutions	10,843.00	9,907.00	8,882.00	8,935.00	8,104.34
Average Loans	1,062.00	1,311.00	1,936.00	1,642.00	1,357.86
Average Debt securities issued	1,338.00	1,021.00	706.00	550.00	545.34
Average Subordinated liabilities	280.00	169.00	169.00	208.00	200.91
Gross Income	313.31	349.29	411.03	438.76	406.23
Interest Income	193.57	233.46	304.18	336.83	306.61
Interest Expense	165.66	200.16	264.30	282.46	254.39
Interest Margin	27.91	33.30	39.88	54.37	52.22
Profit for the year	53.59	68.45	74.14	16.70	43.64
As a Percent of Average Assets					
Average Cash & Securities and Deposits with regulated FI's	83.74 %	75.18 %	61.50 %	61.81 %	59.86 %
Average Loans	8.20 %	9.95 %	13.40 %	11.36 %	10.03 %
Average Debt securities issued	10.33 %	7.75 %	4.89 %	3.80 %	4.03 %
Average Subordinated liabilities	2.16 %	1.28 %	1.17 %	1.44 %	1.48 %
Gross Income	2.42 %	2.65 %	2.85 %	3.04 %	3.00 %
Interest Income	1.49 %	1.77 %	2.11 %	2.33 %	2.26 %
Interest Expense	1.28 %	1.52 %	1.83 %	1.95 %	1.88 %
Interest Margin	0.22 %	0.25 %	0.28 %	0.38 %	0.39 %
Net Financial Income	0.56 %	0.67 %	0.63 %	0.30 %	0.57 %
Profit before Taxes	0.48 %	0.60 %	0.59 %	0.13 %	0.36 %
Profit for the Year	0.41 %	0.52 %	0.51 %	0.12 %	0.32 %
Yields / Costs					
Cash, Securities and deposits with regulated financial institutions	1.50 %	1.61 %	1.71 %	2.07 %	2.06 %
Loans	2.33 %	2.28 %	2.20 %	2.10 %	1.64 %
Debt securities issued	1.70 %	1.78 %	2.34 %	2.51 %	2.22 %
Returns on Average:					
Assets	0.41 %	0.52 %	0.51 %	0.12 %	0.32 %
Share Capital	17.03 %	23.27 %	26.45 %	8.96 %	26.81 %
Equity	5.94 %	8.19 %	9.58 %	2.66 %	7.46 %
Returns on Average:					
Assets (before taxes & dividends)	0.48 %	0.60 %	0.59 %	0.13 %	0.36 %
Share Capital (before taxes & dividends)	19.90 %	26.86 %	30.56 %	10.40 %	29.57 %
Equity (before taxes & dividends)	6.94 %	9.45 %	11.07 %	3.08 %	8.23 %
Dividends as % Year-End Capital	6.74 %	4.55 %	4.11 %	3.69 %	5.82 %
Debt/Equity Ratio	13.11	12.92	16.54	19.23	22.07
Dividends Per Share - Class A (cents)	7.14	4.75	2.00	2.00	2.00
Dividends Per Share - Class B and C (cents)	1.40	1.38	2.00	2.00	2.00
Dividends Per Share - Class E (cents)	–	–	200.00	200.00	200.00
Average Deposits	$ 8,771.00	$ 8,682.00	$ 8,759.00	$ 9,196.00	$ 8,119.92
Average Notes	1,356.27	1,021.30	705.50	550.40	549.90
Average Repurchase Agreements	126.74	143.90	180.20	138.00	578.00
Average Share Capital	314.65	294.15	280.35	186.32	162.80
Average Equity	902.00	836.00	774.00	629.00	584.86
Dividends	22.45	13.98	11.92	10.05	9.60

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Five Year Summary: British Columbia Credit Union System

As at December 31 (Millions of dollars)	2014	2013	2012	2011	2010
Cash & Central 1 Operating Account	$ 767.71	$ 601.39	$ 594.86	$ 607.82	$ 697.41
Investments – Liquid	6,653.13	6,323.67	6,534.27	7,016.95	6,364.12
– Other	219.92	205.34	193.95	188.61	115.86
Loans[2]	52,778.99	50,834.96	48,822.73	45,318.38	41,402.70
Other	1,042.39	947.83	1,047.99	998.54	881.79
Total Assets	$ 61,462.14	$ 58,913.19	$ 57,193.80	$ 54,130.30	$ 49,461.88
Borrowed Funds	$ 2,108.67	$ 2,260.23	$ 3,036.57	$ 3,583.14	$ 1,484.14
Members' Deposits	54,415.90	51,937.94	49,763.57	46,348.37	44,107.02
Non-Equity Shares	57.33	61.82	64.91	63.54	63.07
Retained Earnings & Equity Shares	3,902.36	3,699.76	3,360.08	3,144.84	2,865.10
Payables & Other	977.88	953.44	968.67	990.41	942.55
Total Liabilities	$ 61,462.14	$ 58,913.19	$ 57,193.80	$ 54,130.30	$ 49,461.88
For the Year Ended					
Average Assets	60,259.10	58,009.72	55,363.66	52,055.75	48,231.73
Average Liquidity	7,312.28	7,033.59	7,080.75	7,383.81	6,912.38
Average Loans	51,741.40	49,763.41	47,092.21	43,628.62	40,284.23
Average Deposits	53,210.98	51,004.16	48,150.31	45,604.18	43,182.51
Financial Margin	1,245.98	1,216.60	1,223.44	1,225.39	1,215.86
Non-Financial Income	273.29	270.63	258.97	261.73	301.76
Non-Financial Expense	1,204.27	1,162.01	1,159.71	1,098.00	1,105.32
Net Loan Loss Expense	44.05	33.07	38.21	42.11	52.55
Net Operating Income	295.23	308.70	315,80	397.40	382.57
Income Taxes	49.15	55.48	40.94	47.32	71.91
Net Income[3]	246.08	253.22	274.87	350.07	310.66
Return on Equity	6.21 %	6.94 %	8.07 %	11.12 %	10.70 %

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Five Year Summary: British Columbia Credit Union System

As at December 31 (Millions of dollars)	2014	2013	2012	2011	2010
Statistical					
As a Percentage of Average Assets					
Average Liquidity	**12.13 %**	12.12 %	12.79 %	14.18 %	14.33 %
Average Loans	**85.86 %**	85.78 %	85.06 %	83.81 %	83.52 %
Average Deposits	**88.30 %**	87.92 %	86.97 %	87.61 %	89.53 %
Gross Income	**3.94 %**	4.21 %	4.12 %	4.40 %	4.57 %
Financial Income	**3.44 %**	3.52 %	3.69 %	3.92 %	3.98 %
Financial Expense	**1.37 %**	1.42 %	1.48 %	1.56 %	1.46 %
Financial Margin	**2.07 %**	2.10 %	2.21 %	2.35 %	2.52 %
Non-Financial Income	**0.45 %**	0.47 %	0.47 %	0.50 %	0.63 %
Non-Financial Expense	**2.00 %**	2.00 %	2.09 %	2.11 %	2.29 %
Net Loan Loss Expense	**0.07 %**	0.06 %	0.07 %	0.08 %	0.11 %
Net Operating Income	**0.49 %**	0.53 %	0.57 %	0.76 %	0.79 %
Income Taxes	**0.08 %**	0.10 %	0.07 %	0.09 %	0.15 %
Net Income	**0.41 %**	0.44 %	0.50 %	0.67 %	0.64 %
Yields/Costs					
Investments[4]	**1.67 %**	1.65 %	1.93 %	2.01 %	1.82 %
Loans	**3.76 %**	3.87 %	4.04 %	4.33 %	4.40 %
Deposits	**1.49 %**	1.55 %	1.60 %	1.71 %	1.70 %
Number of Credit Unions	**43**	43	44	45	45
Number of Branches[5]	**365**	371	369	371	370
Number of ATMs	**565**	565	555	549	555
Number of Members	**1,904,008**	1,877,940	1,873,992	1,823,015	1,731,700

[1] Income statement for three credit unions with September 30 year-end is adjusted to twelve months ending December 31st.
[2] Figures are net of allowance for doubtful loans, but include accrued interest.
[3] After taxes, before dividends, patronage refunds, charitable donations, capital gains/extraordinary items and other comprehensive income.
[4] Excludes net interest income on Interest Rate/Foreign Exchange Contracts, Trading Gains (Losses) and other comprehensive income (Loss).
[5] Excludes credit union insurance subsidiaries.
Note: 2014 figures are unaudited

Five Year Summary: Ontario Credit Union System

As at December 31 (Millions of dollars)	2014	2013	2012	2011	2010
Cash & Central 1 Operating Account					
Cash & Investments					
Investments – Liquid (includes Cash)	$ **3,646.70**	$ 3,509.17	$ 3,805.90	$ 3,658.32	$ 2,921.57
– Other	**468.91**	622.18	665.61	590.30	649.82
Loans[1]	**31,382.18**	28,316.18	25,730.42	22,630.47	19,130.50
Other	**653.05**	578.76	555.23	508.99	534.64
Total Assets	$ **36,150.84**	$ 33,026.29	$ 30,757.16	$ 27,388.09	$ 23,236.53
Borrowed Funds	$ **3,085.19**	$ 2,374.10	$ 1,960.00	$ 1,225.61	$ 263.72
Members' Deposits	**30,036.91**	27,986.27	26,264.35	23,867.87	20,856.02
Non-Equity Shares	**n/a**	n/a	n/a	n/a	634.97
Retained Earnings & Equity Shares	**1,468.14**	1,358.91	1,256.03	1,136.55	1,055.04
Payables & Other	**1,560.60**	1,307.01	1,276.78	1,158.05	426.78
Total Liabilities	$ **36,150.84**	$ 33,026.29	$ 30,757.16	$ 27,388.09	$ 23,236.53
For the Period Ended					
Average Assets	**34,710.37**	32,152.10	29,438.19	25,689.43	22,530.99
Average Liquidity	**3,436.96**	3,681.87	3,571.52	3,357.17	3,361.52
Average Loans	**30,036.27**	27,225.62	24,654.89	21,275.10	18,647.50
Average Deposits	**29,062.81**	27,420.29	25,270.39	22,575.06	20,157.28
Financial Margin	**779.25**	745.03	720.32	641.10	570.48
Non-Financial Margin	**179.91**	178.64	174.64	145.08	161.58
Non-Financial Expense	**778.98**	731.85	705.65	661.06	640.04
Net Loan Loss Expense	**31.47**	29.10	44.17	29.41	39.48
Net Operating Income	**150.37**	164.45	146.74	96.71	114.90
Income Taxes	**23.77**	16.50	17.70	15.62	17.48
Net Income[2]	**126.60**	147.95	129.04	81.09	81.36
Return on Equity	**5.41 %**	6.80 %	6.46 %	4.58 %	5.97 %

Five Year Summary: Ontario Credit Union System

As at December 31 (Millions of dollars)	2014	2013	2012	2011	2010
Statistical					
As a Percentage of Average Assets					
Average Liquidity	**9.90 %**	11.45 %	11.45 %	13.07 %	14.92 %
Average Loans	**86.53 %**	84.68 %	84.66 %	82.82 %	82.76 %
Average Deposits	**83.73 %**	85.28 %	85.32 %	87.88 %	89.46 %
Gross Income	**4.22 %**	4.36 %	4.50 %	4.73 %	5.05 %
Financial Income	**3.69 %**	3.71 %	3.91 %	4.06 %	4.34 %
Financial Expense	**1.45 %**	1.39 %	1.47 %	1.56 %	1.70 %
Financial Margin	**2.25 %**	2.32 %	2.45 %	2.50 %	2.53 %
Non-Financial Income	**0.52 %**	0.56 %	0.59 %	0.56 %	0.72 %
Non-Financial Expense	**2.24 %**	2.28 %	2.40 %	2.57 %	2.84 %
Net Loan Loss Expense	**0.09 %**	0.09 %	0.15 %	0.11 %	0.18 %
Net Operating Income	**0.43 %**	0.51 %	0.50 %	0.38 %	0.51 %
Income Taxes	**0.07 %**	0.05 %	0.06 %	0.06 %	0.08 %
Net Income	**0.36 %**	0.46 %	0.44 %	0.32 %	0.36 %
Yields/Costs					
Investments	**1.50 %**	1.44 %	1.83 %	1.61 %	1.68 %
Loans	**4.05 %**	4.09 %	4.32 %	4.61 %	4.89 %
Deposits	**1.51 %**	1.54 %	1.62 %	1.74 %	1.88 %
Number of Credit Unions	**84**	90	100	108	119
Number of Branches[4]	**507**	502	505	497	470
Number of ATMs	**575**	588	570	553	546
Number of Members (thousands)	**1,334**	1,326	1,310	1,263	1,191

[1] Figures are net of allowance for doubtful loans
[2] After taxes, before dividends, patronage refunds, extraordinary items and other comprehensive income
[3] Calculated: Interest and dividends as a % of average asset or liability

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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 ("bps") 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. 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.

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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 Liquidity Pool ("MLP") 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.

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.

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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, 2014, 2013 and 2012

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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 judgements 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

D. Blue
Chief Financial Officer

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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, 2014 and December 31, 2013, 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 judgement, 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, 2014 and December 31, 2013, 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 27, 2015
Vancouver, Canada

Consolidated Statements of Financial Position

(Thousands of dollars)	Note	December 31, 2014	December 31, 2013	December 31, 2012	January 1, 2012
Assets			*(Note 4)*	*(Note 4)*	*(Note 4)*
Cash	(7)	$ **145,203**	$ 74,153	$ 90,238	$ 100,795
Deposits with regulated financial institutions	(8)	**6,198**	7,132	106,275	5,357
Pledged trading assets	(9)	**12,356**	64,443	135,572	51,652
Reinvestment assets under the CMB and IMPP programs	(10)	**65,518**	306,914	1,652,244	2,205,742
Non-pledged trading assets	(9)	**5,766,197**	4,312,413	2,678,954	3,998,708
Derivative assets	(11)	**42,162**	29,383	34,018	41,347
Loans	(12)	**1,047,637**	1,157,972	2,069,521	2,533,032
Investment securities	(13)	**5,475,562**	5,553,354	6,393,659	3,891,039
Secured loans to members	(14)	**–**	229,620	561,511	1,167,423
Current tax assets		**3,175**	4,338	–	–
Property and equipment	(15)	**18,388**	16,111	17,303	16,803
Intangible assets	(16)	**13,246**	12,198	6,412	2,568
Deferred tax assets	(17)	**10,342**	6,371	6,389	8,197
Investment in affiliates	(18)	**122,390**	120,107	110,170	108,831
Other assets	(19)	**324,506**	299,933	294,231	453,685
		$ **13,052,880**	$ 12,194,442	$ 14,156,497	$ 14,585,179
Liabilities					
Deposits designated as trading	(20)	$ **5,483,413**	$ 3,332,189	$ 2 ,274,584	$ 2,034,219
Obligations related to securities sold short	(21)	**181,534**	66,704	11,494	–
Derivative liabilities	(11)	**104,174**	150,645	216,042	211,967
Debt securities issued	(22)	**1,568,840**	1,097,509	1,170,804	375,516
Deposits	(23)	**3,448,098**	5,167,617	6,564,336	7,154,651
Obligations under the CMB and IMPP programs	(24)	**595,151**	831,762	2,259,992	3,246,227
Subordinated liabilities	(25)	**217,581**	169,139	168,859	168,567
Provisions	(26)	**2,958**	3,991	5,280	5,798
Securities under repurchase agreements	(27)	**105,698**	106,706	201,433	57,020
Current tax liabilities		**–**	–	2,580	4,281
Deferred tax liabilities	(17)	**5,971**	4,699	2,929	2,981
Other liabilities	(28)	**414,619**	387,143	471,074	602,924
		12,128,037	11,318,104	13,349,407	13,864,151
Equity					
Share capital	(29)	**333,118**	307,185	290,299	272,062
Contributed surplus		**87,901**	87,901	87,901	87,901
Retained earnings		**467,072**	433,171	374,841	310,782
Accumulated other comprehensive income		**23,099**	35,078	39,459	35,917
Reserves	(30)	**3,751**	3,130	4,985	5,281
Total equity attributable to members of Central 1		**914,941**	866,465	797,485	711,943
Non-controlling interest		**9,902**	9,873	9,605	9,085
		924,843	876,338	807,090	721,028
		$ **13,052,880**	$ 12,194,442	$ 14,156,497	$ 14,585,179
Guarantees, commitments, and contingencies	(38)				
Commitments under leasing arrangements	(39)				

See accompanying notes to the consolidated financial statements

Approved by the Directors:

Terry Enns
Chairperson

Daniel A. Burns
Chairperson
Audit and Finance Committee

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Consolidated Statements of Profit

For the Years Ended December 31

(Thousands of dollars)	Note	December 31, 2014	December 31, 2013	December 31, 2012
Interest income				
Securities		$ **162,635**	$ 159,427	$ 151,294
Deposits with regulated financial institutions		**130**	295	296
Loans		**24,730**	29,917	42,576
Secured loans and reinvestment assets		**6,076**	43,817	110,016
		193,571	233,456	304,182
Interest expense				
Debt securities issued		**22,752**	18,159	16,499
Deposits		**119,355**	122,729	129,637
Obligations under the CMB and IMPP programs		**14,950**	52,726	111,614
Subordinated liabilities		**8,610**	6,542	6,553
		165,667	200,156	264,303
Interest margin		**27,904**	33,300	39,879
Gain on disposal of financial instruments	(31)	**7,227**	26,152	66,623
Changes in fair value of financial instruments	(32)	**37,224**	29,290	(15,044)
Net financial income		**72,355**	88,742	91,458
Recovery of credit losses	(12)	**(15)**	(1,203)	(2,425)
		72,370	89,945	93,883
Other income	(33)	**119,745**	115,829	106,857
Net financial and other income		**192,115**	205,774	200,740
Operating expenses				
Salaries and employee benefits	(34)	**70,126**	64,729	62,021
Premises and equipment		**9,630**	9,503	10,352
Other administrative expenses	(35)	**49,725**	52,544	42,692
		129,481	126,776	115,065
Profit before income taxes		**62,634**	78,998	85,675
Income taxes	(36)	**9,044**	10,548	11,533
Profit for the year		$ **53,590**	$ 68,450	$ 74,142

See accompanying notes to the consolidated financial statements

Consolidated Statements of Comprehensive Income

For the Years Ended December 31

(Thousands of dollars)	December 31, 2014	December 31, 2013	December 31, 2012
Profit for the year	**$ 53,590**	$ 68,450	$ 74,142
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 of available -for-sale assets[1]	**13,947**	7,636	12,509
Reclassification of realized gains on available-for-sale assets to profit or loss[2]	**(23,352)**	(15,509)	(8,138)
	(9,405)	(7,873)	4,371
Net actuarial gains (losses) on employee benefit plans[3]	**(2,574)**	3,492	(829)
Other comprehensive income (loss), net of tax	**(11,979)**	(4,381)	3,542
Comprehensive income, net of tax	**$ 41,611**	$ 64,069	$ 77,684
Income taxes (recoveries) on 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	**$ 2,628**	$ 812	$ 2,269
[2]Reclassification of realized gains on available-for-sale assets to profit or loss	**$ (4,317)**	$ (2,783)	$ (1,204)
[3]Net actuarial gains (losses) on employee benefit plans	**$ (854)**	$ 309	$ (135)

See accompanying notes to the consolidated financial statements

Consolidated Statement of Changes in Equity

For the Year Ended December 31, 2014

	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, 2014	$ 307,185	$ 87,901	$ 433,171	$ 38,453	$ (3,375)	$ 3,130	$ 866,465	$ 9,873	$ 876,338
Total comprehensive income for the year									
Profit for the year			53,561				53,561	29	53,590
Other comprehensive income, net of tax									
Fair value reserve (available-for-sale financial assets, net of tax)				(9,405)			(9,405)		(9,405)
Employee benefits reserve (net of tax)					(2,574)		(2,574)		(2,574)
Total comprehensive income	–	–	53,561	(9,405)	(2,574)	–	41,582	29	41,611
Transactions with owners, recorded directly in equity									
Dividends to members			(22,448)				(22,448)		(22,448)
Related tax savings			3,502				3,502		3,502
Class “E” share redemptions			(110)				(110)		(110)
Related tax savings			17				17		17
Net Classes “A”, “B” and “C” shares issued	25,933						25,933		25,933
Transfer from reserves			(621)			(621)	–		–
Total contributions and distributions to owners	25,933	–	(19,660)	–	–	621	6,894	–	6,894
Balance at December 31, 2014	$ 333,118	$ 87,901	$ 467,072	$ 29,048	$ (5,949)	$ 3,751	$ 914,941	$ 9,902	$ 924,843

Profit attributable to:		2014	2013	2012
	Members of Central 1	53,561	68,402	74,058
	Non-controlling interest	29	48	84
		$ 53,590	$ 68,450	$ 74,142
Total Comprehensive income attributable to:				
	Members of Central 1	41,582	64,021	77,600
	Non-controlling interest	29	48	84
		$ 41,611	$ 64,069	$ 77,684

See accompanying notes to the consolidated financial statements

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Consolidated 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
Preferred shares issued by subsidiary							–	220	220
Transfer from reserves			1,855			(1,855)	–		–
Total contributions and distributions to owners	16,886	–	(10,072)	–	–	(1,855)	4,959	220	5,179
Balance at December 31, 2013 *(Note 4)*	$ 307,185	$ 87,901	$ 433,171	$ 38,453	$ (3,375)	$ 3,130	$ 866,465	$ 9,873	$ 876,338

See accompanying notes to the consolidated financial statements

Consolidated 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 *(Note 4)*	$ 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

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Consolidated Statements of Cash Flows

For the Years Ended December 31

(Thousands of dollars)	December 31, 2014	December 31, 2013	December 31, 2012
Cash flows from operating activities			
Profit for the year	$ **53,590**	$ 68,450	$ 74,142
Adjustments for:			
Depreciation and amortization	**5,602**	2,842	3,899
Net interest income	**(27,904)**	(33,300)	(39,879)
Gain on disposal of financial instruments	**(7,227)**	(26,152)	(66,623)
Change in fair value of financial instruments	**(37,224)**	(29,290)	15,044
Income tax expense	**9,044**	10,548	11,533
Recovery of credit losses	**(15)**	(1,203)	(2,425)
Other items, net	**(3,481)**	(9,352)	(12,203)
	(7,615)	(17,457)	(16,512)
Change in trading assets	**(1,374,695)**	(1,563,509)	1,233,015
Change in settlements in transit	**(16,226)**	(96,343)	26,850
Change in loans	**109,782**	908,910	472,278
Change in deposits designated as trading	**2,121,873**	1,058,094	248,555
Change in obligations related to securities sold short	**113,261**	54,700	11,028
Change in deposits	**(1,706,535)**	(1,391,768)	(585,895)
Change in derivative assets and liabilities	**(48,835)**	(46,544)	(22,781)
	(808,990)	(1,093,917)	1,366,538
Interest received	**207,448**	241,253	312,033
Interest paid	**(167,799)**	(209,463)	(264,955)
Income tax paid	**(4,564)**	(7,701)	(11,054)
Net cash from operating activities	**(773,905)**	(1,069,828)	1,402,562
Cash flows from investing activities			
Change in deposits with regulated financial institutions	**892**	99,132	(100,905)
Change in reinvestment assets under the CMB and IMPP programs	**240,873**	1,339,370	538,970
Change in investment securities	**87,311**	837,330	(2,480,994)
Change in secured loans to members	**228,919**	328,620	595,141
Change in assets available-for-sale	**–**	–	5,897
Change in property and equipment	**(4,160)**	(2,128)	(3,007)
Acquisition of intangible assets	**(2,585)**	(4,940)	(4,867)
Net cash from investing activities	**551,250**	2,597,384	(1,449,765)
Cash flows from financing activities			
Change in obligations under the CMB and IMPP programs	**(237,392)**	(1,390,157)	(906,885)
Change in subordinated liabilities	**50,000**	–	–
Change in debt securities issued	**470,140**	(72,634)	795,072
Change in securities under repurchase agreements	**(998)**	(94,702)	144,363
Dividends paid	**(13,978)**	(3,034)	(14,141)
Issuance of shares	**25,933**	16,886	18,237
Net cash from financing activities	**293,705**	(1,543,641)	36,646
Increase (decrease) in cash	**71,050**	(16,085)	(10,557)
Cash – beginning of year	**74,153**	90,238	100,795
Cash – end of year	$ **145,203**	$ 74,153	$ 90,238

See accompanying notes to the consolidated financial statements

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Notes to the Consolidated Financial Statements

Years Ended December 31, 2014, 2013 and 2012

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 27, 2015.

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 are measured at fair value through profit or loss.
- 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 judgements

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 judgements. Actual results could differ materially from those estimates.

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

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

(e) Segment information

Note 37 contains information on segment reporting in accordance with *IFRS 8 Operating Segments*. Prior to January 1, 2014, discrete segment information was not available and therefore comparative information has not been included in these consolidated financial statements.

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 45.*

(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 trade date at which Central 1 commits to purchase or sell the assets. 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. Where a transfer of a financial asset 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 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 assets(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 investments 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

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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 judgement 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 reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. 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 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 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. Interest expense on obligations under the CMB and IMPP programs is based on the fixed or floating cost of funds specified in the swap agreement between Central 1 and CHT or CMHC. *Notes 10, 11 and 24* sets out the details with respect to the financial assets and financial obligations recorded with respect to the CMB and IMPP programs.

Securitizations post 2009

Subsequent to 2009, Central 1's 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.

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 carrying 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 ten 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 profit, 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 *45*.

(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 service 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, privacy and employment practices liability insurance.
- Property and casualty insurance, including property, liability, boiler and machinery, and loan impairment 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 claims is prepared on an undiscounted basis using assumptions, historical trends, and data available on individual claims to determine an expected Net

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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.

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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.

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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 Digital 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) Operating segments

Central 1's operations and activities are organized around a number of key operating segments in accordance with the aggregation criteria and quantitative thresholds under IFRS 8. Management regularly monitors these segments' operating results for the purpose of making decisions about resource allocation and performance assessment. Segment results include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items including adjustments and other management reclassification, corporate taxes and residual unallocated revenue and expenses are included in "Other" segment. Any unallocated assets or liabilities are included in this business segment. Further information is included in *Note 37*.

(aa) New standards and interpretations not yet adopted

At December 31, 2014, a number of standards and interpretations, and amendments thereto, had been issued by the IASB, which are not effective for these consolidated financial statements. Those which are relevant to Central 1's consolidated financial statements are discussed below.

IFRS 9 – Financial Instruments

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014 which replaces IAS 39 Financial Instruments: Recognition and Measurement that relates to the classification and measurement of financial instruments.

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

IAS 39 was rule-based and contained many different classification categories and associated impairment models. This has made it complex and difficult to apply. IFRS 9 is principle-based and built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics.

Under IFRS 9, all financial assets that are currently in the scope of IAS 39 will be classified as one of the following:

- amortized cost;
- fair value through profit or loss; or
- fair value through other comprehensive income.

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. Financial assets classified and measured at fair value through other comprehensive income are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Any financial assets that are not held in one of the two business models mentioned above are measured at fair value through profit or loss. As such, fair value through profit or loss represents a 'residual' category and financial assets that are held for trading and those managed on a fair value basis are also included in this category.

For an investment in equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, to present all fair value changes from the investment in Other comprehensive income. No amounts recognized in Other comprehensive income would ever be reclassified to profit or loss at a later date.

For financial liability there were no changes to classification and measurement except for the recognition of changes in the fair value of an entity's own credit risk to be recognized in other comprehensive income rather than in profit loss.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model for calculating impairment on financial assets. A loss event will no longer need to occur before an impairment allowance is recognized. This will accelerate the recognition of impairment losses.

IFRS 9 has a mandatory effective date for annual periods beginning on or after January 1, 2018, with early adoption permitted. It is required to be applied retrospectively when initially applied and it is expected that IFRS 9 will have a significant impact on Central 1's financial statements. However, Central 1 is not able to determine such impact at this time.

IFRS 15 - Revenue from Contracts with Customers

IASB published a new standard *IFRS 15 Revenue from Contracts with Customers* on May 28, 2014 to replace existing IFRS guidance. The standard introduces a new revenue recognition model for contracts with customers. It contains a single model that applies to contracts with customers and two approaches to recognizing revenue. Revenue may either be recognized over time, in a manner that best reflects the entity's performance, or at a point in time, when control of the good or services is transferred to the customer. Significant estimates and judgement thresholds have been introduced which may affect the amount and/or timing of revenue recognized. They include:

- estimating and recognizing variable consideration;
- identifying separate goods and services in a contract; and
- estimating stand-alone selling prices

IFRS 15 is effective for annual periods beginning on or after January 1, 2017 with early adoption permitted. The standard may be adopted retrospectively, or as of the application date by adjusting retained earnings at that date and disclosing the effect of adoption on each line of profit or loss. Central 1 is not able to determine the impact that IFRS 15 will have on the consolidated financial statements at this time.

4. Changes in accounting policies

Trade date accounting

On January 1, 2014, Central 1 changed its accounting policy from settlement date to trade date accounting for regular way purchases and sales of financial assets. Recognition of regular way purchases and sales of financial assets on a trade date basis provides more reliable and relevant information on Central 1's consolidated financial statements compared with settlement date accounting. IAS 39 provides entities with an option to use either settlement date or trade date accounting for the recognition of regular purchases and sales of financial assets as long as the method used is consistently applied for all purchases and sales of financial assets that belong to the same category.

In accordance with *IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors*, Central 1 has applied this new accounting policy retrospectively and restated the comparative information.

The change in accounting policy resulted in no adjustments to Central 1's consolidated statement of financial position as at December 31, 2013 and January 1, 2012. The following table summarizes the impact of change to trade date accounting as at December 31, 2012.

(Thousands of dollars)	December 31, 2012	Change in Accounting Policy	As revised December 31, 2012
Statement of financial position			
Assets			
Investment Securities	$ 6,386,581	$ 7,078	$ 6,393,659
Liabilities			
Other liabilities	$ 463,996	$ 7,078	$ 471,074

Operating segments

Under IFRS 8, an entity is required to disclose the information that is used internally by management to allocate resources and to assess the operating results of the segments of the entity. Previously, discrete information was not available for these operating segments. Effective January 1, 2014, Central 1 has changed its accounting policy by disclosing its operating units which meet the definition of operating segments in accordance with IFRS 8.

The change in accounting policy was not applied retrospectively as the discrete information for these operating segments was not available prior to 2014. Further information is included in *Note 37*.

5. Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Judgement, estimates and assumptions 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 judgements 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 with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans 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.

Intangible assets

Management judgement is required in estimating the amount and timing of future cash flows and the useful life of intangible assets. At the end of each reporting period, Central 1 assesses the probability of expected future economic benefits using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the intangible assets.

At the end of every reporting period, Central 1 also assesses whether objective evidence of impairment exists for the intangible assets carried at a value higher than the recoverable amount. Central 1 considers various factors in the impairment evaluation process, including, but not limited to, obsolescence of the assets, significant adverse changes in the technology environment, and worse-than-expected economic performance of the assets. It may also include observable indications that the asset's value has declined significantly more than would be expected as a result of passage of time or normal use.

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 evaluating 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.

At the end of every reporting period, 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 judgements 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 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 24*.

Determining fair value

The determination of fair value for financial assets and liabilities requires the exercise of judgement 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 judgement 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 judgement 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 amounts on deposit classified either as available-for-sale or held for trading. The fair value of a financial instrument is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants which takes place in the principal (or most advantageous) market at the measurement date. Valuation techniques which use quoted market data are used to derive the fair value of financial assets and financial liabilities.

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

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

Financial instruments whose book values approximate fair value

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

Financial instruments for which fair value is determined using valuation techniques

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

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

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

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

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

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

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

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, 2014	Level 1	Level 2	Level 3	Amounts at Fair Value	Amounts at Amortized Cost[1]	Total Carrying Value
Assets						
Cash	$ –	$ –	$ –	$ –	$ 145.2	$ 145.2
Deposits with regulated financial institutions	–	–	–	–	6.2	6.2
Pledged trading assets	–	12.4	–	12.4	–	12.4
Reinvestment assets under the CMB and IMPP programs	–	65.5	–	65.5	–	65.5
Non-pledged trading assets	–	5,766.2	–	5,766.2	–	5,766.2
Derivative assets	–	42.2	–	42.2	–	42.2
Loans	–	–	–	–	1,047.6	1,047.6
Investment securities	–	5,434.3	9.2	5,443.5	32.1	5,475.6
Secured loans to members	–	–	–	–	–	–
Current tax assets	–	–	–	–	3.2	3.2
Property and equipment	–	–	–	–	18.4	18.4
Intangible assets	–	–	–	–	13.2	13.2
Deferred tax assets	–	–	–	–	10.3	10.3
Investment in affiliates	–	–	–	–	122.4	122.4
Other assets	–	–	–	–	324.5	324.5
Total assets	$ –	$ 11,320.6	$ 9.2	$ 11,329.8	$ 1,723.1	$ 13,052.9
Liabilities						
Deposits designated as trading	$ –	$ 5,483.4	$ –	$ 5,483.4	$ –	$ 5,483.4
Obligations related to securities sold short	–	181.5	–	181.5	–	181.5
Derivative liabilities	–	104.2	–	104.2	–	104.2
Debt securities issued	–	–	–	–	1,568.8	1,568.8
Deposits	–	–	–	–	3,448.1	3,448.1
Obligations under the CMB and IMPP programs	–	595.1	–	595.1	–	595.1
Subordinated liabilities	–	–	–	–	217.6	217.6
Provisions	–	–	–	–	3.0	3.0
Securities under repurchase agreements	–	–	–	–	105.7	105.7
Deferred tax liabilities	–	–	–	–	6.0	6.0
Other liabilities	–	–	–	–	414.6	414.6
Total liabilities	–	6,364.2	–	6,364.2	5,763.8	12,128.0
Net Assets (Liabilities)	$ –	$ 4,956.4	$ 9.2	$ 4,965.6	$ (4,040.7)	$ 924.9

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 loans and receivables or other liabilities.

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(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	$ –	$ 10,225.2	$ 238.8	$ 10,464.0	$ 1,730.4	$ 12,194.4
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

(Millions of dollars) December 31, 2012	Level 1	Level 2	Level 3	Amounts at Fair Value	Amounts at Amortized Cost[1]	Total Carrying Value
Assets	$ –	$ 10,846.1	$ 570.7	$ 11,416.8	$ 2,739.7	$ 14,156.5
Liabilities	–	4,762.1	–	4,762.1	8,587.3	13,349.4
Net Assets (Liabilities)	$ –	$ 6,084.0	$ 570.7	$ 6,654.7	$ (5,847.6)	$ 807.1

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

(Millions of dollars)	Fair Value at December 31, 2013	Purchases	Settlements	Transfers	Changes in fair value of assets in profit or loss	Fair Value at December 31, 2014
Secured loans to members	$ 229.6	$ –	$ (229.2)	$ –	$ (0.4)	$ –
Equity shares	9.2	–	–	–	–	9.2
Net Assets (Liabilities)	$ 238.8	$ –	$ (229.2)	$ –	$ (0.4)	$ 9.2

(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 (Liabilities)	$ 570.7	$ –	$ (329.3)	$ –	$ (2.6)	$ 238.8

(Millions of dollars)	Fair Value at January 1, 2012	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 (Liabilities)	$ 1,176.6	$ –	$ (596.9)	$ –	$ (9.0)	$ 570.7

Note 42 sets out the fair value of the financial instruments in the consolidated statement of financial position.

7. Cash

(Thousands of dollars)	December 31, 2014	December 31, 2013	December 31, 2012
With Bank of Canada	**$ 5,165**	$ 4,399	$ 1,920
With other regulated financial institutions	**140,038**	69,754	88,318
	$ 145,203	$ 74,153	$ 90,238

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, 2014	December 31, 2013	December 31, 2012
Amortized cost	$ **6,198**	$ 7,132	$ 6,272
Fair value	$ **6,130**	$ 7,165	$ 6,331

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

(Thousands of dollars)	December 31, 2014	December 31, 2013	December 31, 2012
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, 2014	December 31, 2013	December 31, 2012
	$ 6,198	$ 7,132	$ 106,275

9. Trading assets

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

(Thousands of dollars)		December 31, 2014		December 31, 2013		December 31, 2012
Government & guarantees	$	**4,313,822**	$	2,587,633	$	1,431,450
Corporate & financial institutions AA[1] or greater		**1,413,096**		1,722,808		1,284,990
Other		**51,635**		66,415		98,086
Fair value	$	**5,778,553**	$	4,376,856	$	2,814,526

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

(Thousands of dollars)		December 31, 2014		December 31, 2013		December 31, 2012
Amortized cost	$	**5,735,466**	$	4,337,025	$	2,708,564
Fair value	$	**5,778,553**	$	4,376,856	$	2,814,526
Less pledged trading assets		**(12,356)**		(64,443)		(135,572)
Non-pledged trading assets	$	**5,766,197**	$	4,312,413	$	2,678,954

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

(Thousands of dollars)		December 31, 2014		December 31, 2013		December 31, 2012
Trading assets	$	**12,356**	$	64,443	$	135,572
Amounts included in investment securities		**43,709**		46,269		58,905
	$	**56,065**	$	110,712	$	194,477

10. Reinvestment assets under the CMB and IMPP programs

As principal payments on the underlying securitized assets are received, Central 1 is required to reinvest the proceeds 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, 2014		December 31, 2013		December 31, 2012
Government & guarantees	$	**34,047**	$	65,698	$	491,590
Assets acquired under reverse repurchase agreements		**–**		89,242		148,840
Fair value	$	**34,047**	$	154,940	$	640,430
Amortized cost	$	**33,688**	$	154,512	$	638,117

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

(Thousands of dollars)	December 31, 2014	December 31, 2013	December 31, 2012
Fair value of government & guarantees	**$ 31,471**	$ 151,974	$ 1,011,814
Amortized cost	**$ 31,153**	$ 151,715	$ 1,010,630
Total reinvestment assets under the CMB and IMPP programs	**$ 65,518**	$ 306,914	$ 1,652,244

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)	Notional amount by term to maturity				Fair value	
December 31, 2014	1 year or less	1 to 5 years	Over 5 years	Total	Asset	Liability
Interest rate contracts						
Forward rate agreements	$ –	$ –	$ –	$ –	$ 40	$ –
Swap contracts	5,167,448	18,279,584	1,253,955	24,700,987	134,266	196,236
Options purchased	100,000	–	–	100,000	79	–
Options written	100,000	–	–	100,000	–	85
	5,367,448	18,279,584	1,253,955	24,900,987	134,385	196,321
Foreign exchange contracts						
Foreign exchange spot and forward contracts	211,769	–	–	211,769	1,311	1,387
Other						
Equity index-linked options	157,498	245,229	–	402,727	16,849	16,849
				Total fair value before adjustment	152,545	214,557
				Adjustment for master netting agreements	(110,383)	(110,383)
					$ 42,162	**$ 104,174**

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 $30.9 million and $14.8 million, respectively.

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Notes to the Consolidated Financial Statements

Years Ended December 31, 2014, 2013 and 2012

(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						
Futures contracts	$ –	$ –	$ –	$ –	$ –	$ 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 forward contracts	323,237	–	–	323,237	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**

(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	$ 7,633,817	$ 18,233,361	$ 2,831,074	$ 28,698,252	$ 169,319	$ 351,262
Foreign exchange contracts	131,596	–	–	131,596	353	434
Other	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**

All derivatives are traded OTC except for futures contracts which are exchange traded.

12. Loans

(Thousands of dollars)		December 31, 2014	December 31, 2013	December 31, 2012
Due on demand	- Credit unions	$ 91,086	$ 162,986	$ 80,977
	- Commercial and others	15,699	4,107	1,661
		106,785	167,093	82,638
Term	- Credit unions	519,164	716,853	1,753,275
	- Commercial and others	217,378	180,496	187,392
	- Reverse repurchase agreements	181,664	66,874	11,485
	- Officers and employees	11,100	12,170	13,767
	- Mortgage pools	11,239	13,627	17,464
		940,545	990,020	1,983,383
		1,047,330	1,157,113	2,066,021
Accrued interest		971	1,444	5,084
		1,048,301	1,158,557	2,071,105
Allowance for credit losses		(664)	(585)	(1,584)
		$ 1,047,637	$ 1,157,972	$ 2,069,521

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

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, 2014	December 31, 2013	December 31, 2012
Balance at beginning of year	$ 561	$ 24	$ 585	$ 1,584	$ 12,526
Net write-offs during the year	–	–	–	–	(8,517)
(Recovery) provision for credit losses	59	20	79	(999)	(2,425)
Balance at end of year	$ 620	$ 44	$ 664	$ 585	$ 1,584

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13. Investment securities

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

(Thousands of dollars)	December 31, 2014	December 31, 2013	December 31, 2012
Amortized cost	**$ 5,451,535**	$ 5,518,948	$ 6,345,691
Fair value	**$ 5,475,562**	$ 5,553,354	$ 6,393,659

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

(Thousands of dollars)	December 31, 2014	December 31, 2013	December 31, 2012
Government & guarantees	**$ 3,565,446**	$ 2,995,013	$ 2,735,237
Corporate & financial institutions AA[1] or greater	**1,443,716**	2,376,386	3,479,314
Other	**466,400**	181,955	179,108
	$ 5,475,562	$ 5,553,354	$ 6,393,659

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

The above table includes **$32.1** million (December 31, 2013 - $32.1 million; December 31, 2012 - $32.1 million) of equity investment securities that are measured at cost and for which disclosure of fair value is not provided because the fair value cannot be reliably measured.

The above table also includes **$529.2** million (December 31, 2013 - $295.4 million; December 31, 2012 - $98.5 million) of third party MBS that were transferred to CHT under the CMB program as described in the significant accounting policies as disclosed in Central 1's consolidated financial statements for the year ended December 31, 2014.

At the year-end, securities having a par value of **$1,122.6** million (December 31, 2013 - $970.1 million; December 31, 2012 - $943.5 million) were lodged or pledged with the Bank of Canada and the Canadian Depository for Securities as collateral for the transfer and receipt of payments.

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, 2014		December 31, 2013		December 31, 2012
Total amount of secured loans issued	$	**4,240,559**	$	4,240,559	$	4,240,559
Aggregate principal payments received		**(4,240,559)**		(4,011,960)		(3,684,253)
Remaining par value of secured loans to members in the consolidated statement of financial position	$	–	$	228,599	$	556,306

The components of these balances are as follows:

(Thousands of dollars)		December 31, 2014		December 31, 2013		December 31, 2012
Remaining par value of secured loans under the CMB and IMPP programs	$	–	$	108,394	$	284,135
Remaining par value of secured loans retained by Central 1		–		120,205		272,171
	$	–	$	228,599	$	556,306

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

(Thousands of dollars)		December 31, 2014		December 31, 2013		December 31, 2012
Amortized cost	$	–	$	229,231	$	558,481
Fair value	$	–	$	229,620	$	561,511

Key inputs into the model used to determine the fair value of secured loans to members include interest rates and mortgage prepayment rates. There is also an interrelationship between the level of interest rates and the mortgage prepayment rate, for example, in an environment where interest rates are on a downward trend, the prepayment rate generally tends to increase as mortgages are refinanced. 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, 2014 Increase (Decrease)		As at December 31, 2013 Increase (Decrease)		As at December 31, 2012 Increase (Decrease)
Change in value of secured loans to members:						
200 bps parallel increase in interest rates	$	–	$	(191)	$	(1,164)
200 bps parallel decrease in interest rates	$	–	$	202	$	1,230
1% increase in prepayment rate	$	–	$	(2)	$	(21)
1% decrease in prepayment rate	$	–	$	2	$	21

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

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15. Property and equipment

(Thousands of dollars)	Land and Buildings	IT Equipment	Fixtures	Total
Cost				
Balance at January 1, 2014	$ 13,530	$ 13,559	$ 12,346	$ 39,435
Acquisitions	–	1,969	2,268	4,237
Transfers (*Note 19*)	1,814	–	–	1,814
Disposals	–	(11)	(66)	(77)
Balance at December 31, 2014	$ 15,344	$ 15,517	$ 14,548	$ 45,409
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
Depreciation				
Balance at January 1, 2014	$ 8,208	$ 9,029	$ 6,087	$ 23,324
Depreciation for the year	333	1,884	1,480	3,697
Disposals	–	–	–	–
Balance at December 31, 2014	$ 8,541	$ 10,913	$ 7,567	$ 27,021
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
Carrying value				
Balance at December 31, 2014	**$ 6,803**	**$ 4,604**	**$ 6,981**	**$ 18,388**
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

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16. Intangible assets

(Thousands of dollars)	External Software	Internally Developed Software	Total
Cost			
Balance at January 1, 2014	$ 21,149	$ 2,492	$ 23,641
Acquisitions	2,267	318	2,585
Disposals	–	–	–
Balance at December 31, 2014	$ 23,416	$ 2,810	$ 26,226
Balance at January 1, 2013	$ 17,769	$ 932	$ 18,701
Acquisitions	5,461	1,560	7,021
Disposals	(2,081)	–	(2,081)
Balance at December 31, 2013	$ 21,149	$ 2,492	$ 23,641
Depreciation			
Balance at January 1, 2014	$ 11,132	$ 311	$ 11,443
Depreciation for the year	1,331	206	1,537
Disposals	–	–	–
Balance at December 31, 2014	$ 12,463	$ 517	$ 12,980
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
Carrying value			
Balance at December 31, 2014	**$ 10,953**	**$ 2,293**	**$ 13,246**
Balance at December 31, 2013	$ 10,017	$ 2,181	$ 12,198
Balance at December 31, 2012	$ 5,604	$ 808	$ 6,412

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17. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

(Thousands of dollars)	December 31, 2014	December 31, 2013	December 31, 2012
Deferred tax assets:			
Financial instruments	**$ 3,741**	$ 1,076	$ 1,508
Securitization transactions	**–**	379	701
Employee future benefits	**5,288**	3,637	3,125
Equity interest in affiliates	**874**	874	408
Other	**439**	405	647
	10,342	6,371	6,389
Deferred tax liabilities:			
Financial instruments	**730**	730	730
Property and equipment	**3,848**	3,143	2,124
Employee future benefits	**677**	481	59
Equity interest in affiliates	**716**	345	16
	5,971	4,699	2,929
	$ 4,371	$ 1,672	$ 3,460

Changes in deferred tax balances during the year ended December 31, 2014 were as follows:

(Thousands of dollars)	Balance as at January 1, 2014	Recognized in profit or loss	Recognized in other comprehensive income	Balance as at December 31, 2014
Deferred tax assets:				
Financial instruments	$ 1,076	$ 2,665	$ –	**$ 3,741**
Securitization transactions	379	(379)	–	**–**
Employee future benefits	3,637	822	829	**5,288**
Equity interest in affiliates	874	–	–	**874**
Other	405	34	–	**439**
	6,371	3,142	829	**10,342**
Deferred tax liabilities:				
Financial instruments	730	–	–	**730**
Property and equipment	3,143	705	–	**3,848**
Employee future benefits	481	221	(25)	**677**
Equity interest in affiliates	345	363	8	**716**
	4,699	1,289	(17)	**5,971**
	$ 1,672	$ 1,853	$ 846	**$ 4,371**

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

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18. Investment in affiliates

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

(Thousands of dollars)	December 31, 2014	December 31, 2013	December 31, 2012
Credential Financial Inc.	**$ 1,014**	$ 169	$ 53
Credit Union Central of Canada	**882**	1,298	1,284
CUMIS Group Limited	**120,494**	118,640	108,833
	$ 122,390	$ 120,107	$ 110,170

19. Other assets

(Thousands of dollars)	December 31, 2014	December 31, 2013	December 31, 2012
Settlements in-transit	**$ 308,449**	$ 280,976	$ 279,402
Investment property *(Note 15)*	**3,462**	5,644	6,012
Prepaid expenses	**3,785**	3,714	2,961
Post-employment benefits *(Note 34)*	**3,286**	3,229	–
Accounts receivable and other	**5,524**	6,370	5,856
	$ 324,506	$ 299,933	$ 294,231

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

Central 1 earns rental income on its investment property. The terms of existing lease agreements range between 1 and 10 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 33*.

During 2014, Central 1 has transferred a portion of investment property with a carrying value of $1,814 thousand to property and equipment.

20. Deposits designated as trading

Deposits designated as trading are as follows:

(Thousands of dollars)	December 31, 2014	December 31, 2013	December 31, 2012
Amortized cost	$ 5,460,889	$ 3,326,089	$ 2,264,574
Fair value	$ 5,483,413	$ 3,332,189	$ 2,274,584

The contractual maturity dates of these liabilities are as follows:

(Thousands of dollars)	December 31, 2014	December 31, 2013	December 31, 2012
Amount			
Due within three months	$ 1,444,494	$ 687,369	$ 288,175
Due after three months and within one year	1,329,197	635,787	817,942
Due after one year and within five years	2,660,085	1,985,265	1,140,414
Due after five years	150	–	–
	5,433,926	3,308,421	2,246,531
Accrued interest	26,963	17,668	18,044
Amortized cost	$ 5,460,889	$ 3,326,089	$ 2,264,575

21. Obligations related to securities sold short

(Thousands of dollars)	December 31, 2014	December 31, 2013	December 31, 2012
Amortized cost	$ 180,631	$ 66,831	$ 11,423
Fair value	$ 181,534	$ 66,704	$ 11,494

Obligations related to securities sold short were previously included within the deposits designated as trading clasification.

22. Debt securities issued

(Thousands of dollars)	December 31, 2014	December 31, 2013	December 31, 2012
Notes			
Due within three months	$ **425,457**	$ 527,248	$ 487,241
Due after three months and within one year	**542,692**	269,700	412,330
Due after one year and within five years	**598,408**	299,469	269,480
	1,566,557	1,096,417	1,169,051
Accrued interest	**2,283**	1,092	1,753
	$ **1,568,840**	$ 1,097,509	$ 1,170,804

Central 1 has established **$48.2** million of unsecured credit facilities with various financial institutions. The unsecured facilities rank equally with the outstanding notes and deposits. At December 31, 2014, December 31, 2013 and December 31, 2012, 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, 2014, a par value of **$670.0** million was borrowed under the short-term commercial paper facility (December 31, 2013 - $528.0 million; December 31, 2012 - $588.0 million) and a par value of **$900.0** million was borrowed under the medium-term note facility (December 31, 2013 - $570.0 million; December 31, 2012 - $582.9 million).

23. Deposits

Deposits classified as other liabilities are as follows:

(Thousands of dollars)	December 31, 2014	December 31, 2013	December 31, 2012
Amount			
Due on demand	$ **1,198,444**	$ 1,040,423	$ 951,469
Due within three months	**395,962**	688,463	1,424,996
Due after three months and within one year	**669,325**	1,258,919	1,342,227
Due after one year and within five years	**1,163,557**	2,146,019	2,806,894
	3,427,288	5,133,824	6,525,586
Accrued interest	**20,810**	33,793	38,750
	$ **3,448,098**	$ 5,167,617	$ 6,564,336

24. 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, 2014		December 31, 2013		December 31, 2012	
	Post 2010	**Pre 2010**	Post 2010	Pre 2010	Post 2010	Pre 2010
Due within one year	**$ –**	**$ –**	$ –	$ 507,499	$ –	$ 1,603,436
Due after one year and within five years	**584,034**	**–**	316,942	–	103,785	507,499
	584,034	**–**	316,942	507,499	103,785	2,110,935
Accrued interest	**3,218**	**–**	21	2,243	54	7,971
Amortized cost	**$ 587,252**	**$ –**	$ 316,963	$ 509,742	$ 103,839	$ 2,118,906
Fair value of total obligations under the CMB and IMPP programs	**$ 595,151**	**$ –**	$ 317,265	$ 514,497	$ 104,960	$ 2,155,032

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

(Thousands of dollars)	December 31, 2014		December 31, 2013		December 31, 2012	
	Post 2010	**Pre 2010**	Post 2010	Pre 2010	Post 2010	Pre 2010
Secured loans to members *(Note 14)*	**$ –**	**$ –**	$ –	$ 229,620	$ –	$ 561,511
Total reinvestment assets under the CMB and IMPP programs *(Note 10)*	**65,518**	**–**	24,385	282,529	6,486	1,645,758
Assets recognized as trading assets and investment securities *(Notes 9 & 13)*	**529,157**	**–**	295,384	–	98,525	–
Total assets supporting the CMB and IMPP programs	**$ 594,675**	**$ –**	$ 319,769	$ 512,149	$ 105,011	$ 2,207,269

25. Subordinated liabilities

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

(Thousands of dollars)	December 31, 2014	December 31, 2013	December 31, 2012
Series 2	**$ –**	$ 150,000	$ 150,000
Series 3	**18,000**	18,000	18,000
Series 4	**200,000**	–	–
Principal amount	**218,000**	168,000	168,000
Accrued interest	**(419)**	1,139	859
	$ 217,581	$ 169,139	$ 168,859

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

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

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

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

26. Provisions

Unearned premiums included in other liabilities are as follows:

(Thousands of dollars)	December 31, 2014	December 31, 2013	December 31, 2012
Balance at beginning of year	$ 875	$ 668	$ 864
Amount of premiums received during the year	2,118	2,292	1,553
Amount of premiums earned during the year	(2,129)	(2,085)	(1,749)
Balance at end of year	$ 864	$ 875	$ 668

Central 1 maintains provisions for unpaid insurance claims as follows:

(Thousands of dollars)	December 31, 2014	December 31, 2013	December 31, 2012
Balance at beginning of year	$ 3,991	$ 5,280	$ 5,798
Claims incurred	26	621	1,463
Claims paid	(1,059)	(1,910)	(1,981)
Balance at end of year	$ 2,958	$ 3,991	$ 5,280

As at year-end, the impact of a 1.0% increase in the expected Net Loss Ratio would have less than a 1.0% impact on Central 1's earnings for the year and Central 1's equity as at year-end.

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27. Securities under repurchase agreements

Securities under repurchase agreements are as follows:

(Thousands of dollars)	December 31, 2014	December 31, 2013	December 31, 2012
Amounts under the CMB and IMPP programs	**$ 105,698**	$ 106,706	$ 201,433

28. Other liabilities

(Thousands of dollars)	December 31, 2014	December 31, 2013	December 31, 2012
Settlements in-transit	**$ 344,569**	$ 329,398	$ 424,167
Post-employment benefits *(Note 34)*	**25,679**	21,706	21,913
Short-term employee benefits	**4,759**	4,470	6,544
Dividends payable *(Note 29)*	**22,448**	13,978	3,034
Unearned insurance premiums *(Note 26)*	**864**	875	668
Trade amounts and other	**16,300**	16,716	14,748
	$ 414,619	$ 387,143	$ 471,074

29. 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, except the amount paid to a member in respect of Class E shares held by that member shall not exceed $100 in Class B or Class C shares respectively of Central 1.

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.

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Notes to the Consolidated Financial Statements

Years Ended December 31, 2014, 2013 and 2012

The numbers of shares issued are as follows:

(Thousands of shares)	December 31, 2014	December 31, 2013	December 31, 2012
Class A – credit unions			
Balance at beginning of year	**307,141**	290,255	272,018
Issued for cash during the year	**25,987**	16,888	18,279
Redeemed during the year	**(54)**	(2)	(42)
Balance at end of year	**333,074**	307,141	290,255
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	3,159
Redeemed during the year	**(1)**	–	–
Balance at end of year	**3,158**	3,159	3,159

The amounts outstanding are as follows:

(Thousands of dollars)	December 31, 2014	December 31, 2013	December 31, 2012
Outstanding $1 par value shares			
Class A – credit unions	**$ 333,074**	$ 307,141	$ 209,255
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
	$ 333,118	$ 307,185	$ 290,299

The dividend amounts are as follows:

(Thousands of dollars)	December 31, 2014	December 31, 2013	December 31, 2012
Dividend payable, balance at beginning of year	**$ 13,978**	$ 3,034	$ 5,251
Declared during the year	**22,448**	13,978	11,924
Paid during the year	**(13,978)**	(3,034)	(14,141)
Dividend payable, balance at end of year	**$ 22,448**	$ 13,978	$ 3,034

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30. Reserves

(Thousands of dollars)	December 31, 2014	December 31, 2013	December 31, 2012
Credit Union Deductible Fund	**$ 2,551**	$ 1,960	$ 1,909
Stabilization Fund	**1,200**	1,170	3,076
	$ 3,751	$ 3,130	$ 4,985

31. Gain (loss) on disposal of financial instruments

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

(Thousands of dollars)	December 31, 2014	December 31, 2013	December 31, 2012
Net gain on disposal of trading assets	**$ 34,591**	$ 57,080	$ 80,502
Net loss on disposal of deposits	**(3,631)**	(3,797)	(960)
Net gain on disposal of investment securities	**25,883**	18,292	9,342
Net loss on disposal of derivatives	**(48,345)**	(44,988)	(21,923)
Net loss on disposal of short sell securities	**(1,271)**	(435)	(338)
	$ 7,227	$ 26,152	$ 66,623

32. Change in fair value of financial instruments

(Thousands of dollars)	December 31, 2014	December 31, 2013	December 31, 2012
Trading assets	**$ (2,689)**	$ (65,733)	$ (75,063)
Activities under the CMB and IMPP programs			
Reinvestment assets	**(306)**	(1,871)	(14,866)
Derivative assets and liabilities	**1,393**	(18,970)	(50,671)
Secured loans to members	**(389)**	(2,640)	(8,965)
Obligations to CHT and CMHC	**(2,969)**	32,189	77,018
Derivative assets and liabilities	**59,590**	82,208	47,145
Trading deposits	**(16,359)**	3,910	10,429
Obligations related to securities sold short	**(1,047)**	197	(71)
	$ 37,224	$ 29,290	$ (15,044)

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33. Other income

(Thousands of dollars)	December 31, 2014	December 31, 2013	December 31, 2012
Membership Dues	**$ 8,931**	$ 8,730	$ 8,402
Provincial Advertising Assessment	**1,428**	2,523	1,238
Equity Interest in Affiliates	**6,137**	6,758	3,846
Insurance Premiums and Assessments	**3,855**	5,098	6,906
Digital and Payment Services			
Processing fees	**47,322**	43,756	40,983
Direct banking fees	**24,854**	22,735	20,258
Treasury Related Services			
Treasury services & foreign exchange income	**6,447**	3,700	5,197
Lending fees	**5,795**	5,260	5,097
Trust services	**2,317**	2,343	2,275
Other	**1,534**	2,030	713
Trade and Other Services			
Product compliance & design	**1,527**	1,681	1,529
Property rents	**700**	696	1,079
Cooperative risk solutions	**2,626**	2,647	2,718
Marketing & research programs	**3,719**	4,854	2,665
Employee benefits & retirement services	**1,369**	1,207	1,186
Other	**1,184**	1,811	2,765
	$ 119,745	$ 115,829	$ 106,857

34. 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 multi-employer 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, 2013, the single-employer plan actuary reported that the plan had an excess of plan assets over actuarial liabilities for accrued pension benefits of $3.73 million. The solvency valuation indicated that the value of assets exceeds the actuarial liabilities by $2.59 million. Since the plan has both a solvency and going-concern surplus as of December 31, 2013, special payments established in previous valuations are eliminated with this valuation. The next actuarial valuation is expected to be performed no later than as at December 31, 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, 2014	December 31, 2013	December 31, 2012
Recognized (asset) liability for defined benefit obligations			
Present value of obligation	**$ 11,805**	$ 10,507	$ 12,384
Fair value of plan assets	**15,091**	13,736	11,904
Recognized (asset) liability	**$ (3,286)**	$ (3,229)	$ 480
Movement in present value of defined benefit obligation			
Liability for defined benefit obligation, beginning of year	**$ 10,507**	$ 12,384	$ 10,381
Current service costs	**154**	243	301
Employees' contributions	**65**	97	143
Interest cost on accrued benefit obligation	**495**	506	531
Past service cost (including curtailment)	**–**	(424)	–
Benefits payments	**(588)**	(462)	(423)
Actuarial (gain) loss	**1,172**	(1,501)	1,451
Accrued benefit obligation extinguished on settlement	**–**	(336)	–
Liability for defined benefit obligation, end of year	**$ 11,805**	$ 10,507	$ 12,384
Movement in plan assets			
Plan assets, beginning of year	**$ 13,736**	$ 11,904	$ 10,577
Employer contributions	**297**	335	393
Employee contributions	**65**	97	143
Interest income on plan assets	**647**	497	532
Return on plan assets, excluding interest income (actuarial gain (loss))	**981**	1,830	716
Benefits payments	**(588)**	(869)	(423)
Administration costs (other than costs of managing plan assets)	**(47)**	(58)	(34)
Plan assets, end of year	**$ 15,091**	$ 13,736	$ 11,904
Expense recognized in profit or loss			
Current service costs	**$ 154**	$ 243	$ 301
Administration costs (other than costs of managing plan assets)	**47**	58	34
Past service cost (including curtailment)	**–**	(424)	–
Loss on settlement	**–**	70	–
Interest cost on the accrued benefit obligation	**495**	506	531
Interest income on plan assets	**(647)**	(497)	(532)
	$ 49	$ (44)	$ 334

(Thousands of dollars)	December 31, 2014	December 31, 2013	December 31, 2012
Amounts recognized in OCI			
Actuarial (gain) loss on obligation	$ **1,172**	$ (1,501)	$ 1,451
Actuarial gain on plan assets	**(981)**	(1,830)	(716)
	$ **191**	$ (3,331)	$ 735

Actuarial assumptions used to determine defined benefit expense:			
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	**4.75%**	4.25%	4.25%
Actuarial assumptions used to determine accumulated benefit obligation:			
Weighted average discount rate on benefit obligation	**4.00%**	4.75%	4.25%
Weighted average salary escalation	**3.00%**	3.00%	3.00%
Expected return on plan assets	**4.75%**	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	2014 expense
Assumed discount rate		
Impact of 1% increase	**$ (1,537)**	**$ (12)**
Impact of 1% decrease	**$ 1,692**	**$ 6**
Weighted average salary escalation		
Impact of 1% increase	**$ 240**	**$ 40**
Impact of 1% decrease	**$ (425)**	**$ (44)**

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 **$1,703** thousand (December 31, 2013 - $1,539 thousand; December 31, 2012 - $1,443 thousand).

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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, 2014		December 31, 2013		December 31, 2012
Recognized liability for defined benefit obligations						
Present value of obligation	**$**	**18,990**	$	15,895	$	15,555
Recognized liability	**$**	**18,990**	$	15,895	$	15,555
Movement in present value of defined benefit obligation						
Liability for defined benefit obligation, beginning of year	**$**	**15,895**	$	15,555	$	15,710
Current service costs		**429**		437		308
Interest expense		**760**		666		548
Benefits paid		**(401)**		(365)		(284)
Actuarial liability experience (gain) loss		**199**		53		(1,059)
Actuarial liability demographic assumptions loss		**219**		706		–
Actuarial liability financial assumptions (gain) loss		**1,889**		(1,157)		332
Liability for defined benefit obligation, end of year	**$**	**18,990**	$	15,895	$	15,555
Expense recognized in profit or loss						
Current service costs	**$**	**429**	$	437	$	308
Interest on obligation		**760**		666		548
	$	**1,189**	$	1,103	$	856
Amounts recognized in OCI						
Actuarial (gain) loss on obligation	**$**	**2,307**	$	(398)	$	(727)

Actuarial assumptions used to determine retiree non-pension benefits expense:			
Weighted average discount rate on benefit obligation	**4.75%**	4.25%	5.00%
Actuarial assumptions used to determine accumulated benefit obligation:			
Weighted average discount rate on benefit obligation	**4.00%**	4.75%	4.25%
Health care cost trend assumptions:			
Health care cost trend rate is assumed to decline	**8.00%**	8.00%	8.00%
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	2021

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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	2014 expense
Assumed discount rate		
Impact of 1% increase	$ (2,502)	$ 16
Impact of 1% decrease	$ 3,115	$ (10)
Assumed overall health care cost trend rate		
Impact of 1% increase	$ 2,755	$ 14
Impact of 1% decrease	$ (2,202)	$ (12)

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, 2014	December 31, 2013	December 31, 2012
Recognized liability for defined benefit obligations			
Present value of obligation	$ 6,769	$ 5,856	$ 5,919
Fair value of plan assets	(80)	(57)	(40)
Recognized liability	$ 6,689	$ 5,799	$ 5,879
Movement in present value of defined benefit obligation			
Liability for defined benefit obligation, beginning of year	$ 5,856	$ 5,919	$ 4,998
Current service costs	222	233	182
Interest expense	277	251	251
Benefits paid	(516)	(474)	(301)
Actuarial (gain) losses	930	(73)	789
Liability for defined benefit obligation, end of year	$ 6,769	$ 5,856	$ 5,919
Expense recognized in profit or loss			
Current service costs	$ 222	$ 233	$ 182
Interest cost on obligation	277	251	251
	$ 499	$ 484	$ 433
Amounts recognized in OCI			
Actuarial (gain) loss on obligation	$ 930	$ (73)	$ 789

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Actuarial assumptions used to determine supplemental pension plan expense:			
Weighted average salary escalation	**4.00%**	4.00%	4.00%
Weighted average discount rate on benefit obligation	**4.75%**	4.25%	5.00%
Actuarial assumptions used to determine accumulated benefit obligation:			
Weighted average salary escalation	**3.00%**	4.00%	4.00%
Weighted average discount rate on benefit obligation	**4.00%**	4.75%	4.25%

Sensitivity of assumptions

(Thousands of dollars)	Accumulated benefit obligation
Assumed discount rate	
Impact of 1% increase	**$ (745)**
Impact of 1% decrease	**$ 933**

35. Other administrative expenses

(Thousands of dollars)	December 31, 2014	December 31, 2013	December 31, 2012
Costs of sales and services	**$ 10,813**	$ 13,346	$ 8,181
Cost of payments processing	**14,568**	13,728	12,257
Insurance claims and premiums	**2,016**	3,243	4,979
Automobile and travel	**1,435**	1,491	1,530
Projects and business development	**6,270**	4,801	4,468
Professional services	**7,445**	9,183	4,621
Directors and officers	**1,210**	1,274	1,152
Membership fees	**4,453**	4,457	4,831
Other	**1,515**	1,021	673
	$ 49,725	$ 52,544	$ 42,692

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36. Provision for income taxes

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

(Thousands of dollars)	December 31, 2014	December 31, 2013	December 31, 2012
Provision for income taxes in the consolidated statements of profit	$ **9,044**	$ 10,548	$ 11,533
Income tax benefit related to dividends accrued and share redemptions	**(3,519)**	(2,055)	(1,671)
Total	$ **5,525**	$ 8,493	$ 9,862

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

(Thousands of dollars)	December 31, 2014	December 31, 2013	December 31, 2012
Current income taxes	$ **11,160**	$ 9,296	$ 9,567
Deferred income taxes (recovery)	**(2,116)**	1,252	1,966
Total	$ **9,044**	$ 10,548	$ 11,533

Central 1's effective tax rate differs from the amount that would be computed by applying the federal and provincial statutory rates of **31.0%** (December 31, 2013 – 31.0%; December 31, 2012 – 31.0%).

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

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

	December 31, 2014	December 31, 2013	December 31, 2012
	%	%	%
Profit and Loss			
Combined federal and provincial statutory income tax rates	**31.0**	31.0	31.0
Credit union deduction	**(10.2)**	(14.3)	(17.0)
General rate deduction	**(5.2)**	(2.0)	–
Changes in estimated future tax rates on deferred tax balances	–	(1.2)	–
Other	**(1.2)**	(0.2)	(0.5)
Total	**14.4**	13.3	13.5

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37. Segment information

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

A description of each business segment is as follows:

Mandatory Liquidity Pool

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

Wholesale Financial Services

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

Trade Services

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

Other

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

Management reporting framework

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

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

Results by segment

The following table summarizes the segment results for the year ended December 31, 2014:

(Thousands of dollars)	Mandatory Liquidity Pool	Wholesale Financial Services	Trade Services	Other	Total
Interest income	$ 103,528	$ 89,485	$ 255	$ 303	$ 193,571
Interest expense	89,358	69,038	–	7,271	165,667
Interest margin	14,170	20,447	255	(6,968)	27,904
Gain (loss) on disposal of financial instruments	8,575	(1,115)	–	(233)	7,227
Changes in fair value of financial instruments	7,093	30,092	39	–	37,224
Recovery of credit losses	–	(15)	–	–	(15)
	29,838	49,439	294	(7,201)	72,370
Other Income	(307)	73,082	22,621	24,349	119,745
Net financial and other income	29,531	122,521	22,915	17,148	192,115
Operating expenses	7,082	72,330	24,802	25,267	129,481
Profit (loss) before income taxes	22,449	50,191	(1,887)	(8,119)	62,634
Income taxes (recoveries)	3,502	7,830	(294)	(1,994)	9,044
Profit (loss) for the year	$ 18,947	$ 42,361	$ (1,593)	$ (6,125)	$ 53,590
Total assets at December 31, 2014	$ 6,958,964	$ 5,844,120	$ 20,373	$ 229,423	$ 13,052,880
Total liabilities at December 31, 2014	$ 6,530,195	$ 5,385,429	$ 549	$ 211,864	$ 12,128,037
Total equity attributable to members of Central 1 at December 31, 2014	$ 428,769	$ 458,691	$ 9,922	$ 17,559	$ 914,941
Non-controlling interest	–	–	9,902	–	9,902
Total equity at December 31, 2014	$ 428,769	$ 458,691	$ 19,824	$ 17,559	$ 924,843

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38. Guarantees, commitments and contingencies

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

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

(Thousands of dollars)	December 31, 2014	December 31, 2013	December 31, 2012
Standby letters of credit	$ **221,939**	$ 184,743	$ 216,353
Commitments to extend credit	$ **3,548,065**	$ 3,312,499	$ 3,272,393

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.

39. 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, 2014	December 31, 2013	December 31, 2012
Due within one year	$ **459**	$ 443	$ 516
Due after one year and within three years	**415**	418	276
	$ **874**	$ 861	$ 792

Operating leases

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

(Thousands of dollars)	December 31, 2014	December 31, 2013	December 31, 2012
Due within one year	$ **999**	$ 1,723	$ 1,707
Due after one year and within five years	**3,894**	3,882	4,187
Due after five years	**3,732**	4,644	1,893
	$ **8,625**	$ 10,249	$ 7,787

Total lease payments charged to profit for the year was **$1,486** thousand (December 31, 2013 - $1,484 thousand; December 31, 2012 - $1,499 thousand).

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40. 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	$ 145.2	$ –	$ –	$ –	$ –	$ –	$ 145.2
Deposits with regulated financial institutions	–	–	5.8	0.3	–	0.1	6.2
Derivative assets	–	–	–	–	–	42.2	42.2
Investment securities	–	756.4	1,145.7	9,010.4	183.6	158.0	11,254.1
Reinvestment assets under the CMB and IMPP programs	–	1.6	5.0	58.4	–	0.5	65.5
Loans	188.3	703.2	26.2	102.3	26.5	1.1	1,047.6
Secured loans to members	–	–	–	–	–	–	–
Other assets	–	–	–	–	–	492.1	492.1
Total	333.5	1,461.2	1,182.7	9,171.4	210.1	694.0	13,052.9
Liabilities							
Deposits	1,198.4	1,840.5	1,998.5	3,823.6	0.2	70.3	8,931.5
Obligations related to securities sold short	–	3.0	–	174.6	–	3.9	181.5
Derivative liabilities	–	–	–	–	–	104.2	104.2
Debt securities issued	–	426.2	543.8	600.0	–	(1.2)	1,568.8
Obligations under the CMB and IMPP programs	–	–	–	584.0	–	11.2	595.2
Subordinated liabilities	–	18.0	–	–	200.0	(0.4)	217.6
Securities under repurchase agreements	–	105.6	–	–	–	0.1	105.7
Other liabilities	–	–	–	–	–	423.6	423.6
Equity	–	–	–	–	–	924.8	924.8
Total	1,198.4	2,393.3	2,542.3	5,182.2	200.2	1,536.5	13,052.9
On-Balance Sheet Gap	(864.9)	(932.1)	(1,359.6)	3,989.2	9.9	(842.5)	–
Off-Balance Sheet Gap	–	4,792.5	(716.1)	(3,911.3)	(165.1)	–	–
Total Gap – December 31, 2014	$ (864.9)	$ 3,863.4	$ (2,075.7)	$ 74.9	$ (155.2)	$ (842.5)	$ –
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)

[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.

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41. 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, 2014	December 31, 2013	December 31, 2012
Assets			
Cash	$ **79,195**	$ 33,394	$ 36,841
Securities	**672,843**	805,611	957,802
Loans	**645**	1,984	3,284
Derivatives	**4,619**	–	–
Other	**250**	251	744
	757,552	841,240	998,671
Liabilities			
Deposits	**724,660**	765,399	915,545
Other	**20,977**	42,625	65,152
	745,637	808,024	980,697
On-balance sheet exposure	**11,915**	33,216	17,974
Off-balance sheet exposure	**(13,652)**	(35,053)	(29,594)
	$ **(1,737)**	$ (1,837)	$ (11,620)

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

42. 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 6*. 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, 2014	December 31, 2013	December 31, 2012	December 31, 2014	December 31, 2013	December 31, 2012	December 31, 2014	December 31, 2013	December 31, 2012
Assets									
Cash	**$ 145.20**	$ 74.15	$ 90.24	**$ 145.20**	$ 74.15	$ 90.24	**$ –**	$ –	$ –
Deposits with regulated financial institutions[1]	**6.22**	7.17	106.30	**6.20**	7.13	106.28	**0.02**	0.04	0.02
Investment securities[1]	**11,254.12**	9,930.21	9,208.19	**11,254.12**	9,930.21	9,208.19	**–**	–	–
Reinvestment assets under the CMB and IMPP programs	**65.52**	306.91	1,652.24	**65.52**	306.91	1,652.24	**–**	–	–
Derivative assets	**42.16**	29.38	34.02	**42.16**	29.38	34.02	**–**	–	–
Loans[2]	**1,047.82**	1,154.78	2,071.08	**1,047.64**	1,157.97	2,069.52	**0.18**	(3.19)	1.56
Secured loans to members	**–**	229.62	561.51	**–**	229.62	561.51	**–**	–	–
Other assets	**492.04**	459.06	434.51	**492.04**	459.06	434.51	**–**	–	–
Liabilities									
Deposits designated as trading	**5,483.41**	3,332.19	2,274.58	**5,483.41**	3,332.19	2,274.58	**–**	–	–
Obligations related to securities sold short	**181.53**	66.70	11.49	**181.53**	66.70	11.49	**–**	–	–
Derivative liabilities	**104.17**	150.64	216.04	**104.17**	150.64	216.04	**–**	–	–
Debt securities issued[1]	**1,571.66**	1,099.08	1,173.28	**1,568.84**	1,097.51	1,170.80	**(2.82)**	(1.57)	(2.48)
Deposits from members[1]	**3,461.90**	5,189.02	6,599.20	**3,448.10**	5,167.62	6,564.34	**(13.80)**	(21.40)	(34.86)
Obligations under the CMB and IMPP programs	**595.15**	831.76	2,260.00	**595.15**	831.76	2,260.00	**–**	–	–
Subordinated liabilities[1]	**222.88**	171.92	171.25	**217.58**	169.14	168.86	**(5.30)**	(2.78)	(2.39)
Securities under repurchase agreements	**105.70**	106.71	201.43	**105.70**	106.71	201.43	**–**	–	–
Other liabilities	**423.56**	395.83	481.86	**423.56**	395.83	481.86	**–**	–	–
Total							**$ (21.72)**	$ (28.90)	$ (38.15)

(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

43. 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 MLP and ELP.

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 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 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.

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. 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 22*. 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.

The contractual maturity of Central 1's non-trading notes and deposits is included in *Notes 22 and 23* 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 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. 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 40*.

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 MLP and the ELP.

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 41*.

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.

44. 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.

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

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

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

Central 1’s capital base includes Tier 1 capital in the form of share capital, contributed surplus and retained earnings. Central 1 may include its subordinated debt in Tier 2 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, 2014, 2013 and 2012, Central 1 was in compliance with these regulatory requirements.

45. 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, 2014	December 31, 2013	December 31, 2012
Mortgage loans outstanding at end of year	$ 504	$ 1,062	$ 1,415
Maximum mortgage loans outstanding during the year	$ 1,330	$ 1,412	$ 1,890

Mortgage loans to key management personnel bear interest at rates ranging from 2.5% to 2.8% 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)	December 31, 2014	December 31, 2013	December 31, 2012
Salaries and short-term employee benefits	$ 2,483	$ 2,593	$ 3,278
Incentive compensation	575	784	786
Post-employment benefits	275	374	335
Termination benefits	3,564	2,833	–
Other cash-based compensation	730	–	–
	$ 7,627	$ 6,584	$ 4,399

Incentive compensation includes amounts paid in the current year reflecting achievement of performance objectives earned in the previous fiscal period.

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

Other cash-based compensation includes onetime retention bonuses for two named executive officers earned during the year. Also included are relocation costs payable per contractual terms for certain executive officers and other bonus payments based on the completion of individual performance objectives paid in the current year.

Board of directors

During the year, the members of Central 1's Board of Directors received aggregate remuneration of **$639** thousand (December 31, 2013 - $766 thousand; December 31, 2012 - $618 thousand).

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Significant Subsidiaries

(% ownership of common shares outstanding)	December 31, 2014	December 31, 2013	December 31, 2012
Central 1 Trust Company	**100%**	100%	100%
Central Risk and Insurance Management Services Ltd.	**100%**	100%	100%
CUPP Services Ltd.	**100%**	100%	100%
Stabilization Fund Corporation	**100%**	100%	100%

CUPP, 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 1.0% of Central 1's consolidated assets, revenue and profit or loss before tax.

Investments in affiliates

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

(% ownership of common shares outstanding)	December 31, 2014	December 31, 2013	December 31, 2012
Credential Financial Inc.	**40%**	40%	40%
Credit Union Central of Canada	**51%**	51%	50%
CUMIS Group Limited	**27%**	27%	27%

46. Proposed transaction

In December 2014, Central 1, Concentra Financial Services Association and Credit Union Central of Saskatchewan signed a Memorandum of Understanding to explore opportunities to consolidate their trust services and wholesale financial lines of business. The three organizations are in the initial stages of investigating whether increasing the collective scale and market reach of their wholesale finance and trust services will provide enhanced levels of service and new solutions to the credit union system and improve credit unions' ability to compete with other financial institutions.

These early discussions may advance the establishment of a national, credit-union-owned, wholesale financial and trust provider.

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