

2010
ANNUAL
REPORT



2010 IN REVIEW

[click to jump to sections within this document]

▶ Introduction.....	3
▶ Board of Directors' Report.....	4
▶ Message from the President and CEO	6
▶ Mission and Values.....	8

FINANCIAL REVIEW 2010

▶ Table of Contents	11
▶ Comparative Highlights.....	12
▶ Management's Discussion and Analysis.....	13
▶ Five-Year Summary – Central 1 Credit Union	51
▶ Five-Year Summary – British Columbia Credit Union System ..	55
▶ Five-Year Summary – Ontario Credit Union System.....	57
▶ Consolidated Financial Statements	59
▶ Notes to the Consolidated Financial Statements	67

SYSTEM AND CORPORATE INFORMATION

▶ The Credit Union System	103
▶ Board of Directors and Executive Management.....	107
▶ Shareholder Information 2010	109
▶ Credit Unions in British Columbia and Ontario	113
▶ Corporate Information	116

2010



CENTRAL 1 CREDIT UNION (Central) is the central banking facility and trade association for the credit union systems of British Columbia and Ontario. As the systems’ “umbrella organization”, Central represents a consumer-oriented, full-service retail financial network that serves nearly three million members and holds \$70 billion in assets.

From offices in Vancouver, Mississauga and Toronto, Central’s 500 employees provide liquidity management, payments settlement, Internet and trade association services to credit unions, and banking and transaction services to customers in the corporate and public sectors.

OUR VISION



Relentless pursuit of value and growth, in partnership with credit unions – every day!

VISION



BOARD OF DIRECTORS' REPORT

In the pursuit of value and growth, Central 1 Credit Union made solid progress in 2010.

Central continued to demonstrate its financial value to member credit unions, turning in another year of strong profitability. The Board declared quarterly dividends at an annual rate of two percent, returning \$9.6 million to shareholders.

Recognition of the value of membership in Central was marked by Lambton Financial Credit Union's decision to become a Class A member, making it the first Ontario credit union to do so since the combination of the B.C. and Ontario centrals in mid-2008. We are confident that Central's continuing strong performance will attract unaffiliated credit unions into membership and further solidify the system.

In the lead-up to that combination, we committed to our members that a comprehensive review of Central's governance would be carried out, post-closing. That review, to consider our members' needs of an evolving organization, operating in multiple jurisdictions, was undertaken, last year.

A Governance Task Force appointed by the Board considered, in-depth, the various viewpoints of members through interviews, meetings, conference presentations and webinars. This process saw the Task Force develop 30 recommendations that were circulated to the membership for comment at year-end, with the aim of presenting those that require changes to Central's rules at the Annual General Meeting in 2011.

The Board approved in principle a joint venture agreement with the centrals of the three Prairie provinces to assume the group clearing responsibilities of Credit Union Central of Canada (CUCC), which is evolving to focus entirely on providing non-financial, trade associational services. Under the new arrangement, which is scheduled to take effect at mid-year 2011, Central will be designated as Group Clearer on behalf of the national credit union system.

In a related development, the Board approved the phasing-out of the National Liquidity Fund Agreement (NLFA), which served as the mechanism by which the provincial centrals could provide liquidity to each other, under certain conditions. This is to be replaced by bi-lateral agreements amongst the four centrals west of Quebec, along with a line of credit being provided by Central to Atlantic Central.

As Central is a major shareholder in The Co-operators Group of insurance companies, the Board closely monitored on-going developments with that organization's Democratic Structure Review process.

Expansion of Central's service offering continued to be a priority.

After approving a business case, the Board approved management introducing a commercial loan syndication program in B.C., drawing on the experience of Central's staff in Ontario.

In 2009, the Board determined to incorporate a federally-chartered trust company as a wholly-owned subsidiary of Central, to provide trusteeship and administration of registered savings plans to our member credit unions in Ontario, in a manner similar to the long-standing service provided to member credit unions in B.C. We were pleased that the federal Minister of Finance issued letters patent for Central 1 Trust Company at year-end; the Company will be operational by the end of the second quarter of 2011.

2010 marked the first year of Central's minority ownership of The CUMIS Group Ltd., and we were gratified that this investment generated a return of some \$3.6 million, in addition to its strategic value to the system.

In advance of the Annual General Meeting, three special resolutions relating to the Board's committee structure were proposed to members. Two of these – which would have eliminated the requirements that the Board appoint a System Operations Committee and a Legislative Committee – were defeated, as it was apparent that the rationale for the proposed changes had not been communicated adequately. The Board committed to improve communications with members, and we endorsed a formal plan with that objective at the forefront.

Less than three years after the combination that gave rise to Central 1, Central has established its credentials as an efficient and effective entity, operating across the country, as our vision statement anticipated.

The Board thanks Don Rolfe, his executive team, management and staff for another strong year and we look forward to the continued progress that Central is well-positioned to achieve on behalf of its members.



A handwritten signature in black ink that reads "Jack Smit". The signature is fluid and cursive.

Jack Smit
Chairperson



MESSAGE FROM THE PRESIDENT AND CEO



With a clear focus on our corporate priorities, Central 1 Credit Union recorded another successful year on many fronts in 2010. Accomplishments in financial performance, system relationships, product innovation and service delivery combined to produce growing value for our member credit unions.

As financial conditions returned toward normalcy after the tumult of the two prior years, Central posted a strong financial performance, with net income of \$50.1 million on average assets of \$10.3 billion and a return on average equity of 8.9 percent. In doing so, Central exceeded its key financial objectives for liquidity management, earnings and achievement of regulatory capital ratios, as detailed in the Management's Discussion and Analysis section of this report.

Relationships with affiliates and system partners advanced on two key fronts.

At the end of 2009, Central and Co-operators General Life Insurance Co. jointly acquired The CUMIS Group Ltd., a provider of a wide range of insurance services to credit unions and their members. Central followed through by exploring the possibilities of gaining further benefits from this investment, including online

insurance integration, potential business for our range of PaymentStream services, and credit union opportunities for small business banking.

Central continued to support Credit Union Central of Canada (CUCC) in its transition to a trade association. Working with the centrals of the three Prairie provinces, we reached an agreement to form a Group Clearing joint venture, in which Central will be designated as the Group Clearer in the Canadian payments system on behalf of the national credit union system. We anticipate that Central will assume this role from CUCC in mid-2011.

Product innovation was also at the forefront of our efforts.

Recognizing the importance of card-based services in today's financial services industry, Central formed a Cards Committee to examine the issues at play in the changing environment for credit and debit card products. We conducted a formal review of the available options for offering credit card services to members, and provided this detailed research to credit unions so they could determine the best solution for their needs.

Another focus on product development involved foreign exchange, with a review of products, pricing, currencies

and payment methods. We expect to launch various foreign exchange products for credit unions over the next two years.

We continued to roll-out innovations in our range of *MemberDirect*[®] online banking services. The launch of touch-tone phone banking in the spring was followed by mobile access to online services via smart phone. These enhancements were capped by *MemberDirect* becoming the first online banking provider in Canada to offer person-to-person payments via mobile phone through *Interac*[®] e-Transfer.

At year-end, Canada's Minister of Finance issued letters patent to Central 1 Trust Company, which we plan to launch in mid-2011. This will enable us to offer our Ontario member credit unions the full array of registered savings and investment products that have long been available to credit unions in British Columbia. That range of products was broadened with a Registered Disability Savings Plan (RDSP), which we introduced just before year-end in British Columbia.

Central's primary membership encompasses more than 160 credit unions of various sizes, spread across two provinces and in time zones three hours apart. Effective communications and relationships with members are essential for Central to do its work well. Following a review of our existing formal communications processes, the function was reorganized into an integrated department serving both regions.

We also established a Regional Development Department to foster close relationships with the wide range of credit unions in Ontario and create more awareness of the products and services available from Central.


Communication with key external stakeholders is also vital. We opened an office in downtown Toronto to enable our treasury

and government relations staff to work in close proximity with their contacts in Canada's financial hub and the province's legislative centre.

Understanding and communicating the market opportunities and threats facing credit unions are roles that Central is well-placed to perform. A credit union advisory group determined that up-to-date knowledge of the baby boomer market was a priority, and we conducted an in-depth study of this dominant demographic group.

And following through on earlier research into the young adult market, an intensive campaign was launched in British Columbia to communicate the credit union message to an audience that is essential to the system's future. Using social media techniques as well as more conventional advertising, the "Be Remarkable" campaign is aimed at demonstrating that the values of this rising generation are reflected in the way that credit unions do business.

While I have outlined some of the higher-profile activities carried out by Central over the past year, these are just a sample of the organization's accomplishments. I want to thank all of Central's staff for their efforts on behalf of our membership and acknowledge the Board of Directors and our member credit unions for their continuing support of our work, as the quest for value and growth continues.



President and CEO



OUR
PURPOSE
AND
REASON
FOR BEING

Central 1 will be the preferred partner of credit unions, providing financial stewardship, fair value and competitive advantage.

We will achieve our mission by being the preferred partner of credit unions requiring excellent products and services that demonstrate fair value and competitive advantage, and will consistently strive to exceed member expectations.

We will demonstrate financial stewardship in managing assets and providing liquidity support to prudent and effective standards.

A high performing team will deliver innovative solutions, leading-edge operational and technical support, and exceptional relationship management, guided by our principles and values.

We will attract partners to Central 1. We will achieve above-average financial returns and effective governance for the benefit of our members, staff, and other stakeholders.

OUR VALUES

INTEGRITY



We are true to our values; we act in a forthright manner and engender trust.

RESPECT



We respect ourselves and others; we care about the organization, our colleagues, and our members.

ACCOUNTABILITY



We take responsibility for our actions; we honour our commitments.

LEADERSHIP



We are confident in our knowledge and insightful in the trends of our industry; we communicate, inspire, and enable shared success.

CO-OPERATION



We value partnership; we listen, learn, and collaborate.

INNOVATION



We are entrepreneurial and offer creative solutions within regulatory boundaries; we evolve and advance for the benefit of our members.

► FINANCIAL REVIEW 2010 |

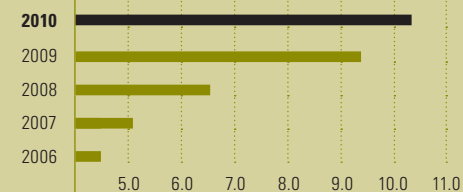
11	TABLE OF CONTENTS	41	CONTRACTUAL OBLIGATION
12	COMPARATIVE HIGHLIGHTS	41	CAPITAL MANAGEMENT AND CAPITAL RESOURCES
13	MANAGEMENT'S DISCUSSION AND ANALYSIS	44	OFF-BALANCE SHEET ARRANGEMENTS
13	Overview	44	Loan Securitizations
13	Business Profile	45	Derivative Financial Instruments
14	Factors that May Affect Future Results	45	Guarantees
14	Industry and Non-Corporate Factors	45	TRANSACTIONS AND TRANSACTIONS WITH RELATED PARTIES
15	System-Specific Factors	45	Transactions
15	Corporate-Specific Factors	45	Transactions with Related Parties
16	Risk Management	45	SUMMARY OF QUARTERLY RESULTS AND FOURTH QUARTER
17	Credit Risk	45	Quarterly Results
17	Liquidity Risk	46	Fourth Quarter 2010
18	Market Risk	47	CRITICAL ACCOUNTING ESTIMATES
19	Operational Risk	47	Future Accounting and Reporting Changes
20	OVERALL PERFORMANCE	47	International Financial Reporting Standards
20	The Economic Environment	47	First-Time Adoption of IFRS
20	British Columbia	48	Summary of Key Differences
21	Ontario	49	Central's Approach to IFRS
21	Financial Markets	50	CONTROLS AND PROCEDURES
22	B.C. Credit Union System Performance 2010	50	Disclosure Controls and Procedures
23	Ontario Credit Union System Performance 2010	50	Internal Controls and Procedures
25	Financial Overview	51	Five-Year Summary - Central 1 Credit Union
27	Financial Objectives	55	Five-Year Summary - British Columbia System
27	SELECTED ANNUAL INFORMATION AND RESULTS OF OPERATIONS	57	Five-Year Summary - Ontario System
27	The Income Statement	59	CONSOLIDATED FINANCIAL STATEMENTS
27	Financial Income	60	Financial Reporting Responsibilities
29	Non-Interest Income and Operating Expense	61	Auditors' Report
31	Net Income	62	Consolidated Balance Sheets
32	Other Comprehensive Income	63	Consolidated Statements of Income
33	The Balance Sheet	64	Consolidated Statements of Comprehensive Income
35	Loans	65	Consolidated Statements of Changes in Members' Equity
35	Average Debt	66	Consolidated Statements of Cash Flows
37	Statement of Cash Flows	67	NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
37	Liquidity Management		
38	Cash and Liquid Securities		
39	Funding Strategy and Sources		
40	Structural Liquidity Risk Management		
40	Tactical Liquidity Risk Management		
40	Contingent Liquidity Risk Management		

COMPARATIVE HIGHLIGHTS - CENTRAL 1 CREDIT UNION

(Millions of dollars)	2010	2009	2008
Balance Sheet			
Total Assets	\$ 10,375.58	\$ 11,055.68	\$ 8,557.79
Liquid Assets	8,824.50	8,398.70	5,476.60
Loans	1,110.29	2,165.96	2,425.95
Deposits and Notes	9,240.89	9,345.27	7,464.42
Subordinated Debt	200.57	200.58	50.68
Members' Equity	576.22	551.35	434.60
Earnings			
Net Financial Income	83.04	140.56	44.58
Non-Interest Income	90.87	87.60	73.89
Operating Expense	114.12	109.64	83.46
Net Income	50.06	99.90	26.56
Statistical Information			
Average Assets	\$ 10,299.86	\$ 9,371.72	\$ 6,611.00
Interest Margin	0.65%	0.75%	0.71%
Net Financial Income (excluding loan losses)	0.81%	1.50%	0.67%
Return on Equity	8.91%	19.62%	7.69%

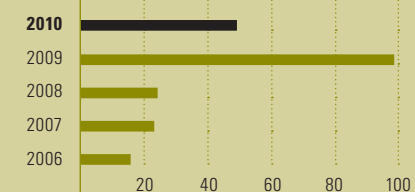
Average Assets

Billions



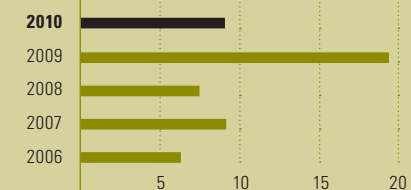
Net Income

Millions



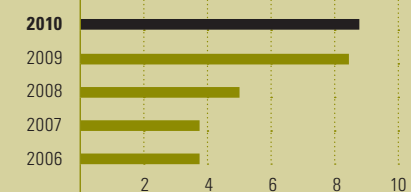
Return on Equity

Percentage



Liquid Assets

Billions



As at March 16, 2011.

OVERVIEW

This section of the Annual Report of Central 1 Credit Union (Central) provides a discussion and analysis of its financial condition and results of operations for the twelve months ended December 31, 2010, compared to those of the prior two years.

On December 31, 2009, Central and Co-operators Life Insurance Company (Co-operators Life) completed their acquisition of The CUMIS Group Limited (CUMIS) of Burlington, Ontario. The determination of the purchase price was subject to post-closing adjustments which were finalized during 2010.

As at December 31, 2010, Central holds a 27 percent interest in CUMIS which is recognized on its Consolidated Balance sheet and is accounted for using the equity method of accounting. The carrying value of Central's investment in CUMIS reflects acquisition costs of \$103.4 million as well as Central's proportionate share of CUMIS' comprehensive income.

CUMIS provides a full range of personal insurance, including credit and mortgage protection; life; disability and critical illness; home; auto; travel and employee benefits. It also provides business, liability and property insurance to credit unions themselves, as well as wealth management services and products, including credit union group retirement plans. The acquisition will provide growth opportunities for Central by building on its relationships with both its member credit unions and non-member credit unions (*see also Transactions and Transactions with Related Parties, page 45*).

Effective June 30, 2008, Credit Union Central of British Columbia changed its name to Central 1 Credit Union. On July 1, 2008, Central purchased substantially all of the assets and assumed substantially all of the liabilities of Credit Union Central of Ontario Limited (CUCO). As of that date, Central manages the liquidity reserves of member credit unions in both British Columbia and Ontario. The results of the operations acquired from CUCO have been included in Consolidated Financial Statements since that date.

The results presented in this management's discussion and analysis and in the financial statements that follow are reported in Canadian dollars and are based on the significant accounting policies summarized in *Note 4* to the financial statements. Certain comparative amounts have been reclassified to conform to the current year's presentation. Additional information on Central, including its

Annual Information Form, may be found on SEDAR's website at www.sedar.com.

These documents may also include statements about the credit union system in British Columbia and Central's member credit unions in Ontario, the latter of which are collectively identified as the Ontario credit union system. In the charts and discussion presented in this report, the two provincial systems are individually referred to as the "British Columbia (or B.C.) credit union system" and the "Ontario credit union system." Where the term "system" appears without regional designation, it refers to Central's total membership, encompassing credit unions in both provinces.

Financial information for the British Columbia system has been provided by the Financial Institutions Commission of British Columbia (FICOM), the provincial credit union regulator, which makes available information provided 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 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 and DICO. Reference to system information should be interpreted in this context.

BUSINESS PROFILE

As the primary financial facility and trade association for the networks of independent credit unions in British Columbia and Ontario, Central provides leadership, support and a multitude of services to its members/owners. Together, Central's active member credit unions, which numbered 45 in British Columbia and 119 in Ontario as at December 31, 2010, operate over 800 branches and deliver a wide range of financial services to more than 2.9 million members.

Central's services to members generally fall into three distinct categories: 1) centralized liquidity and funding services; 2) technology and payment services; 3) government relations and trade services.

Centralized liquidity and funding services are fundamentally concerned with managing the system's statutory and excess liquidity reserves 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 also provides foreign exchange services, derivatives capabilities and other ancillary treasury, funding, and lending services.

Central's technology personnel develop and deliver electronic "Direct Banking" products, which include online, mobile and phone banking, and e-commerce technology, not only for member credit unions in British Columbia and Ontario but also for credit unions and other financial institutions across the country. Under MemberDirect® Services, Central provides credit unions with personal electronic banking services that they offer to their individual members, mobile banking, phone banking, and business-to-business products for small and medium-size enterprises.

Central's payment and settlement operations encompass processing paper items and electronic transactions such as Electronic Funds Transfer (EFT) and Electronic Data Interchange (EDI) payments on behalf of member credit unions. Central also provides other centralized payment services, including domestic and foreign wire transfers. Central is a member of the Canadian Payments Association (CPA) and clears items through the Canadian Credit Union Clearing Group, which is represented in the Canadian payments system by Credit Union Central of Canada (CUCC).

In November 2010, CUCC, Central and the provincial centrals of Alberta, Manitoba and Saskatchewan announced an agreement in principle to reorganize group clearing activities. Under the terms of the new arrangement, expected to be in place by mid-2011, Central would take on the role of Group Clearer under an agreement among the four provincial centrals.

Central is the primary spokesperson for the British Columbia and Ontario credit union systems, identifying and promoting dialogue on 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 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's primary focus is on servicing member credit unions, Central has expanded the scope of its business to provide services to credit unions and other central credit unions across Canada, particularly in the payments area. In addition, Central continues to build and diversify its external client base through contracts to provide payments processing and technology services to financial institutions, retail organizations, government, and crown corporations. The benefits resulting from increased volumes and fees flow through to member credit unions via lower direct fees on certain products or through higher dividends paid by Central.

FACTORS THAT MAY AFFECT FUTURE RESULTS

There are numerous factors, many beyond Central's control, that could cause results to differ from expectations. Some of the major factors are identified below. Other factors, including credit, liquidity, market and appreciation risk, are described elsewhere in this document. The following discussion of factors that may influence future results is not exhaustive. In addition, this discussion may include forward-looking statements with regard to 2011 and beyond which, by their nature, involve some risk with regard to accuracy. Where forward-looking comments appear, they should be interpreted in the context of this uncertainty.

Industry and Non-Corporate Factors

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

Although Central and its member credit unions have excellent working relationships with all levels of government and with regulators, changes in statutes, regulations and regulatory policies that govern the financial industry's activities could affect results for Central and the system. In addition, while Central takes what it believes to be reasonable measures to ensure compliance with governing statutes, laws, regulations and regulatory policies in the jurisdictions in which it conducts business, there can be no complete assurance that Central will always be in compliance. Hence, it is possible that Central could be subject to fines or other costs that could damage Central's reputation and have an adverse effect on earnings.

Central'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, have a significant impact on earnings. Central manages its balance sheet in a reasonably risk-neutral manner, one in which the interest rate exposures of assets and liabilities are mostly matched with the residual assets that represent the investment of Central's equity spread across terms of up to seven years. Consequently, a prolonged period of low rates would tend to reduce net interest income earned on Central's non-trading portfolio, while increasing the value of its longer-term assets. Conversely, an increase in interest rates would produce an increase in Net interest income, while decreasing the value of Central's longer-term assets.

The interest rate differential, or spread, between Government of Canada securities and those issued by other participants in fixed-income markets also affects Central's earnings. Central earns income from accepting credit union statutory 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 spreads change, Central's Net interest income, as well as the fair value of its financial instruments, would be impacted.

System-Specific Factors

Demand for Central's products and services reflects the needs of credit unions and their members. Thus, the system's performance and competitive positioning in the marketplace are critical to Central's long-term success. For example, statutory 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 and the system. Although credit unions enjoy strong member loyalty, retention is influenced by their ability to deliver products and services at competitive price and service levels vis-à-vis other financial institutions. Non-financial companies can also offer members a range of competing service and product options.

In March 2010, the federal government introduced the necessary legislative amendments to the *Bank 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. The legislation remained unproclaimed at year-end December 31, 2010.

Corporate-Specific Factors

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

Ongoing mergers within both provincial systems had resulted in fewer but larger credit unions and a disparity between the relative asset size of Central and some of its members. This presented a challenge to Central in maintaining its ability to deliver the breadth of financial services required by these large, steadily-growing organizations. The combination of CUCO with Central on July 1, 2008, has resulted in a single organization that is better positioned to provide these services to its member credit unions in B.C. and Ontario.

The business combination of Central and CUCO resulted in a well capitalized organization with assets in excess of \$10.3 billion, consisting primarily of highly-rated liquid securities or loans to member credit unions.

As part of the transaction, credit unions in Ontario became members of Central by subscribing for Class A shares and they contributed surplus to ensure that Central continued to be well capitalized. The results of operations formerly performed by CUCO are included in Central's financial statements from the date of the combination.

The integration of the two operations was substantially completed at the end of 2009. By that date, the migration of member chequing account transactions and the migration to a single information technology infrastructure had been completed.

Contracts to extend payment and technology services to other organizations have enabled Central to stabilize and reduce overall costs for member credit unions and provide a stable recurring revenue base for Central. Continued

expansion of its customer base for such services is considered a factor in Central's ability to realize profitability improvements in these areas.

Central is exposed to operational and infrastructure risks. Given the high volume of transactions Central processes on behalf of its members and external organizations, shortcomings in its internal processes could lead to financial and reputational damage. Furthermore, although Central has contingency and business continuity plans, its ability to conduct business could be adversely affected by disruptions in the infrastructure required to support its business.

RISK MANAGEMENT

During 2010, Central's assessment of risk, at the corporate level, was largely directed to ensuring that the controls associated with the disclosure of public information were adequate. This involved an assessment and testing of entity level, disclosure, operational and information technology controls as they relate to the effectiveness of Central's disclosure controls. Central determined that these controls provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes.

In March 2010, Central consolidated its compliance and risk assessment activities through the creation of a Compliance & Risk Assessment Department with full responsibility for these functions, which had previously been performed by various operating units. Reporting directly to the Chief Operating Officer & Chief Financial Officer, the unit is responsible for assessing and testing controls, providing risk oversight and support for the Treasury and Payment Services businesses, and enhancing Central's Enterprise Risk Management (ERM) framework.

During the year, the department launched an initiative to enhance Central's stress-testing capabilities to the standards required by the new guideline E-18, published by the Office of the Superintendent of Financial Institutions (OSFI). The unit engaged executive management in a review and refreshment of Central's risk profile, developed several "what-if" scenarios, and completed a self-assessment template that will serve as a blueprint for Central's stress-testing program.

In 2010 Central 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 technology security and maintaining certification requires a semi-annual on-site audit by the certification body

to confirm that Central continues to have a robust Information Security Management System (ISMS). The ISMS requires Central to design, implement and maintain a coherent suite of processes and systems for effectively managing the confidentiality, integrity and availability of information assets and minimizing information security risks.

Effective July 31, 2010, the federal government extended the Proceeds of Crime (Money Laundering) and Terrorist Financing Act, Canada's anti-money laundering and terrorist financing regime, to provincial central credit unions in Canada. That regime requires that Central report to the Financial Transactions Reports Analysis Centre (FINTRAC) on large cash transactions, suspicious transactions and certain wire transfers, other than those of member financial institutions. The impact of this change on Central is anticipated to be minimal as Central has sought to comply, voluntarily, with that regime, since it was established in 2000.

Central's management, with the support of the Board's Audit Committee, continues to undertake rigorous testing of the effectiveness of internal controls over financial reporting. Although this testing is not mandated by current securities regulatory requirements, Central continues with this process as it provides a further layer of assurance on the control framework surrounding financial reporting.

CUCC, Central, and the other provincial central credit unions that participate in the Canadian clearing system through CUCC also take part in a Clearing Risk Committee, which oversees risks related to new payment technologies and businesses.

Based on an assessment of its risk profile, Central addresses the categories of risk noted above at the corporate and operational policy levels. Central's operational policies are the subject of internal review by senior management, Board committees and the Board of Directors. The Board of Directors has overall responsibility for the adoption and implementation of, and adherence to, enterprise risk management guidelines and oversees the quality and effectiveness of Central's policies and procedures. In addition, these policies are scrutinized in external reviews by both provincial and federal regulators and reviewed as part of Central's internal audit process. To augment these ongoing measures, Central engages external consultants with the requisite technical expertise to review and evaluate new or substantially revised processes, systems and policies.

It is the role of Central's Disclosure Committee to ensure that all material financial information, as defined in Central's Disclosure Policy and released by Central to

its members, investors in its securities and regulatory authorities, is accurate, complete, and presents fairly the financial position of Central and the results of its operations, in all material respects. All such information is required to be disclosed in a timely manner, and in a format in accordance with the requirements established by applicable laws and regulatory authorities. The committee is accountable to the Chief Executive Officer (CEO) and, through the CEO, reports to the Audit Committee of the Board of Directors.

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

Credit Risk

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

Credit risk associated with Central's credit union lending portfolio is minimal, as member credit union loans are fully secured and Central has never experienced a loss on any of these loans.

Involvement in commercial lending is primarily restricted to syndications under the Loan Syndication Program in response to the needs of local members. Commercial loans are evaluated by a skilled commercial lender and are adjudicated by a separate Credit Risk Management Department, under the direction of the Management Credit Committee. Annually, the status of each credit is reviewed in the same manner as a new credit proposal.

The Credit Risk Management Department is responsible for monitoring problem loans, ensuring that appropriate action is taken and that allowances are adequate to cover potential losses. Specific allowances are established for exposures based on analysis of individual accounts to reduce the carrying value of an impaired loan to its estimated realizable amount. General allowances for loss are also established to absorb probable credit losses on the aggregate exposures in each of Central's business lines for which losses are not yet specifically identified on an item-by-item basis.

Investment credit risk 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.

In managing credit risk exposure, Central's policies establish limits for acceptable levels and areas of credit risk, establish clearly defined accountabilities for decision-making and determining credit-worthiness, and provide for diversification to avoid excessive risk concentrations. These policies involve adherence 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.

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 is responsible for ensuring that managed assets are available to meet its own needs, together with those of the system. Central is also the manager of national liquidity under the terms of the National Liquidity Fund Agreement (NLFA), an agreement by which participating central credit unions have agreed to provide liquidity to one another under certain conditions.

The key elements of Central's liquidity risk framework are:

- diversification of funding liabilities by source, type of depositor, type of instrument and term;
- maintenance of a pool of highly liquid securities that can be readily sold or pledged to secure borrowings even under stressed market conditions;

- regular performance of stress tests to evaluate disruptions on Central'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 crisis (the plan outlines the mandate of the crisis management team, the internal and external parties to be contacted and the actions to be considered at various stages of a liquidity event).

(See also Liquidity Management, page 37.)

Market Risk

Market risk refers to the risk of loss resulting from changes in interest rates and foreign exchange rates. The level of market risk to which Central is exposed varies depending on market conditions, future price and market movements and the composition of Central's investment, lending and derivative portfolios.

Interest rate risk is the potential adverse impact on Central'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 potentially has significant exposure to interest rate changes.

Central 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 impact of various possible rate increases or decreases. Central's interest rate risk policy defines acceptable percentage limit changes in net interest income and net economic value to parallel shifts in the yield curve. Central 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.

The extent of Central's exposure to interest rate changes at each of the last three year-ends is illustrated in the interest sensitivity schedule (*Chart 1, page 19*). *Notes 28 and 30* to the financial statements provide, respectively, additional information regarding weighted average yields and costs associated with the assets and liabilities and information on the fair value of financial assets and liabilities compared to their book value. *Chart 1* below summarizes carrying amounts by the earlier of the contractual repricing or maturity dates.

CHART 1 CARRYING AMOUNTS BY EARLIER OF CONTRACTUAL REPRICING OR MATURITY DATE

December 31 (Millions of dollars)	Within Three Months	Three Months to One Year	One Year to Five Years	Over Five Years	Not Rate Sensitive	Total
Total Assets	\$ 2,173.0	\$ 627.1	\$ 5,777.4	\$ 1,330.4	\$ 467.7	\$ 10,375.6
Total Liabilities and Members' Equity	3,738.7	2,722.3	3,078.5	1.5	834.6	10,375.6
On-Balance Sheet Gap	(1,565.7)	(2,095.2)	2,698.9	1,328.9	(366.9)	—
Off-Balance Sheet Gap	1,723.0	1,604.1	(2,142.9)	(1,184.2)	—	—
Total Gap 2010	\$ 157.3	\$ (491.1)	\$ 556.0	\$ 144.7	\$ (366.9)	—
Total Gap 2009	\$ (785.3)	\$ (131.5)	\$ 1,330.8	\$ (102.5)	\$ (311.5)	—
Total Gap 2008	\$ (1,212.9)	\$ (58.7)	\$ 1,598.9	\$ 53.6	\$ (380.9)	—

Foreign exchange rate risk is the potential adverse impact on Central's earnings and economic value due to currency rate movements and volatility. Central has assets and liabilities denominated in US dollars and buys foreign currencies from and sells these currencies to its member credit unions. The risk associated with changing foreign currency values is managed by applying stringent limits on the amounts (short or long positions) that can be maintained in the various currencies, and by utilizing derivative exchange contracts to lessen the impact of on-balance sheet positions. *Note 29* to the financial statements provides additional information regarding foreign currency exposure. *Note 31* to the financial statements has additional information on the impact of changes in interest rates on Central's Interest margin and the fair value of Central's Members' Equity.

Operational Risk

Operational risk is the exposure to loss resulting from inadequate internal controls, policies that do not provide sufficient direction, practices that expose Central to the risk of loss, and human error or management failure. 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 customer confidence.

Central manages this type of risk through implementation of a comprehensive set of procedures and policies that are basic to its operating infrastructure. Elements of this process include:

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

As well as having the above measures in place, Central's policies provide for a rigorous, 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 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's operations and contingency plans.

OVERALL PERFORMANCE

In 2010, Central reported Net financial income of \$83.0 million and Net income of \$50.1 million. Net financial income was down \$57.6 million from the prior year, as net gains and changes in the fair value of financial instruments decreased by \$54.5 million to \$16.1 million and Interest margin decreased by \$3.0 million to \$67.0 million.

In 2009, Central was a beneficiary of an unusual combination of events in financial markets, including declining interest rates and contracting bond spreads, with the result that Central recorded mark-to-market gains on all major classes of financial instruments during the year. The unusually favourable conditions experienced in 2009 were not expected to continue, and in 2010 Central's Net financial income declined from 2009 levels although it remained strong.

The following summaries of the economic landscape, the state of financial markets and performance by both provincial systems in 2010 offer a context for interpreting Central's year-over-year results and an insight into its future.

THE ECONOMIC ENVIRONMENT

The global economic recovery continued to build strength in 2010, but the trajectory was neither smooth nor without market disruptions. Global growth began the year on a high note, but slowed during the second quarter as the post-recession inventory replenishment phase faded and a number of expansionary fiscal policy measures expired. The European debt crisis added to the strains on credit markets and market confidence.

Among emerging market economies, particularly those in Asia and Latin America, growth was robust, while it was more tempered among advanced economies (excluding Asian economies other than Japan).

Monetary and fiscal policy remained highly accommodative in the United States. While business spending drove growth, consumers remained the weak link for

much of the year, as households continued to pare down their debt and housing markets retrenched. Positive signs that private consumption was picking up emerged in the fourth quarter as spending on durable and non-durable goods soared, with inventories contracting sharply.

Canada's relatively stronger economy, fiscal position and exposure to commodity markets drove its currency higher in 2010. Coupled with modest growth in the United States, this constrained export growth while buoying import demand. The deteriorating trade balance was the main factor behind a drop in annualized growth from 5.6 percent in the first quarter to 1 percent in the third quarter.

In contrast, private consumption and business spending on fixed capital and inventories underpinned Canadian economic activity, reflecting rebounds in employment, low borrowing costs and lean inventories. Housing was not a growth sector for much of the year, as sharp drops in mortgage rates and an earlier announcement of tighter mortgage insurance rules pulled demand forward into 2009 and early 2010. Government spending, which provided a boost in 2009, contributed little to growth during the year.

British Columbia

British Columbia's economy improved through the year, but at an uneven pace that reflected the ebb and flow of global economic conditions, local housing markets, and taxation policies. Following a 1.8 percent contraction in real GDP in 2009, Central estimates that B.C.'s economy grew by 3.6 percent in 2010. Current-dollar GDP is estimated to have risen by 7 percent, following a 3.4 percent contraction in 2009.

B.C.'s international export trends highlighted the pattern of recovery in external markets, as exports rose early in the year before turning downward on a trend basis. Dollar-volumes were higher than in 2009, but well below annual levels observed from 2004 to 2008, as exports to the U.S. rose only slightly. Exports to the Pacific Rim, and China in particular, jumped strongly on increased demand for commodities.

The Winter Olympic Games boosted the economy early in the year. While most of the economic benefits – infrastructure and venues in particular – were realized in the years leading up to the Games, the event boosted B.C.'s flagging tourism industry as visitors to the Lower Mainland and Sea-to-Sky regions surged. But the gains were temporary as U.S. visits reverted to pre-Games levels afterward.

Following a year in which housing played a tremendous role in reinvigorating

the economy, housing markets retrenched during the first half of 2010 as buyers brought their purchases forward into 2009 and early 2010. From a July trough, sales increased each month through year-end, largely led by the Lower Mainland and Victoria. For the year, total MLS® (Multiple Listing Service) sales fell 12 percent from 2009, while the average price rose 8.5 percent to \$505,000.

Moderate job gains and an expanding workforce maintained excess capacity in B.C.'s labour markets.

The Harmonized Sales Tax (HST) remains hotly debated in B.C. While it has lowered costs for many businesses, and had no effects on the price of many consumer goods, a referendum will be held in mid-2011, keeping the business environment uncertain in the meantime.

Moderate economic growth of 2.9 percent is forecast for B.C. in 2011, on the strength of domestic demand.

Ontario

Central estimates that Ontario's economy grew by 3.7 percent in 2010, following a 3.6 percent contraction in real GDP in 2009. Current-dollar GDP is estimated to have risen by 5.5 percent, after shrinking by 1.1 percent in 2009. Real GDP growth declined from an annualized rate of 4.4 percent in the first quarter to 1 percent in the third quarter, with fourth quarter growth estimated to have strengthened due to higher U.S. consumption and improved domestic labour markets.

Growth in demand for Ontario's goods and services from external markets slowed as the year progressed, with real exports turning negative in the third quarter. After April, aggregate international exports were range-bound, largely due to six consecutive monthly drops in exports of automobiles and auto parts, as new vehicle sales in the United States stayed far below pre-recession levels. The decline was largely offset by strong exports of industrial goods and materials and other natural resource exports.

The export environment largely dictated trends in Ontario's manufacturing sector, which grew at a quicker pace during the first half of 2010 before flattening in the second half. Growth was led by increased manufacturing of fabricated metal products, petroleum and coal products, and machinery, although dollar-volumes in these sectors remained below pre-downturn levels.

Employment edged back to pre-downturn levels in 2010, but gains were

uneven, dipping during mid-year before rising more sharply later in the year. Despite the gains in some sectors and regions, joblessness remained stubbornly high, trending near 8 percent at year-end, down from 9 percent levels earlier in the year.

Modest job gains kept personal consumption growth tempered. Private spending on consumer goods and services grew at a declining pace through the first three quarters, with a rising trend in retail activity later in the year suggesting that consumer demand had picked up in the fourth quarter, reflecting an improved employment picture.

As seen elsewhere in Canada, housing sales declined during the first half of 2010 because buyers had brought forward their purchases into 2009 and early 2010. Following a July trough, monthly sales rose steadily through year-end, as further reductions in mortgage rates, improved affordability, and a stronger economy contributed to increased demand. For the full year, total MLS® sales were flat, dipping 0.1 percent, while the average price was up 7.5 percent to \$342,000.

Ontario's economic growth is forecast to moderate in 2011 to near 2.5 percent, driven by domestic spending.

FINANCIAL MARKETS

Financial markets remained volatile through 2010 as a sovereign credit crisis emerged in peripheral European economies, while the United States continued to add stimulus to its beleaguered economy. Greece and Ireland required European Union assistance as they were unable to access financial markets to roll-over their debt. Stagnant employment and inflation growth in the United States prompted the Federal Reserve Board to enact a second round of quantitative easing (QE2). In the fall, the Federal Reserve announced that it would purchase \$600 billion in Treasuries to lower yields and support asset prices. Market participants kept a keen eye on policy-makers as they ended up being the most influential market movers of the year.

The Canadian economy continued its recovery through 2010, which prompted the Bank of Canada to raise its overnight lending rate three times to reach 1 percent by the year-end. Foreign investors continued to be net buyers of Canadian securities through the year as they gravitated towards the relative safety of the Canadian economy and its banking system. Financial markets expect the Bank of Canada to resume its rate-hiking cycle as early as the second quarter of 2011.

The Canadian yield curve flattened through the year as the short end increased in response to the Bank of Canada's rate hikes. Rates beyond two years declined as investors fled risky assets during the European crisis and the Federal Reserve enacted QE2. Credit spreads on Canadian corporate debt tightened as the economy showed continued signs of recovery. The U.S. yield curve also flattened, as the Federal Reserve focused its asset purchases on medium-term bonds. While QE2 initially achieved the Fed's desired goal of lowering interest rates, more promising economic data in the fourth quarter resulted in interest rates rising near the end of the year.

The Canadian dollar strengthened by over 5 percent for the year and ended 2010 near parity with the U.S. dollar. Much of this gain can be attributed to an increase in commodity prices in the second half and a depreciation of the U.S. dollar after QE2 was announced. The TSX gained 14 percent after a strong recovery in the second half.

Volatility is expected to continue in 2011 as governments endeavour to enact austerity plans and reduce stimulus programs to lower their fiscal burdens. While many are worried about deflation across Europe, investors are intently watching how emerging markets will be able to cool their economies without halting the global recovery. Canada is caught between the weak economic growth in Europe and the U.S. and the strong growth in emerging markets. The direction that the Canadian economy will follow remained far from clear.

B.C. CREDIT UNION SYSTEM PERFORMANCE 2010

The B.C. credit union system's continued strong performance in 2010 was reflected in record-high earnings. Net operating income (NOI) totalled \$380.4 million, an increase of \$86.8 million or 29.6 percent over the previous year. Return on equity (ROE) was 10.4 percent, up 121 basis points from 2009.

Growth in earnings was largely the result of higher financial margin and, to a lesser extent, higher income from subsidiaries.

Income from financial margin increased on growth in loans of 6.1 percent and a 21 basis point increase in the gross spread to 2.53 percent. Gross spread increased as the rate of financial expense, mainly interest on deposits, declined by 48 basis points, while the rate of financial income, mainly interest on loans, fell by only 28 basis points.

Assets of the B.C. system totalled \$49.4 billion at the end of 2010, up \$1.0 billion or 2.1 percent from a year earlier. Asset growth was concentrated in personal

mortgages, which increased \$2.1 billion or 8.1 percent. Commercial mortgages also increased (up \$265 million or 2.9 percent), as did commercial loans (up \$76 million or 7.6 percent). Meanwhile, cash and liquid investments declined (down \$1.4 billion or 16.2 percent), as did personal loans (down \$76 million or 3.2 percent).

Asset growth was financed largely with non-registered demand deposits, which increased \$1.2 billion or 7.8 percent from a year earlier. Registered term deposits were up \$217 million or 3.6 percent, while non-registered term deposits grew by \$190 million or 0.9 percent. Registered demand deposits, which include Tax-Free Savings Accounts (TFSA), jumped \$129 million or 17.7 percent. The system's equity capital grew by \$240 million or 8.5 percent, largely on the strength of retained earnings. Meanwhile, borrowings declined by \$976 million or 39.7 percent.

The 90-day delinquency rate at year-end stood at 0.83 percent of the loan portfolio, up 9 basis points from a year earlier. Net loan loss expense for the year was 0.16 percent of the loan portfolio, up from 0.14 percent in 2009. Reserves held against loan losses totalled 0.58 percent of the portfolio at year-end, unchanged from a year earlier.

The system's liquidity remained strong and well above regulatory minimums. The capital ratios of individual credit unions were above regulatory minimums. The pooled liquidity ratio ended 2010 at 13.2 percent, down 122 basis points from a year earlier. The risk-weighted capital adequacy ratio finished the year at 14.8 percent, up 81 basis points, year-over-year.

B.C. credit union membership stood at 1,720,071 at the end of 2010, a year-over-year gain of 1.5 percent or 24,790 members. Province-wide staffing totalled 8,095 full-time equivalent positions, a 1.6 percent increase of 127 positions. With one merger completed in 2010, B.C. had 45 local credit unions at year-end. The number of branches in B.C. increased to 370 from 368 in 2009, while the system's ATM network totalled 555 at year-end, up from 533 a year earlier.

ONTARIO CREDIT UNION SYSTEM PERFORMANCE 2010

Aggregate operating profits and return on equity of Ontario credit unions increased in 2010. System NOI totalled \$114.9 million, up \$19.1 million or 20 percent from 2009, while ROE for 2010 was 6.0 percent, up 36 basis points from a year earlier.

Higher year-over-year earnings are primarily attributed to higher financial margin. Margin increased on robust growth in net loans of 8.5 percent and an 18 basis point increase in the gross spread to 2.53 percent. Gross spread increased as the rate of financial expense, mainly interest on deposits, declined by 39 basis points, while the rate of financial income, mainly interest on loans, fell by only 21 basis points.

System deposits totalled \$20.9 billion at year-end, up \$1.6 billion or 8.4 percent from 2009. Deposit growth occurred largely in demand and registered products and, to a lesser extent, term deposits. System borrowings totalled \$264 million at the end of 2010, down \$124 million or 32 percent from a year earlier.

Members' equity and capital totalled \$1.7 billion at year-end, an increase of \$169 million, or 11.1 percent year-over-year. The increase in equity is largely due to growth in retained earnings.

Asset growth for the Ontario system was strong over the year, with assets of Central's Ontario members totalling \$23.2 billion, up by 7.8 percent from \$21.6 billion. Asset growth occurred largely in residential mortgages and commercial loans and, to a lesser extent, cash and investments.

The system saw a decline in delinquency rates. The overall 90-day delinquency rate was 0.79 percent at the end of 2010, down 8 basis points from a year earlier, while total loan loss reserves ended the year at 0.56 percent of the portfolio, down 10 basis points year-over-year.

The system's liquidity remained strong and well above regulatory minimums, as were the capital ratios of most credit unions. The system's regulatory liquidity ratio ended 2010 at 14.2 percent, down 45 basis points from a year earlier. Class 2 credit unions, which represent 98 percent of the system's assets, finished the year with a risk-weighted capital adequacy ratio of 13.3 percent, up 43 basis points, year-over-year.

There are 119 active credit unions in Ontario affiliated with Central, 18 fewer than at year-end 2009 as a result of mergers and dissolutions of smaller credit unions. Membership in affiliated Ontario credit unions continued to decline, slipping by 1.5 percent year-over-year to 1,190,887.

CHART 2 PROVINCIAL CREDIT UNION SYSTEMS - LOAN COMPOSITION (UNAUDITED)

B.C. Credit Union System

(Millions of dollars)	2010			2009			2008
Residential Mortgages	\$	28,738	69.2%	\$	26,593	68.0%	\$ 25,404 66.6%
Commercial Mortgages		9,406	22.6%		9,141	23.3%	9,292 24.4%
Personal Loans		1,149	2.8%		1,237	3.2%	1,336 3.5%
Lines of Credit not secured by Mortgages		1,451	3.5%		1,430	3.7%	1,373 3.6%
Other Commercial Loans		788	1.9%		722	1.8%	743 1.9%
Total	\$	41,532	100.0%	\$	39,123	100.0%	\$ 38,148 100.0%

Ontario Credit Union System

(Millions of dollars)	2010			2009			2008
Residential Mortgages	\$	10,469	54.4%	\$	9,495	53.5%	\$ 9,133 53.8%
Commercial Mortgages		5,713	29.7%		5,222	29.4%	4,782 28.2%
Personal Loans		2,061	10.7%		2,111	11.9%	2,202 13.0%
Lines of Credit not secured by Mortgages		0	0.0%		0	0.0%	0 0.0%
Other Commercial Loans		995	5.2%		926	5.2%	849 5.0%
Total	\$	19,238	100.0%	\$	17,754	100.0%	\$ 16,966 100.0%

B.C. and Ontario Credit Union Systems Combined

(Millions of dollars)	2010			2009			2008
Residential Mortgages	\$	39,207	64.5%	\$	36,088	63.4%	\$ 34,537 62.7%
Commercial Mortgages		15,119	24.9%		14,363	25.3%	14,074 25.5%
Personal Loans		3,210	5.3%		3,348	5.9%	3,538 6.4%
Lines of Credit not secured by Mortgages		1,451	2.4%		1,430	2.5%	1,373 2.5%
Other Commercial Loans		1,783	2.9%		1,648	2.9%	1,592 2.9%
Total	\$	60,770	100.0%	\$	56,877	100.0%	\$ 55,114 100.0%

FINANCIAL OVERVIEW

For Central, 2010 was a good year in terms of financial performance amid a backdrop of volatile financial markets and a challenging economic environment. The unusually favourable conditions experienced in 2009 had not been expected to continue and conditions duly normalized in 2010. During the year, Central recorded realized gains of \$42.8 million on the sale of financial instruments. However, net unrealized losses on trading financial instruments were \$26.8 million for the period and, taken together, Central recorded an overall gain of \$16.0 million on its financial assets and liabilities.

Central's total assets at year-end amounted to \$10.4 billion, a decrease of \$0.7 billion or 6.0 percent from 2009. This was primarily attributable to the repayment in 2010 of amounts borrowed under the Bank of Canada Purchase & Resale Agreements (PRA). Loans by Central to credit unions declined as member credit unions met demand for loans from deposits, with a consequential decrease in borrowings from Central. However, credit unions in both provinces continued to maintain a high level of liquidity resulting in an increase in Central's investment portfolio.

Net income decreased by \$49.9 million or 48.6 percent from 2009 to \$50.1 million, on average assets of \$10.3 billion. Returns on average assets and average equity decreased in comparison to the prior year to 49 basis points and 8.9 percent, respectively. Earnings per share were 30.8 cents compared to 61.5 cents in 2009 (*Chart 4, page 26*).

Interest margin at \$67.0 million was 4.3 percent lower than the \$70.0 million in 2009. As a percentage of average assets, Interest margin declined from 75 basis points in 2009 to 65 basis points in 2010. This reflects a combination of lower bond credit spreads which had a negative impact on margin,

better pricing to credit unions on their deposits with Central and a higher cost of funds on the issuance of subordinated debt.

Gains on disposal of financial instruments, including gains from securitization activities, exceeded the decrease in fair value of financial instruments, resulting in a net credit to income of \$16.0 million, compared to a net credit of \$70.6 million in the previous year.

Non-interest income increased by 3.7 percent to \$90.9 million from \$87.6 million in 2009, reflecting income from Central's investment in CUMIS. Operating expense increased 4.1 percent to \$114.1 million, compared with \$109.6 million a year earlier, reflecting increased Salary and employee benefit expenses and the costs of adopting International Financial Reporting Standards (IFRS).

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

With a return to more normal, albeit volatile, conditions in the financial markets and a challenging economic environment, the year saw Central's productivity ratio (defined as the ratio of Operating expense to the sum of Net financial income and non-interest income) revert closer to historical levels.

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

Long-term financial liabilities of \$3.1 billion decreased slightly from \$3.2 billion at year-end 2009, as long-term deposits by credit unions decreased from \$3.2 billion to \$2.9 billion while long-term borrowings increased from nil to \$0.2 billion.

CHART 3 MAJOR COMPONENTS — REVENUE & EXPENSE

(Millions of dollars — % total income)	2010		2009		2008	
Net Financial Income	\$ 83.04	47.7%	\$ 140.56	61.6%	\$ 44.58	37.6%
Non-Interest Income	90.87	52.3%	87.60	38.4%	73.89	62.4%
Total Income	\$ 173.91	100.0%	\$ 228.16	100.0%	\$ 118.47	100.0%
Operating Expense - Productivity Ratio %	\$ 114.12	65.6%	\$ 109.64	48.1%	\$ 83.46	70.4%

CHART 4 SELECTED FINANCIAL INFORMATION

	2010	2009	2008
Earnings (Millions of dollars)			
Net Interest and Other Income – after provisions	\$ 169.52	\$ 226.70	\$ 117.36
Net Income	\$ 50.06	\$ 99.90	\$ 26.56
Earnings Per Share (cents)			
Basic	30.8	61.5	19.7
Diluted	30.8	61.5	19.7
Return On			
Average Assets	0.49%	1.07%	0.40%
Average Equity	8.91%	19.62%	7.69%
Balance Sheet Data (Billions of dollars)			
Total Assets	\$ 10.38	\$ 11.06	\$ 8.56
Average Assets	\$ 10.30	\$ 9.37	\$ 6.61
Long-Term Financial Liabilities	\$ 3.08	\$ 3.20	\$ 1.49
Weighted Average Shares Outstanding (in Millions)	162.80	162.58	136.87
Share Information			
Outstanding \$1 par value Shares (Thousands of dollars)			
Class A – Credit Unions	\$ 164,939	\$ 162,536	\$ 162,539
Class B – Cooperatives	5	5	6
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	29
Dividends per share (cents)			
Class "A", "B" and "C"	2.0	12.0	4.1
Class "E"	200.0	200.0	–

FINANCIAL OBJECTIVES

Central exceeded all four of its financial objectives for 2010 (*Chart 5*). As the system's liquidity manager, Central's first objective is to maintain liquid assets equal to at least 6 percent of system assets. Central's second objective is to earn a return, before taxes, on average equity equal to or greater than its budgeted return. The other two financial objectives relate to exceeding capital ratios prescribed by provincial and federal regulations.

CHART 5 FINANCIAL OBJECTIVES

Objective	2010	2009	2008
Maintain 6% of System Assets in Liquid Form	12.4%	12.5%	8.6%
Exceed Pre-Tax Return on Average Equity Target	9.9%	23.0%	9.1%
Actual Return	6.6%	7.1%	8.2%
Budget Return			
Maintain Regulatory Capital in Excess of 10% of "Risk Weighted Assets" at the Year-End	36.8%	34.5%	19.5%
Maintain "Borrowing Multiple" at a Ratio of less than 20:1 at the Year-End	15.6:1	18.3:1	18.1:1

SELECTED ANNUAL INFORMATION AND RESULTS OF OPERATIONS

This part of the report discusses Central's financial performance for the year ended December 31, 2010, and compares 2010 results with those of the previous two years. A Five-Year Summary of Central's operations is provided at the end of the discussion (*page 51*).

THE INCOME STATEMENT

Financial Income

Central's Net financial income in 2010, after trading gains and provision for credit losses, was \$78.7 million compared to \$139.1 million in 2009, a decrease of \$60.4 million.

Central's Interest margin was \$67.0 million, 4.3 percent lower than the previous high of \$70.0 million, reached in 2009. Expressed as a percentage of average assets, Central's Interest margin fell to 65 basis points compared to 75 basis points earned the previous year. This was due to a combination of lower bond credit spreads which had a negative impact on interest margin,

better pricing to credit unions through more favourable rates on their deposits with Central and a higher cost of funds on the issuance of subordinated debt.

Gains on disposal of financial instruments (Note 20 to the financial statements) totalled \$42.8 million, compared to \$18.1 million in 2009. In 2010, net gains comprised \$51.8 million in gains on disposal of securities offset by \$9.0 million in losses on trading assets and derivatives.

In 2010, Central recorded a net decrease in the fair value of financial instruments (Note 21 to the financial statements) of \$26.8 million. Central realized net losses on its trading assets, liabilities and non-securitization derivatives of \$6.6 million. This was in addition to an unfavourable \$20.2 million change in the value of securitization derivatives acquired as a result of the loan securitization transactions described in Note 13 to the financial statements.

The chart of Comparative interest income & expense shows the yearly average balances of Central's earning assets and liabilities, their relative contribution or charge to Net financial income and their yields and costs (*Chart 6, page 29*).

In keeping with Central's mandate as liquidity manager for its member credit unions, short-term securities typically represent a great majority of its earning assets, with loans to member credit unions comprising most of the remainder. During 2010, loans to credit unions decreased, as member credit unions met demand for loans from deposits rather than borrowings from Central. Credit union statutory liquidity deposits represent about 46.2 percent of Central's liabilities; non-statutory credit union deposits account for a further 28.2 percent; and external deposits, borrowings and other liabilities make up the remainder. Credit union loan demand has a direct impact on the composition of Central's balance sheet. With credit unions being able to meet the demand for loans from deposits and the successful use of securitization, Central's loans, as a percentage of assets, declined in 2010.

CHART 6 COMPARATIVE INTEREST INCOME & EXPENSE

December 31 (Millions of dollars)	2010			2009			2008		
	Average Balances	Interest	Average Rate	Average Balances	Interest	Average Rate	Average Balances	Interest	Average Rate
Assets									
Cash & Securities	\$ 8,536	\$ 180.38	2.11%	\$ 7,688	\$ 181.90	2.37%	\$ 4,256	\$ 170.69	4.01%
Deposits with regulated FIs	99	1.26	1.27%	100	2.28	2.28%	180	7.59	4.23%
Loans	1,359	22.15	1.63%	1,267	22.95	1.81%	1,967	74.81	3.80%
Total Earning Assets	9,994	203.79	2.04%	9,055	207.13	2.29%	6,403	253.09	3.95%
Other Assets	306	–	–	317	–	–	208	–	–
Total Assets	\$ 10,300	\$ 203.79	1.98%	\$ 9,372	\$ 207.13	2.21%	\$ 6,611	\$ 253.09	3.83%
Liabilities and Equity									
Notes	\$ 550	\$ 8.54	1.55%	\$ 533	\$ 4.42	0.83%	\$ 793	\$ 29.27	3.69%
Deposits									
Credit Union Statutory	4,759	79.58	1.67%	4,475	85.20	1.90%	3,588	128.12	3.57%
Credit Union Other	2,905	32.07	1.10%	2,262	30.61	1.35%	1,088	29.55	2.72%
Non Credit Union	527	5.15	0.98%	593	9.59	1.62%	561	15.41	2.75%
Securities Under Repurchase Agreements	578	3.20	0.55%	715	3.83	0.54%	52	1.43	2.76%
Subordinated Debt	201	8.27	4.12%	88	3.50	3.98%	50	2.21	4.42%
Total	9,520	136.81	1.44%	8,666	137.15	1.58%	6,132	205.99	3.36%
Other Liabilities	218	–	–	197	–	–	133	–	–
Members' Equity	562	–	–	509	–	–	346	–	–
Total Liabilities & Equity	\$ 10,300	\$ 136.81	1.33%	\$ 9,372	\$ 137.15	1.46%	\$ 6,611	\$ 205.99	3.12%
Interest Margin		\$ 66.98	0.65%		\$ 69.98	0.75%		\$ 47.10	0.71%
Trading Gains & Change in Fair Value		\$ 16.06	0.16%		\$ 70.58	0.75%		\$ (2.54)	(0.04)%

Non-Interest Income and Operating Expense

Central 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, a number of key services of general benefit to the entire system are funded by dues assessments, while other activities are supported in whole or in part by fees.

Income generated by Central's non-interest sources in 2010 was significant and, in gross terms, exceeded that derived from financial margin. However, the bulk of Central's Operating expense was also associated with earning this revenue. The principal operations contributing to non-interest income are related to Technology and Payment Services, which typically produce between 60 and 65 percent of the annual total. (Chart 7, page 30).

CHART 7 NON-INTEREST INCOME & OPERATING EXPENSE¹

December 31 (Millions of dollars)	2010		2009		2008	
	Amount	% of Income	Amount	% of Income	Amount	% of Income
Non-Interest Income						
Membership Dues	\$ 7.01	7.7	\$ 9.58	10.9	\$ 7.29	9.9
Province-wide Advertising Assessment	2.01	2.2	2.54	2.9	2.50	3.4
Trade Services						
Operations Manual	1.41	1.5	1.41	1.6	1.21	1.6
Risk Management	4.19	4.6	2.58	2.9	2.60	3.5
Registered Plans	2.34	2.6	2.22	2.5	1.86	2.5
Other	4.39	4.8	4.04	4.6	3.66	5.0
Total Trade Services	12.33	13.5	10.25	11.6	9.33	12.6
Financial Services						
Treasury Services	2.65	2.9	2.44	2.8	2.83	3.8
Funding Services	3.29	3.6	3.72	4.2	2.68	3.6
Building Rental	0.89	1.0	0.94	1.1	1.04	1.4
Equity Income	3.62	4.0	0.00	0.0	0.00	0.0
Other	0.12	0.1	0.44	0.5	1.79	2.4
Total Financial Services	10.57	11.6	7.54	8.6	8.34	11.2
Technology & Payment Services						
Processing	38.06	41.9	39.68	45.4	32.60	44.1
Technical Operations	2.30	2.5	2.28	2.6	2.16	2.9
Web Banking	18.59	20.6	15.74	18.0	11.67	15.8
Total Technology & Payment Services	58.95	65.0	57.70	66.0	46.43	62.8
Total Non-Interest Income	\$ 90.87	100.0	\$ 87.61	100.0	\$ 73.89	100.0
Operating Expense						
Salaries & Benefits	\$ 53.45	58.8	\$ 48.66	55.6	\$ 39.51	53.5
Premises	7.64	8.4	7.33	8.4	6.59	8.9
Cost of sales and services	25.54	28.1	28.00	32.0	20.60	27.9
Other	27.49	30.3	25.65	29.3	16.76	22.7
Total Operating Expense	\$ 114.12	125.6	\$ 109.64	125.3	\$ 83.46	113.0

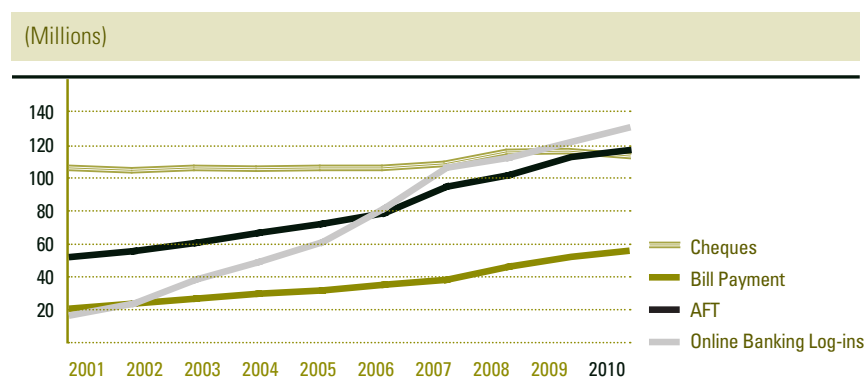
¹ Certain items in 2009 and 2008 have been regrouped to be consistent with the 2010 categories of income and expense. Amounts and percentages may not total due to rounding.

Non-interest income was up 3.8 percent in 2010, reaching a record \$90.9 million compared to \$87.6 million last year. The most significant contributor to the increase was Equity income from the CUMIS investment which amounted to \$3.6 million. Income from Trade Services and Technology and Payment Services also increased while income from Membership dues decreased.

Operating expense for 2010 was \$114.1 million, which represents an increase of 4.1 percent over 2009. The increase is primarily attributable to higher Salary and employee benefits expenses which rose from \$48.7 million in 2009 to \$53.5 million in 2010. Central has increased its total staff complement over the past year to strengthen its risk management, financial reporting and compliance functions. Additional staff members have been retained in order to support the anticipated expansion of the suite of products and services that Central offers. The increase in Salary and employee benefits over 2009 also reflects adjustments related to Central's variable compensation and employee benefit programs.

The volumes tracked in *Chart 8* illustrate the ascendancy of electronic payments, as well as the continuing significance of direct banking. Electronic payments volumes, measured by bill payments and Automated Funds Transfer (AFT) transactions, increased by 4 percent in 2010. For some years, paper processing has been decreasing in the industry by more than 5 percent annually. For Central, 2010 marked the first year that cheque volumes decreased significantly, declining 3 percent.

CHART 8 LONG-TERM TREND IN TECHNOLOGY AND PAYMENT PROCESSING VOLUMES



Following the merger in July 2008, Central focused on building a new IT infrastructure and integrating its core systems. This was followed in 2010 with the integration of payment systems and processes, which will continue into 2011, concluding the integration process.

The year also saw substantial product development in direct banking services (online, mobile and phone banking), such as the launch of a new Phone Banking service, Mobile Alerts and Mobile Web. In November, Central became the first organization to implement the new *Interac*® e-Transfer mobile and online money transfer service. Revenues from direct banking services grew by 18 percent to \$18.6 million from \$15.7 million a year earlier.

Net Income

Central posted Net income of \$50.1 million in 2010, a decrease of \$49.8 million over 2009 as capital market conditions normalized. Following on from this, Central posted a net-mark-to-market decrease of \$26.8 million in the year, offset by a gain of \$42.8 million through the sales of financial instruments (*Chart 9, page 32*).

Net interest and other income decreased by \$55.7 million to \$171.0 million, primarily as a result of decreased Interest margin and decreases in fair value of financial instruments offset by increases in gains on disposal of financial instruments and non-interest income.

Operating expense increased \$4.5 million, bringing the year's Operating expense to \$114.1 million. As a result, income before taxes was \$55.4 million, compared to the record of \$117.1 million set in 2009.

CHART 9 NET INCOME

December 31 (Millions of dollars - %)	2010		2009		2008	
Income before Taxes	\$	55.40	\$	117.06	\$	31.46
Return on Average Assets		0.54%		1.25%		0.48%
Return on Average Share Capital		34.03%		72.00%		22.98%
Return on Average Equity		9.86%		22.99%		9.10%
Net Income	\$	50.06	\$	99.90	\$	26.56
Return on Average Assets		0.49%		1.07%		0.40%
Return on Average Share Capital		30.75%		61.45%		19.41%
Return on Average Equity		8.91%		19.62%		7.69%

Other Comprehensive Income

Central recorded a loss in other comprehensive income of \$19.4 million during 2010, compared to a net gain of \$42.8 million in 2009. 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 Net income. Net mark-to-market gains on available-for-sale securities in 2009 were primarily due to the contraction of credit spreads on Central's bond portfolio, while the 2010 results primarily reflect the realization of gains on available-for-sale securities included in Net income.

As most of Central's financial liabilities are measured at amortized cost on Central's balance sheet and the majority of its financial assets are measured at fair value, there is an accounting mismatch in comprehensive income. Note 30 to the financial statements provides a summary of the differences between the fair value of Central's net assets and their book value. The note indicates that, on a net basis, the fair value of these financial instruments appreciated by \$18.7 million during 2010 from a net loss of \$41.0 million as at December 31, 2009 to a net loss of \$22.3 million.

THE BALANCE SHEET

The accompanying chart shows the average balances of Central and the two provincial credit union systems, individually and combined, for the past three years (*Chart 10*).

CHART 10 (A) CENTRAL 1 CREDIT UNION – AVERAGE BALANCES

Central 1 Credit Union

December 31 (Millions of dollars - % Average Assets)	2010		2009		2008	
Cash & Liquid Assets	\$ 8,535.4	82.9%	\$ 7,688.2	82.0%	\$ 4,247.8	64.2%
Deposits with regulated financial institutions	99.2	1.0%	100.3	1.1%	180.0	2.7%
Loans	1,359.1	13.2%	1,266.8	13.5%	1,972.0	29.8%
External Debt	550.0	5.3%	532.5	5.7%	793.1	12.0%
Deposits	8,191.0	79.5%	7,329.3	78.2%	5,240.4	79.3%
Members' Equity	561.7	5.5%	509.1	5.4%	346.0	5.2%
Average Total Assets	\$ 10,299.9		\$ 9,371.7		\$ 6,611.0	

CHART 10 (B) PROVINCIAL CREDIT UNION SYSTEMS – AVERAGE BALANCES (UNAUDITED)

B.C. Credit Union System

(Millions of dollars - % Average Assets)	2010		2009 ¹		2008	
Cash & Liquid Assets	\$ 7,177.1	14.8%	\$ 8,538.2	18.4%	\$ 6,416.4	14.7%
Other Assets	896.5	1.8%	911.3	2.0%	1,051.2	2.4%
Loans	41,373.1	85.4%	38,976.7	84.1%	38,021.7	87.0%
External Debt	1,482.9	3.1%	2,459.0	5.3%	2,931.7	6.7%
Deposits	44,469.5	91.8%	42,807.7	92.4%	39,474.2	90.3%
Members' Equity	3,059.8	6.3%	2,820.2	6.1%	2,651.5	6.1%
Average Total Assets	\$ 48,465.2		\$ 46,330.8		\$ 43,706.4	

Ontario Credit Union System

(Millions of dollars - % Average Assets)	2010		2009 ¹		2008	
Cash & Liquid Assets	\$ 3,571.4	15.9%	\$ 3,394.2	16.2%	\$ 2,702.1	13.8%
Other Assets	534.6	2.4%	528.3	2.5%	518.5	2.6%
Loans	19,130.5	84.9%	17,636.9	84.3%	16,876.3	85.9%
External Debt	263.7	1.2%	388.0	1.9%	388.9	2.0%
Deposits	20,856.0	92.6%	19,240.9	91.1%	17,922.4	91.2%
Members' Equity	1,690.0	7.5%	1,521.2	7.3%	1,406.0	7.2%
Average Total Assets	\$ 22,531.0		\$ 20,928.4		\$ 19,651.3	

¹ Certain system numbers in 2009 have been restated using audited figures.

B.C. & Ontario Systems Combined

(Millions of dollars - % Average Assets)	2010		2009 ¹		2008	
Cash & Liquid Assets	\$ 10,748.5	15.1%	\$ 11,932.4	17.7%	\$ 9,118.6	14.4%
Other Assets	1,431.2	2.0%	1,439.6	2.1%	1,569.7	2.5%
Loans	60,503.7	85.2%	56,613.6	84.2%	54,898.0	86.6%
External Debt	1,746.7	2.5%	2,847.0	4.2%	3,320.6	5.2%
Deposits	65,325.6	92.0%	62,048.6	92.3%	57,396.6	90.6%
Members' Equity	4,749.8	6.7%	4,341.4	6.5%	4,057.5	6.4%
Average Total Assets	\$ 70,996.1		\$ 67,259.2		\$ 63,357.7	

¹ Certain system numbers in 2009 have been restated using audited figures.

There is a strong relationship between the balance sheets of Central and the system, as illustrated by the following examples:

- Member deposits are the principal funding source for individual credit unions and as deposits grow, total assets increase. Since the statutory liquidity that must be maintained with Central is a function of credit unions' liabilities, credit union deposits with Central will also increase, thus increasing Central'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 excess liquidity deposits with Central and may increase their demand for loans from Central.

Solid deposit growth continued to fuel growth of member credit union assets, which, system-wide, increased by over 3.9 percent to reach \$72.7 billion at year-end 2010. Central's assets decreased by 6.1 percent, year-over-year, at \$10.4 billion, as lower demand from member credit unions reduced credit union loan balances with Central. (For more detailed commentary on the system's 2010 results, see *B.C. Credit Union System Performance* and *Ontario Credit Union System Performance*, pages 22 & 23). Central'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 by its members.

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

Central supplements these mandatory deposits with deposits of excess liquidity from credit unions and deposits from organizations external to the system. Central accommodated loan demand from the system in 2010 primarily by accessing funds in the capital markets through loan securitizations; however, there were other channels available to it.

Central may, from time to time, further supplement these funding sources by accessing various facilities offered by the Bank of Canada and Canada Mortgage and Housing Corporation (CMHC) to provide liquidity to financial markets.

CHART 11 LOANS

December 31 (Millions of dollars - % of total)	2010		2009		2008	
Total Credit Union Loans	\$ 956.9	85.6%	\$ 2,002.4	92.3%	\$ 2,241.9	92.3%
Non Credit Union Loans	160.4	14.4%	166.4	7.7%	186.5	7.7%
Total Loans Outstanding	\$ 1,117.3 ¹	100.0%	\$ 2,168.8	100.0%	\$ 2,428.4	100.0%
Average Total Loans	\$ 1,359.1		\$ 1,266.8		\$ 1,972.0	

¹ Total loan balances are before the allowance for doubtful loans and exclude accrued interest.

Loans

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

Except for loans to staff members, Central does not directly engage in residential or personal lending. Central has a small portfolio of commercial loans, which includes loans to related organizations and syndicated commercial loans. Central periodically acquires packages of mortgage loans from member credit unions to provide them with liquidity, for resale to other credit unions or for securitization. Most packages acquired by Central are usually held for short periods, pending resale to other credit unions or pending securitization as described on page 39.

In addition to the \$1,117.3 million in loans outstanding as at December 31, 2010, Central had issued standby letters of credit of \$122.6 million on behalf of its members. As at year-end, Central had authorized, but unused, credit lines totaling \$290.5 million. By comparison, at year-end 2009, Central had \$2,168.8 million in loans outstanding and had issued \$148.5 million in standby letters of credit on behalf of its members.

Details of changes in Central's provision for credit losses against its lending portfolio are contained in Note 10 to the financial statements. During the year specific provisions increased by about \$3.1 million while the general provision decreased by \$0.1 million. Total provisions at the end of 2010 were about 0.9% of total loans outstanding, compared to 0.3% at the end of 2009.

System loan balances continued to grow, with the year-end net balances reflecting a 6.9 percent year-over-year increase to \$60.5 billion, compared to \$56.6 billion in 2009. Central's average loans increased by 7.3 percent to \$1,359 million.

Average Debt

During the year, Central's average total debt rose by \$742.6 million, compared to an increase of \$2,495.0 million in 2009 (*Chart 12, page 36*). This was primarily as a result of increased member deposit balances, partly offset by a decrease in Securities under repurchase agreements.

Central 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's medium-term note facility. At December 31, 2010, \$395.0 million was borrowed under the short-term commercial paper facility (2009 - \$190.0 million; 2008 - \$249.2 million) and \$225.0 million was borrowed under the medium-term note facility (2009 - \$275.0 million; 2008 - \$275.0 million).

On October 9, 2009, Central issued \$150 million principal amount of 4.00 percent Series 2 Subordinated notes due 2019. The notes bear interest at a fixed rate of 4.00 percent until, but excluding, October 9, 2014 and thereafter at a floating rate based on 90-day Bankers' Acceptances plus 2.40 percent. Central has the option to redeem the notes on October 9, 2014, subject to regulatory approval. These notes are eligible for inclusion in Central's

Tier 2B regulatory capital, similar to the subordinated debt issued by Central in 2006. This increase in regulatory capital was partly offset by Central's investment in CUMIS which resulted in a deduction from regulatory capital (see also Transactions and Transactions with Related Parties, *page 45*).

Central's regulatory borrowing multiple averaged 16.1:1 in 2010, compared to 18.2:1 in 2009. Strong earnings in 2009, coupled with the issue of subordinated debt in the fourth quarter of 2009, had a positive impact on Central's regulatory capital throughout 2010. This resulted in Central recording a lower average borrowing multiple in 2010 even though its average borrowings were higher than in the previous year. Central's target is to maintain a borrowing multiple between 16.0:1 to 18.0:1, which represents a balance between maintenance of a prudent capital reserve and the efficient use of capital.

CHART 12 AVERAGE DEBT

December 31 (Millions of dollars - % of total)	2010		2009		2008	
Short-Term Unsecured Notes	\$ 356.3	3.8%	\$ 257.5	3.0%	\$ 412.6	6.8%
Mid/Long-term Unsecured Notes	193.6	2.1%	275.0	3.2%	380.4	6.2%
Non Credit Union Deposits	527.0	5.7%	593.0	6.9%	561.0	9.2%
Credit Union Deposits	7,664.5	82.2%	6,736.3	78.6%	4,676.0	76.9%
Securities Under Repurchase Agreements	578.0	6.2%	715.0	8.3%	51.8	0.9%
Total Average Debt	\$ 9,319.4	100.0%	\$ 8,576.8	100.0%	\$ 6,081.8	100.0%
Average Borrowing Multiple	16.1:1		18.2:1		18.0:1	
Credit Union Average Deposits as:						
% of Average System Liquid Assets	71.3%		56.5%		72.9%	
% of Average System Total Assets	10.8%		10.0%		10.7%	

STATEMENT OF CASH FLOWS

Central had a net cash inflow from operating activities of \$44.0 million compared to an outflow of \$47.8 million in 2009, reflecting Central's lower Net income for 2010 net of other cash flow adjustments. Cash flows from financing activities decreased by \$716.1 million from an inflow of \$2,626.3 million in the previous year. Most of the decrease is attributable to a decrease in non-statutory deposits and a decrease in securities sold under repurchase agreements, partly offset by an increase in notes issued under the short-term commercial paper and medium-term note facilities. Cash inflows from investing activity totalled \$590.9 million as the repayment of loan balances by member credit unions exceeded the financing activities outflow with the remainder being invested in securities. This is in contrast to a cash outflow of \$2,604.3 million in 2009 (which included \$103.4 million related to the acquisition of CUMIS). Overall cash resources at the end of the year decreased by \$81.3 million; however, this should be taken in the context of Central's role as a liquidity provider whose assets are primarily cash equivalents or readily marketable securities.

LIQUIDITY MANAGEMENT

Central is the prescribed liquidity manager for British Columbia's credit unions and the liquidity manager by contract for member credit unions in Ontario. Provincial regulations require that British Columbia credit unions maintain 8 percent (less up to 1 percent for cash balances) of their aggregate debt and other liabilities as deposits with Central. Excepted are credit unions for which 8 percent of aggregate deposits and other debt liabilities exceeds 1.5 percent of B.C. system assets; these credit unions are required to maintain deposits with Central equal to 1.5 percent of provincial system assets. There are currently two such credit unions, which, together, account for approximately 50 percent of total B.C. system assets. Notwithstanding regulatory requirements, these credit unions have agreed to maintain deposits with Central equal to at least 6 percent of their aggregate deposit and other debt liabilities.

Provincial regulations in Ontario were revised in 2009. Class 2 credit unions, which represent nearly 98 percent of the system by assets, are required to adhere to a "prudent person" approach towards maintaining adequate liquidity. However, as a condition of membership, Ontario credit unions are required to enter into a Liquidity Agreement with Central. Under the terms of the agreement, member credit unions in Ontario must maintain deposits with Central equal to 6 percent of their assets.

Central's liquidity management framework is designed to ensure that reliable and cost-effective sources of cash are available to satisfy current and prospective commitments of the system, as well as Central's obligations under the National Liquidity Fund Agreement (NLFA). Central adopted many of the relevant aspects of the Bank for International Settlements (BIS) liquidity framework issued in the September 2008 *"Principles for Sound Liquidity Risk Management and Supervision"*. These principles focus on developing a liquidity risk tolerance, scenario stress testing, cash flow forecasting, wholesale funding diversification and contingency planning.

CHART 13 LIQUID ASSETS & BORROWING AUTHORIZATIONS

December 31 (Millions of dollars - % System Assets)	2010		2009		2008	
Cash & Liquid Assets	\$ 8,824.5	12.4%	\$ 8,398.7	12.6%	\$ 5,476.6	8.7%
Short- & Long-Term Note Authorization	3,000.0	4.2%	3,000.0	4.5%	3,000.0	4.8%
Credit Lines	365.5	0.5%	291.4	0.4%	294.1	0.5%

CASH AND LIQUID SECURITIES

Central's cash and pool of liquid securities are summarized by type in the accompanying chart (*Chart 14, page 39*). Investment activity in the liquidity pool, as well as Central's overall portfolio, continued to be conservative in 2010 with investments made primarily in senior bank debt and government debt (federal and provincial). In response to the heightened sensitivity of regulators towards liquidity risk management, Central has adopted a number of liquidity risk measures including a qualitative liquidity scoring system that evaluates its investment portfolio based on investor sentiment and market conditions, which include the level of credit spreads, available liquidity and general credit conditions. As a percentage of system assets, Central's liquidity reserves, when measured by year-end balances, exceeded those of the previous year and remained well in excess of the NLFA requirement of 6 percent of system assets.

CHART 14 CASH & LIQUID SECURITIES

December 31 (Millions of dollars)	2010		2009		2008	
Cash & Liquid Securities						
Government & Guarantees	\$ 4,465.7	50.6%	\$ 5,345.6	63.7%	\$ 1,514.3	27.7%
Corporate & Major Financial Institutions R-1 (Mid) or Greater	4,200.7	47.6%	2,956.6	35.2%	3,680.2	67.1%
Corporate – R-1 (Low)	158.1	1.8%	96.5	1.1%	282.1	5.2%
Total	\$ 8,824.5	100.0%	\$ 8,398.7	100.0%	\$ 5,476.6	100.0%
% of System Y/E Assets	12.4%		12.5%		8.6%	
% of Central Y/E Assets	79.8%		76.0%		64.0%	

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's overall liquidity management strategy. Central's primary funding source is deposits from credit unions, the majority of which are required by regulation in B.C. and via a lock-in agreement in Ontario. In October 2008, unlimited insurance of deposits accepted by B.C. credit unions was introduced by the Province of British Columbia, replacing the previous \$100,000 limit per separate deposit. This change has contributed to an increase in B.C. credit union system liquidity and, in turn, in the liquidity of Central. In late 2009, the Ontario government also expressly introduced unlimited deposit insurance on all registered deposits accepted by Ontario credit unions.

Central competes for credit union excess liquidity and, historically, holds most of this liquidity on behalf of the system. Supplementary to this core deposit base are Central's commercial paper and medium-term note programs and lines of credit with other financial institutions. During 2010, Central consistently issued commercial paper at attractive interest rates and spreads to money market instruments offered by Canada's largest chartered banks. Central also issued a \$225-million, three-year medium-term note in April 2010.

By virtue of its participation in the CUCC group clearing arrangement, Central has the ability to obtain funds from facilities offered by the Bank of Canada to financial institutions.

The system uses asset securitization programs as an alternative source of funding and for liquidity and asset/liability management purposes. These programs were restructured in 2010 in light of the coming transition to IFRS. Under the new program structure, credit unions that access these programs are approved Mortgage-Backed Securities (MBS) issuers and Canada Housing Trust (CHT) sellers, or both, while Central acts as the approved swap counterparty to CHT, administrator and reinvestment agent. In 2010 over \$400 million of NHA MBS were issued by the credit unions.

Central also retains MBS issuer and CHT seller status under CMHC's Canada Mortgage Bond (CMB) program and, if needed, can access these programs directly.

Central'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's and the system's earnings.

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

Structural Liquidity Risk Management

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

Central constantly monitors and assesses the liquidity requirements of the system in light of current and forecast economic conditions. This allows Central 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 and the system. Central has imposed limits on projected net fund outflows for specified short-term periods and on the minimum degree of liquidity inherent in its pool of marketable securities. Central also has minimum funding coverage ratios on the lines of credit granted to its members.

Contingent Liquidity Risk Management

As part of Central's liquidity planning, Central recognizes the need to plan for an event of general market disruption or adverse economic conditions that could affect Central's ability to meet its commitments. In such an event, all of Central's pool of marketable securities would be available for this purpose. In addition, Central has access to additional liquid securities from other provincial central credit unions under the NLFA, which is in the process of being revised to reflect the structure of, and changes in, the credit union system. By virtue of being a member of the Canadian Credit Union Group Clearing Arrangement, Central has access to intra-day and short-term funding facilities from the Bank of Canada, as well as longer-term funding facilities that may be offered to all market participants at the discretion of the Bank.

In 2010, Central and the three provincial centrals of the Prairie provinces announced an agreement in principle to govern and operate the Group Clearing Arrangements for credit unions across the country. Under this arrangement, Central would assume the role of Group Clearer, replacing CUCC, which is in transition to becoming solely a trade association.

CONTRACTUAL OBLIGATION

The accompanying chart summarizes Central's contractual financial obligations for each of the next five years and thereafter (*Chart 15*). Almost all of the obligations are incurred in Central's role as a liquidity manager and consist of member deposits or short- and long-term notes. Most of these obligations are either required to be renewed with Central by regulation or are anticipated to be re-deposited with Central.

CHART 15 CONTRACTUAL OBLIGATIONS

December 31 (Millions of dollars)	Less than 1 Year		1 to 3 Years		3 to 5 Years		Greater than 5 Years		Total
Debt – Outstanding	\$	6,435.4	\$	2,409.8	\$	556.6	\$	1.5	\$ 9,403.3
Operating Leases		1.7		1.7		0.7		0.3	4.4
	\$	6,437.1	\$	2,411.5	\$	557.3	\$	1.8	\$ 9,407.7

CAPITAL MANAGEMENT AND CAPITAL RESOURCES

Central'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's capital levels are regulated under federal guidelines issued by the Office of the Superintendent of Financial Institutions Canada (OSFI) and provincial regulations administered by FICOM. Pursuant to federal regulations, Central is required to maintain a maximum borrowing multiple, the ratio of debt to regulatory capital, of 20:1. Provincial regulations in British Columbia, which apply to B.C. credit unions as well as Central, use a risk-weighted approach to capital adequacy that is based on standards issued by the BIS. Ontario provincial regulations, which apply to credit unions in Ontario, also use a similar risk-weighted approach to capital adequacy along with the requirement that the ratio of regulatory capital to total assets be at least 4 percent. The provincial risk weightings, which generally parallel the methodology used by OSFI to regulate Canadian chartered banks, require Central's risk-weighted capital, calculated by dividing capital by risk-weighted assets, to be no less than 8 percent. Furthermore, Central must maintain a risk-weighted capital ratio of at least 10 percent to enable member B.C. credit unions to risk-weight their deposits with Central at zero percent.

In December of 2010, the BIS released an agreed text on new international bank capital adequacy rules and rules for minimum and appropriate forms of liquidity. The measures to be implemented provide a more restrictive definition of what qualifies as capital, increase the required level of capital, and more narrowly define what constitutes liquid securities. Canada, as a member of the BIS, has endorsed the implementation of these measures and OSFI is developing an action plan. These changes will be assessed and the impact on Central and the credit union system will be evaluated in due course.

Central targets the lower end of an operating borrowing multiple of between 16:1 and 18:1 to ensure that it has the capacity to absorb sudden increases in system deposits or to increase external borrowings to meet member demand for funds. A three-year comparison of Central'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 16 and Chart 17, page 42*). At the end of 2010, Central's borrowing multiple was well within regulatory requirements and, in contrast to 2009, below the lower range of Central's internal target. This was primarily due to two factors: an absence of the customary increase in deposits by member credit unions in the fourth quarter; and the paying-off of liabilities assumed on behalf of credit unions from the Bank of Canada's Purchase and Resale Agreement (PRA) auctions.

CHART 16 RISK-ADJUSTED ASSETS

December 31 (Millions of dollars)	Risk Weight	2010	2010	2009	2009	2008	2008
		Gross Amount	Risk Adjusted	Gross Assets	Risk Adjusted	Gross Assets	Risk Adjusted
On-balance Sheet							
Cash	0-20%	\$ 121.3	\$ 17.4	\$ 202.6	\$ 9.8	\$ 228.4	\$ 11.6
Securities	0-100%	8,740.2	1,105.8	8,254.2	869.7	5,299.6	1,201.7
Deposits with regulated financial institutions	0-100%	135.4	27.1	54.8	11.0	126.5	25.3
Loans	20-100%	1,110.3	332.0	2,166.0	550.8	2,425.9	617.8
Other	0-100%	268.4	121.8	378.2	209.1	477.4	399.4
		10,375.6	1,604.1	11,055.8	1,650.4	8,557.8	2,255.8
Off-balance Sheet							
Derivatives	0-100%	203.9	40.8	220.9	45.5	220.9	44.2
Credit Commitments	0-50%	3,304.0	0.0	1,836.4	0.0	1,836.4	0.0
Guarantees & Letters of Credit	20-50%	110.6	22.1	249.2	33.7	249.2	49.9
		3,618.5	62.9	2,306.5	79.2	2,306.5	94.1
Total Risk-Weighted Assets		\$ 13,994.1	\$ 1,667.0	\$ 13,362.3	\$ 1,729.6	\$ 10,864.3	\$ 2,349.9
Capital Base			\$ 614.8		\$ 596.5		\$ 456.5
Capital as % of Risk-Weighted Assets			36.8%		34.5%		19.4%
Borrowing Multiple			15.6:1		18.3:1		18.1:1

CHART 17 RISK-ADJUSTED ASSETS TO TOTAL ASSETS

December 31 (% of Risk-Adjusted to Total Risk-Adjusted Assets)	3 Year Average	2010	2009	2008
Converted Value of On-Balance Sheet Assets	96.3%	97.4%	95.4%	96.0%
Converted Value of Off-Balance Sheet Assets	3.7%	2.6%	4.6%	4.0%
Total	100.0%	100.0%	100.0%	100.0%

Central's share capital, with the exception of nominal amounts, is entirely held by its Class A members, which, collectively, comprise the B.C. and Ontario credit union systems. Central's Rules permit it to unconditionally require its Class A members to increase their investment in its share capital. Central's policy requires an annual adjustment of Class A share capital subscriptions so that member credit unions contribute Class A share capital in proportion to their assets (*Chart 18*).

As a result of the merger with CUCO, Central issued Class A shares with a par value of \$49.3 million and 957,000 Class E shares with a par value of \$9,570 to its Ontario member credit unions (See *Notes 2 and 18* to the financial statements.). As part of the transaction, Central recognized \$87.9 million of contributed surplus. On October 9, 2009, Central issued \$150 million in 4.00 percent Series 2 Subordinated Notes, which are also eligible for inclusion in Central's Tier 2B capital. However, this increase was partly offset by Central's investment in CUMIS, which is a regulatory deduction of \$108.9 million from Central's capital base.

As of December 31, 2010, Central's Tier 1 capital was \$556.8 million and total capital before deductions was \$756.8 million. In determining regulatory capital, adjustments are required to amounts reflected in Central's consolidated balance sheet. Deductions from capital are required for certain investments, including Central's interest in CUMIS. Central has a high ratio of regulatory capital to risk-weighted assets, which reflects the conservative nature of Central's assets.

CHART 18 SOURCES OF CAPITAL

December 31 (Millions of dollars - % of risk weighted assets)	2010		2009		2008	
Share Capital	\$ 165.0	9.9%	\$ 162.6	9.4%	\$ 162.6	6.9%
Contributed Surplus	87.9	5.2%	87.9	5.1%	87.9	3.7%
Retained Earnings	303.9	18.3%	262.1	15.2%	188.1	8.0%
Tier 1 Capital	556.8	33.4%	512.6	29.7%	438.6	18.6%
Subordinated Debt – Tier 2 Capital	200.0	12.0%	200.0	11.6%	50.0	2.1%
Total Capital	756.8	45.4%	712.6	41.3%	488.6	20.7%
Statutory Capital Adjustments	(142.0)	(8.6)%	(116.1)	(6.8)%	(32.1)	(1.4)%
Capital Base	\$ 614.8	36.8%	\$ 596.5	34.5%	\$ 456.5	19.4%

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, Central is involved with off-balance sheet arrangements, which fall into three main categories: securitization, derivative financial instruments and guarantees.

LOAN SECURITIZATIONS

Credit unions periodically securitize residential mortgage loans to diversify their funding sources and enhance their liquidity positions. As the rated entity in the credit union system, Central plays a pivotal role in loan securitization on behalf of member credit unions.

Central has conducted securitizations via asset-backed commercial paper conduits (ABCP Conduits) sponsored by major Canadian bank-owned dealers, and through programs run by Canada Mortgage and Housing Corporation (CMHC): National Housing Act Mortgage Backed Securities (NHA MBS), the Canada Mortgage Bond (CMB) program, and the Insured Mortgage Purchase Program (IMPP). Central conducts all of its securitization activity on behalf of the credit union system.

From its perspective, Central categorizes its securitization activities as either direct or indirect securitizations. For direct securitizations, Central purchases the underlying mortgages from member credit unions. For indirect securitizations, Central provides guarantees or acts as a swap counterparty to member credit unions, but does not acquire legal title to the underlying mortgage assets. Further details are provided in *Note 4* to the financial statements.

The financial risks to Central in these activities form part of the fully-secured credit arrangements that Central has with member credit unions. Central may, but is not obligated to, provide additional credit enhancement to ABCP Conduits through the purchase of investment grade rated subordinated notes issued by a special purpose entity. As at December 31, 2010, Central held \$1.6 million of such notes (2009 – \$6.7 million). Central is not aware of any circumstances that could require Central to fund or purchase any of the securitized assets other than as described above.

The accompanying chart provides details of cumulative assets securitized by the system directly or indirectly through Central outstanding at year-end (*Chart 19*). As can be seen in *Chart 19*, year-over-year securitized assets outstanding continued to decline, as the system's liquidity demand was mostly funded on-balance sheet.

CHART 19 ASSETS SECURITIZED THROUGH CENTRAL AT YEAR-END

(Millions of dollars - % of system assets)		2010		2009		2008			
Indirect									
ABCP Conduits	\$	205.2	0.3%	\$	506.8	0.8%	\$	2,199.8	5.1%
NHA MBS (post 2009)		219.0	0.3%		–	–		–	–
Total	\$	424.2	0.6%	\$	506.8	0.8%	\$	2,199.8	5.1%
Direct									
NHA MBS securitized remaining on balance sheet	\$	687.5	1.0%	\$	919.3	1.4%	\$	274.0	0.6%
NHA MBS securitized transferred to CHT or CMHC		1,152.3	1.6%		1,839.2	2.7%		2,218.8	5.1%
		1,839.8	2.6%		2,758.5	4.1%		2,492.8	5.7%
Total	\$	2,264.0	3.2%	\$	3,265.3	4.9%	\$	4,692.6	10.8%

DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are primarily used in the asset/liability management activities of Central, and Central also structures and sells a variety of derivative products to credit unions as tools in the management of their respective balance sheets. Central 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's overall credit risk policies. During 2009, Central established Credit Support Agreements (CSA) with most of its non-credit union counterparties. Under a CSA, net credit positions are collateralized with government-guaranteed securities. The credit exposure of derivative contracts as measured by risk-adjusted credit equivalents is presented in *Chart 16, page 42*. The fair value of derivative positions is presented in *Note 30* to the financial statements.

GUARANTEES

Central, 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 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 16, page 42*, provides a summary of Central's off-balance sheet commitments.

TRANSACTIONS AND TRANSACTIONS WITH RELATED PARTIES

TRANSACTIONS

On December 31, 2009, Central and Co-operators Life completed their acquisition of CUMIS of Burlington, Ontario. The determination of the purchase price was subject to post-closing adjustments which were finalized during 2010.

Central's interest in CUMIS is accounted for using the equity method of accounting whereby Central's original investment is recorded at acquisition cost and adjusted, in subsequent periods to the acquisition date, by Central's proportionate share of CUMIS' net income.

As at December 31, 2010, Central holds a 27 percent interest in CUMIS which is recognized on its Consolidated Balance sheet at \$107.2 million. The carrying value of Central's investment in CUMIS reflects acquisition costs of \$103.4 million as well as Central's proportionate share of CUMIS' comprehensive income.

Prior to the acquisition, CUMIS marketed the majority of its products and services through the Credit Union Insurance Services (CUIS) joint venture with The Co-operators, whereby both companies shared their existing and future credit union related insurance business on an equal basis. Upon completion of the acquisition of CUMIS, The Co-operators agreed to sell its interest in the CUIS joint venture to CUMIS in exchange for common shares. There were no material tax implications for Central of either the acquisition of CUMIS or the subsequent acquisition of 50 percent of the CUIS joint venture by CUMIS.

CUMIS has a 50 percent interest in Credential Financial Inc. (Credential). Prior to Central's participation in the acquisition of CUMIS, Central had a 26 percent interest in Credential. Upon execution of agreements between Co-operators Life and Central, Central's total direct and indirect interest in Credential is now 40 percent. Central also accounts for its interest in Credential using the equity method of accounting.

TRANSACTIONS WITH RELATED PARTIES

There were no material transactions in 2010 with related parties, nor are there any contemplated at this time.

SUMMARY OF QUARTERLY RESULTS AND FOURTH QUARTER

QUARTERLY RESULTS

Central's financial results for each of the eight most recently completed quarters are summarized in *Chart 20, page 46*. Trading gains and losses and holding gains and losses have a significant impact on quarterly Net income and their timing and magnitude are not predictable. Therefore, these are shown in the chart separately from "Non-Interest Income". In general, however, Central's Net interest income is quite stable from quarter to quarter with no discernable seasonal trend; this reflects the condition of prevailing financial markets. Operating expenses for the fourth quarter tend to be higher than that of other quarters due, in part, to non-recurring items, but also due to the timing and recognition of certain expenses.

CHART 20 CENTRAL 1 CREDIT UNION – QUARTERLY EARNINGS

(Thousands of dollars, except as indicated)	2010				2009			
	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
Total Interest income	\$ 47,992	\$ 50,160	\$ 52,177	\$ 53,466	\$ 55,333	\$ 48,869	\$ 51,720	\$ 51,203
Total Interest expense	30,270	32,459	36,082	37,996	41,953	32,382	30,807	32,001
Interest margin	17,722	17,701	16,095	15,470	13,380	16,487	20,913	19,202
Gains on disposal of financial instruments	7,032	5,008	17,346	13,429	(1,343)	8,487	6,948	4,029
Changes in fair value of financial instruments	(6,468)	(16,694)	(7,702)	4,106	6,777	28,894	18,956	(2,168)
(Provision) recovery for credit losses	93	20	(303)	(4,203)	(89)	(117)	54	(1,308)
Non-Interest income	21,450	22,745	22,008	24,662	20,799	21,614	22,126	23,062
Operating expense	(26,083)	(29,989)	(26,891)	(31,156)	(25,547)	(26,895)	(27,479)	(29,719)
Income taxes	(1,885)	2,040	(2,378)	(3,112)	(2,273)	(7,009)	(5,986)	(1,894)
Net income	\$ 11,861	\$ 831	\$ 18,175	\$ 19,196	\$ 11,704	\$ 41,461	\$ 35,532	\$ 11,204
Weighted Average Shares Outstanding (in millions)	162.6	162.6	162.6	163.4	162.6	162.6	162.6	162.6
Earnings per Share (cents)	7.29	0.51	11.18	11.75	7.20	25.50	21.85	6.89
Earnings per Share fully diluted (cents)	7.29	0.51	11.18	11.75	7.20	25.50	21.85	6.89

FOURTH QUARTER 2010

As capital market conditions normalized in 2010, Net interest income for the fourth quarter of \$15.5 million returned to more historical levels as short-term interest rates increased and credit spreads narrowed. Net income of \$19.2 million for the quarter was \$8.0 million higher than the \$11.2 million achieved in 2009 primarily due to gains on disposal of financial instruments. Non-interest income and Operating expense remained relatively stable quarter-over-quarter at \$24.7 million and \$31.2 million, respectively, for 2010 versus \$23.1 million and \$29.7 million, respectively, in 2009.

CRITICAL ACCOUNTING ESTIMATES

Central's operating results and its financial condition are reported using accounting policies and methods in accordance with Canadian generally accepted accounting principles (GAAP). In certain cases, GAAP provides for alternative methods and policies, which, while reasonable, may produce different amounts.

Management exercises judgment in applying accounting policies to ensure they are GAAP compliant and reflect the most appropriate way to report Central's financial condition and results of operations. Significant accounting policies are described in *Note 4* to the financial statements.

Central has established procedures to ensure that accounting policies are applied on a consistent basis. Changes in accounting processes or methodologies are controlled and implemented in a systematic manner. Central's critical accounting policies are reviewed by the Audit Committee on a periodic basis.

In preparing Central's financial statements, management is required to make estimates and assumptions based on information as of the date of the financial statements. Certain amounts recorded in the financial statements, including financial instruments measured at fair value, recoverability of loans, accounting for securitization transactions, income taxes and post-retirement benefits, require management to make subjective or complex judgments.

FUTURE ACCOUNTING AND REPORTING CHANGES

Note 5 to the consolidated financial statements contains more information regarding future accounting and reporting changes.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Introduction

Effective January 1, 2011, Central will report its interim and annual results under International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). The IASB started operations in 2011 as the successor to the International Accounting Standards Committee (IASC).

IFRS is the term used to indicate the whole body of IASB authoritative literature, which includes International Financial Reporting Standards issued by the IASB, International Accounting Standards (IAS) issued by the IASC, or revisions thereof issued by the IASB and interpretations of IFRS and IAS approved by the IASB.

IFRS uses a conceptual framework similar to GAAP, but there are some important differences related to items such as recognition, measurement and disclosures. Management's expectations as to the impact of the adoption of IFRS on Central's consolidated financial statements are discussed below.

The IASB currently has several projects underway to review and amend existing IFRS which are expected to be completed after Central's initial adoption of IFRS. Central monitors the status of those projects; however the impact of these projects on Central cannot be determined as certain of these accounting standards and their interpretations are yet to be finalized.

First-Time Adoption of IFRS

Accounting changes resulting from the transition to IFRS will generally be reflected in Central's opening IFRS consolidated balance sheet on a retrospective basis. As such, most transactions which occurred prior to initial adoption of IFRS are to be presented as though IFRS had always applied and adjustments for any differences between Canadian GAAP and IFRS will affect IFRS opening retained earnings. Central's IFRS opening balance sheet is to be prepared as of January 1, 2010, which is the first day of Central's earliest comparative period that will be presented in its interim and annual financial statements for the year ended December 31, 2011.

The transition from Canadian GAAP to IFRS is subject to the provisions contained in IFRS 1, First-time Adoption of International Financial Reporting Standards. There are several mandatory exemptions to the retrospective application of certain standards, and entities may elect to apply certain additional exemptions. There are also certain discretionary exemptions

available which Central intends to apply that will have an impact on Central's IFRS opening retained earnings.

On adoption of IFRS, the anticipated impacts of discretionary exemptions on Central's opening IFRS consolidated balance sheet are as follows:

- Central has elected to recognize any unamortized actuarial gains or losses pertaining to the measurement of its defined benefit plans in its IFRS opening retained earnings. As at January 1, 2010, Central had net unamortized actuarial gains of \$4.2 million.
- Central has elected to revalue its investment property such that its carrying value would be adjusted to its fair value on transition. The anticipated impact of applying this exemption as at January 1, 2010, will be to increase IFRS opening retained earnings by \$4.9 million.

Central has elected to apply certain other optional exemptions contained in IFRS 1 including those that relate to business combinations, insurance contracts, and employee benefits. However, these elections are not expected to have a quantitative impact on Central's opening IFRS consolidated balance sheet since in most cases they provide relief from disclosure requirements that would otherwise be required beginning in 2011.

Summary of Key Differences

Key differences between IFRS and Canadian GAAP that impact Central include the derecognition of financial instruments (securitizations), measurement and recognition of employee future benefits, and consolidation of entities that are controlled by Central. The estimated impact of accounting for these differences as at the date of transition to IFRS is as follows:

i) Securitization

Under Canadian GAAP, an entity may derecognize an asset when it surrenders control of that asset, while under IFRS an entity may only achieve derecognition of an asset when it transfers substantially all the risks and rewards of ownership.

The model for derecognition of financial assets under IFRS differs significantly from Canadian GAAP. Central anticipates that, under IFRS, mortgages transferred to CHT under the CMB program and CMHC under the IMPP programs, as described in *Notes 4 (k) & 13* of Central's 2010 Consolidated financial statements, will not qualify for derecognition under IFRS. Central will no longer realize gains and losses on the transfer of these mortgages.

On transition to IFRS, opening retained earnings will reflect the impact of accounting for transfers which occurred prior to January 1, 2010, as financing transactions rather than as sales.

Central anticipates that the impact of this change on its IFRS opening balance sheet will be to increase both assets and liabilities by approximately \$3.3 billion, with a reduction in IFRS opening retained earnings of about \$3.5 million. OSFI has indicated that it will not include liabilities related to transfers under the Canada Mortgage Bond (CMB) and Insured Mortgage Purchase Program (IMPP) programs which occurred prior to March 31, 2010, in regulatory borrowings for the purpose of calculating Central's borrowing multiple. As such, the impact on Central's regulatory capital of this change as of the date of transition is not anticipated to be significant.

ii) Employee future benefits

Under IFRS, the costs of plan amendments are to be recognized in profit or loss immediately if they relate to vested benefits. Under Canadian GAAP, these costs are amortized over the expected remaining service life of active plan members.

Under Canadian GAAP, certain actuarial gains or losses resulting from the adoption of CICA Handbook Section 3461 – Employee Future Benefits have not been recognized in Central's balance sheet. On transition to IFRS, entities are required to recognize these previously unrecognized transition (assets) obligations in the statement of financial position with an adjustment to retained earnings.

As at the date of transition, Central anticipates that the aggregate impact of these differences between Canadian GAAP and IFRS will be to reduce IFRS opening retained earnings by \$1.5 million, excluding the impact of income taxes.

On adoption of IFRS, Central's accounting policy related to the amortization of actuarial gains and losses in excess of 10% of the greater of the projected benefit obligation and plan assets will be amended such that such amounts will be recognized immediately in Other comprehensive income. Under Canadian GAAP, Central amortizes these gains and losses over the expected remaining service life of active plan members through net income.

The impact of these changes on Central IFRS opening retained earnings is not expected to be significant.

iii) Consolidations

Under IFRS, an entity consolidates another entity when it has control over that entity. Canadian GAAP identifies the concept of a Variable Interest Entity (VIE) which is consolidated only if an entity is exposed to the majority of losses and receives the majority of the returns of the VIE. IFRS has no such concept. Central has interests in VIEs which are not consolidated under Canadian GAAP, because Central does not have exposure to the majority of the losses or the rights to receive the majority of the returns. However, Central does have control of these organizations as defined under IFRS, as it owns the majority of their common shares. As such, these entities will be consolidated under IFRS.

The impact of consolidating additional subsidiaries as at the date of transition would be to increase Equity attributable to Central's members by no more than 1.5 percent of the amount reported under Canadian GAAP.

iv) Other differences

There are numerous additional presentation and disclosure differences between Canadian GAAP and IFRS which have not been summarized above. While these differences will result in Central's IFRS consolidated financial statements having a different "look and feel" from its Canadian GAAP consolidated financial statements, they are not anticipated to have a significant impact on IFRS opening retained earnings.

v) Impact on Central's 2010 Financial Statements

Management is currently working to determine the impact of applying IFRS to Central's financial position as at December 31, 2010, and the results of its operations for the year then ended. It is anticipated that both assets and liabilities reported under IFRS will increase by about \$3.3 billion over those reported under Canadian GAAP as at December 31, 2010, as a result of the application of IFRS to securitization activities.

Management anticipates that the impact of adopting IFRS as at December 31, 2010, will result in a decrease to retained earnings of less than 2 percent of the amount reported under Canadian GAAP. OSFI has indicated that obligations under the CMB and IMPP programs are to be excluded from borrowings in the Federal Borrowing Multiple calculation.

On adoption of IFRS, Central will recognize securitization-related assets, including secured loans to credit unions and reinvestment assets which were previously off-balance sheet under Canadian GAAP. These individual assets will be assessed

against provincial regulatory requirements as summarized in *Chart 16, page 43*, to determine their appropriate risk ratings for inclusion as Central's risk-weighted assets. Management anticipates that the transition to IFRS will increase Central's total risk-weighted assets, but as Central's ratio of regulatory capital to risk-weighted assets is currently well above the minimum required level, the transition to IFRS is not expected to put Central offside this requirement.

As such, it is not necessary for Central to make changes to its regulatory capital structure or to request additional share capital from its member credit unions in order to comply with its regulatory capital requirements upon transition to IFRS.

Central's Approach to IFRS

Building on the framework established in 2009, Central continued to prepare to present its first full set of IFRS-compliant financial statements. Central's first interim reporting period under IFRS will be for the three months ended March 31, 2011.

During the year, Central completed its scoping assessment of the impacts of adopting IFRS. This included the development of a complete inventory of differences between IFRS and Canadian GAAP expected to have an impact on Central, the preparation of position papers in support of management's interpretation of key issues and an assessment of the operational impact of adopting IFRS.

Central's IFRS teams also developed implementation plans for each of the major project streams identified above. The teams' primary focus was on developing a process to report on Central's securitization activities under IFRS. Central developed a process to track the individual components expected to be brought on balance sheet under IFRS and identified the appropriate accounting classifications and measurement processes for those assets and liabilities. Results of the securitization activities were tracked under both Canadian GAAP and IFRS during the year.

Specific IFRS planning and implementation activities completed in 2010 include the following:

- completed inventory of differences between IFRS and Canadian GAAP;
- completed position papers to support management's interpretations of how to apply IFRS to Central's activities (more than 80 papers in total);
- documented Central's plans to comply with IFRS disclosure requirements;
- developed tools and templates to quantify differences between IFRS and Canadian GAAP;

- assessed the impact of reporting under IFRS on existing processes and systems;
- developed dual-reporting infrastructure to allow tracking of IFRS balances while continuing to report under Canadian GAAP in 2010;
- developed sample IFRS financial statements to be used in filing Central's 2011 interim and annual results under IFRS; and
- liaised with regulatory authorities to assess the impact of adopting IFRS on regulatory capital calculations.

The adoption of new accounting standards results in an increased risk of organizations distributing financial statements which contain misstatements. Central has taken steps to minimize this risk by identifying key process and system changes in advance of the conversion date, and by tracking financial results on both a Canadian GAAP and IFRS basis during 2010.

Central's IFRS conversion project is scheduled to come to a close with the issuance of its first set of IFRS-compliant financial statements. Central will continue to monitor changes in IFRS and assess their potential impact on future reporting periods.

CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

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

Based on that evaluation, management has concluded that the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in Central's filings, as such term is defined under 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 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, 2010. Based on that evaluation, management has concluded that the design of its internal monitoring controls and procedures over financial reporting was effective.

There has been no change in Central's design of internal controls and procedures over financial reporting that has materially affected, or is reasonably likely to materially affect, Central's internal control over financial reporting during the period covered by this Management's Discussion and Analysis.

FIVE YEAR SUMMARY: CENTRAL 1 CREDIT UNION ¹

At The Year Ends (Millions of dollars unless otherwise indicated)	2010	2009	2008	2007	2006
Assets					
Cash	\$ 121.34	\$ 202.59	\$ 228.38	\$ 28.53	\$ 29.61
Securities	8,740.18	8,254.19	5,299.60	3,745.34	3,236.83
Amounts on deposit with regulated financial institutions	135.36	54.75	126.47	211.06	387.60
Loans	1,110.29	2,165.96	2,425.95	1,482.98	1,416.04
Other	268.41	378.16	477.39	194.27	107.01
Total Assets	\$ 10,375.58	\$ 11,055.65	\$ 8,557.79	\$ 5,662.18	\$ 5,177.09
Liabilities					
Notes	\$ 620.53	\$ 465.29	\$ 526.23	\$ 968.77	\$ 755.83
Non-credit union deposits	331.75	301.72	573.00	326.90	389.90
Credit union deposits	8,288.61	8,578.26	6,365.19	3,896.48	3,484.81
Obligations related to securities sold under repurchase agreements	162.36	748.65	193.33	–	–
Other	195.54	209.80	414.76	150.44	233.94
	9,598.79	10,303.72	8,072.51	5,342.59	4,864.48
Subordinated debt	200.58	200.58	50.68	49.67	49.81
Members' equity					
Share capital	164.98	162.58	162.58	113.35	113.36
Contributed surplus	87.90	87.90	87.90	–	–
Retained earnings	303.89	262.05	188.06	167.15	149.44
Accumulated other comprehensive income	19.44	38.82	(3.94)	(10.58)	–
	576.21	551.35	434.60	269.92	262.80
Total Liabilities and Members' Equity	\$ 10,375.58	\$ 11,055.65	\$ 8,557.79	\$ 5,662.18	\$ 5,177.09

¹ Information presented above for fiscal year 2006 has been reclassified to conform to Central's 2007 financial statements presentation.

FIVE YEAR SUMMARY: CENTRAL 1 CREDIT UNION ¹

For The Years Ended (Millions of dollars unless otherwise indicated)	2010	2009	2008	2007	2006
Interest income					
Securities	180.38	181.90	170.69	133.67	103.15
Amounts on deposit with regulated financial institutions	1.26	2.28	7.59	14.50	11.62
Loans	22.15	22.95	74.81	84.96	73.04
	203.79	207.13	253.09	233.13	187.81
Interest expense					
Notes	11.74	8.25	30.70	43.92	34.19
Deposits	116.80	125.40	173.08	155.74	127.79
Subordinated debt	8.27	3.50	2.21	2.35	0.07
	136.81	137.15	205.99	202.01	162.05
Interest margin	66.98	69.98	47.10	31.12	25.76
Gains on disposal of financial instruments	42.82	18.12	25.25	7.77	0.68
Change in fair value of financial instruments	(26.76)	52.46	(27.77)	(5.49)	0.79
Net financial income	83.04	140.56	44.58	33.40	27.23
(Recovery) provision for credit losses	4.39	1.46	1.11	(0.06)	0.79
	78.65	139.10	43.47	33.46	26.44
Other income	90.87	87.60	73.89	52.67	49.92
Net interest and other income	169.52	226.70	117.36	86.13	76.36
Operating expense	114.12	109.64	83.46	58.57	55.60
Income from operations before unusual items	55.40	117.06	33.90	27.56	20.76
Unusual items	—	—	(2.44)	2.01	(0.17)
Income before income taxes	55.40	117.06	31.46	29.57	20.59
Income taxes	5.34	17.16	4.90	5.17	3.99
Net income	50.06	99.90	26.56	24.40	16.60

¹ Information presented above for fiscal year 2006 has been reclassified to conform to Central's 2007 financial statements presentation.

FIVE YEAR SUMMARY: CENTRAL 1 CREDIT UNION ¹

For The Years Ended (Millions of dollars unless otherwise indicated)	Five Year Average	2010	2009	2008	2007	2006
Statistical						
Average assets	7,169.62	10,299.86	9,371.72	6,611.00	5,083.59	4,481.92
Average cash, securities and amounts on deposit with regulated financial institutions	5,340.37	8,634.54	7,788.49	4,436.00	3,155.91	2,686.89
Average loans	1,620.75	1,359.08	1,266.80	1,967.00	1,807.72	1,703.14
Average debt	6,572.26	9,318.86	8577.46	6,081.85	4,698.24	4,184.91
Average subordinated debt	78.09	201.00	87.85	50.00	50.10	1.50
Gross income	287.98	294.66	294.73	326.98	285.80	237.73
Interest income	216.99	203.79	207.13	253.09	233.13	187.81
Interest expense	168.80	136.81	137.15	205.99	202.01	162.05
Interest margin	48.19	66.98	69.98	47.10	31.12	25.76
Net income	43.51	50.06	99.90	26.56	24.40	16.60
As A Percent Of Average Assets						
Average cash, securities and amounts on deposit with regulated financial institutions	71.21	83.83	83.11	67.10	62.08	59.95
Average loans	26.01	13.20	13.52	29.75	35.56	38.00
Average debt	91.96	90.48	91.52	92.00	92.42	93.37
Average subordinated debt	0.93	1.95	0.94	0.76	0.99	0.03
Gross income	4.38	2.86	3.14	4.95	5.62	5.30
Interest income	3.36	1.98	2.21	3.83	4.59	4.19
Interest expense	2.70	1.33	1.46	3.12	3.97	3.62
Interest margin	0.66	0.65	0.75	0.71	0.61	0.57
Interest margin and gains on disposal of financial instruments	0.83	0.76	1.48	0.66	0.66	0.59
Income before taxes	0.66	0.54	1.25	0.48	0.58	0.46
Net income	0.56	0.49	1.07	0.40	0.48	0.37

¹ Information presented above for fiscal year 2006 has been reclassified to conform to Central's 2007 financial statements presentation.

FIVE YEAR SUMMARY: CENTRAL 1 CREDIT UNION ¹

For The Years Ended (Millions of dollars unless otherwise indicated)	Five Year Average	2010	2009	2008	2007	2006
Yields / Costs						
Cash, securities and amounts on deposit with regulated financial institutions	3.49%	2.10%	2.36%	4.02%	4.70%	4.27%
Loans	3.25%	1.63%	1.81%	3.80%	4.70%	4.29%
Deposits & notes	2.88%	1.38%	1.56%	3.35%	4.25%	3.87%
Returns on Average:						
Assets	0.56%	0.49%	1.07%	0.40%	0.48%	0.37%
Share capital	29.55%	30.75%	61.45%	19.41%	21.53%	14.64%
Equity	10.36%	8.91%	19.62%	7.69%	9.16%	6.43%
Returns on Average:						
Assets (before taxes & dividends)	0.66%	0.54%	1.25%	0.48%	0.58%	0.46%
Share capital (before taxes & dividends)	34.65%	34.03%	72.00%	22.98%	26.09%	18.16%
Equity (before taxes & dividends)	12.21%	9.86%	22.99%	9.10%	11.10%	7.98%
Dividends as % of Year-End Share Capital	8.44%	5.82%	15.89%	4.10%	8.35%	8.02%
Debt/Equity Ratio	18.44	16.66	18.69	18.57	19.79	18.51
Dividends Per Share (cents) – Class "A", "B" and "C"	6.89	2.00	12.00	4.10	8.35	8.02
Dividends Per Share (cents) – Class "E"	80.00	200.00	200.00	–	–	–
Average deposits	5,582.94	8,191.00	7,330.00	5,237.00	3,770.98	3,385.72
Average notes	720.36	549.85	532.47	793.00	927.26	799.19
Average Amounts Under Repurchase Agreements	448.27	578.01	715.00	51.80	–	–
Average share capital	137.79	162.80	162.58	136.87	113.35	113.35
Average equity	388.14	561.72	509.08	345.53	266.36	258.02
Dividends	12.13	9.60	25.84	6.67	9.46	9.09

¹ Information presented above for fiscal year 2006 has been reclassified to conform to Central's 2007 financial statements presentation.

FIVE YEAR SUMMARY: BRITISH COLUMBIA SYSTEM (UNAUDITED)

As at December 31 ¹ (Millions of dollars unless otherwise indicated)	2010	2009	2008	2007	2006
Cash & Central Operating Account	700.36	597.65	444.48	371.28	351.44
Investments – Liquid	6,356.05	7,818.66	5,854.86	4,607.22	4,473.19
– Other	120.72	121.90	117.10	122.57	122.21
Loans ²	41,372.88	38,976.72	38,021.69	36,721.43	33,215.62
Other	896.53	911.25	1,051.24	767.74	750.51
Total Assets	49,446.54	48,426.18	45,489.37	42,590.24	38,912.97
Borrowed Funds	1,482.94	2,459.03	2,931.74	3,029.26	2,166.16
Members' Deposits	44,111.14	42,420.73	38,958.56	36,298.70	33,644.65
Non-Equity Shares	63.07	63.95	63.49	87.15	105.93
Retained Earnings and Equity Shares	2,866.05	2,665.15	2,463.85	2,260.68	2,113.30
Payables & Other	923.34	817.32	1,071.73	914.45	882.93
Total Liabilities	49,446.54	48,426.18	45,489.37	42,590.24	38,912.97
For the Year Ended					
Average Assets	48,214.38	45,858.00	43,363.89	40,715.52	36,964.79
Average Liquidity	6,786.63	6,302.04	4,874.53	4,548.94	4,409.09
Average Loans	40,390.84	38,500.66	37,516.35	35,250.77	31,734.24
Average Deposits	43,132.71	41,081.54	37,034.37	34,466.34	31,742.14
Financial Margin	1,220.09	1,065.09	1,051.17	975.33	940.30
Non-Financial Income	311.26	330.78	312.60	291.64	284.91
Non-Financial Expense	1,086.39	1,048.08	1,022.83	978.61	941.18
Net Loan Loss Expense	64.58	54.23	64.35	31.47	34.11
Net Operating Income	380.37	293.56	276.59	256.89	259.91
Income Taxes	72.73	41.91	49.47	40.67	35.11
Net Income ³	307.64	251.65	227.12	216.22	224.80
Return on Equity	10.41%	9.20%	9.12%	9.41%	10.61%

¹ Income statement for two 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 and capital gains/extraordinary items.

FIVE YEAR SUMMARY: BRITISH COLUMBIA SYSTEM (UNAUDITED)

As at December 31 ¹ (Millions of dollars unless otherwise indicated)	2010	2009	2008	2007	2006
Statistical					
As a Percentage of Average Assets					
Average Liquidity	14.08	13.74	11.24	11.17	11.93
Average Loans	83.77	83.96	86.52	86.58	85.85
Average Deposits	89.46	89.58	85.40	84.65	85.87
Gross Income	4.63	5.00	6.08	6.20	6.10
Financial Income	3.99	4.26	5.35	5.48	5.30
Financial Expense	1.46	1.94	2.92	3.09	2.75
Financial Margin	2.53	2.32	2.42	2.40	2.54
Non-Financial Income	0.65	0.72	0.72	0.72	0.80
Non-Financial Expense	2.25	2.29	2.36	2.40	2.55
Net Loan Loss Expense	0.13	0.12	0.15	0.08	0.09
Net Operating Income	0.79	0.64	0.64	0.63	0.70
Income Taxes	0.15	0.09	0.11	0.10	0.09
Net Income	0.64	0.55	0.52	0.53	0.61
Yields/Costs					
Investments ²	2.56	2.79	3.34	3.82	3.40
Loans	4.39	4.58	5.62	5.92	5.73
Deposits	1.59	2.12	3.09	3.19	2.85
Number of Credit Unions	45	46	48	49	51
Number of Branches ³	370	368	373	368	360
Number of ATMs	555	533	532	529	502
Number of Members	1,720,071	1,695,281	1,677,649	1,629,435	1,576,754

¹ Income statement for two credit unions with September 30 year-end is adjusted to twelve months ending December 31st.

² Excludes net interest income on Interest Rate/Foreign Exchange Contracts and Trading Gains (Losses).

³ Excludes credit union insurance subsidiaries.

FIVE YEAR SUMMARY: ONTARIO SYSTEM (UNAUDITED)

As at December 31 (Millions of dollars unless otherwise indicated)	2010	2009	2008	2007	2006
Investments – Liquid (includes Cash)	2,921.57	2,839.13	2,152.05	2,093.05	2,009.73
– Other	649.82	555.03	550.08	413.45	365.19
Loans ¹	19,130.50	17,636.88	16,876.26	15,637.14	14,700.70
Other	534.63	528.30	518.49	496.27	415.82
Total Assets	23,236.52	21,559.34	20,096.88	18,639.91	17,491.44
Borrowed Funds	263.72	388.00	388.90	496.09	489.87
Members' Deposits	20,856.01	19,240.90	17,922.39	16,407.14	15,409.93
Non-Equity Shares	634.97	578.60	508.15	485.80	464.07
Retained Earnings and Equity Shares	1,055.04	942.58	897.82	835.88	790.65
Payables & Other	426.78	409.26	379.62	415.00	336.92
Total Liabilities and Equity	23,236.52	21,559.34	20,096.88	18,639.91	17,491.44
For the Year Ended					
Average Assets	22,530.99	20,928.39	19,651.31	18,272.05	17,103.07
Average Liquidity	3,361.52	3,057.05	2,742.60	2,467.74	2,374.31
Average Loans	18,647.50	17,344.24	16,395.94	15,339.86	14,157.35
Average Deposits	20,157.28	18,718.36	17,393.77	15,985.25	15,026.32
Financial Margin	570.48	493.09	473.91	511.65	500.11
Non-Financial Income	161.58	184.58	174.38	148.26	143.44
Non-Financial Expense	640.04	602.59	569.73	582.79	543.91
Net Loan Loss Expense	39.48	43.25	26.15	25.39	18.51
Net Operating Income	114.90	95.77	103.08	107.76	81.13
Income taxes	17.48	13.95	14.19	15.34	14.94
Net Income ²	81.36	59.43	58.88	51.77	64.99
Return on Equity	5.97%	5.61%	6.45%	7.10%	5.18%

¹ Figures are net of allowance for doubtful loans.

² After taxes, dividends, patronage refunds and extraordinary items.

FIVE YEAR SUMMARY: ONTARIO SYSTEM (UNAUDITED)

As at December 31 (Millions of dollars unless otherwise indicated)	2010	2009	2008	2007	2006
Statistical					
As a Percentage of Average Assets					
Average Liquidity	14.92	14.61	13.96	13.54	13.88
Average Loans	82.76	82.87	83.43	83.93	82.78
Average Deposits	89.46	89.44	88.51	88.07	87.86
Gross Income	5.05	5.43	6.00	6.91	6.45
Financial Income	4.34	4.55	5.11	6.07	5.61
Financial Expense	1.70	2.09	2.58	3.07	2.68
Financial Margin	2.53	2.36	2.41	3.00	2.92
Non-Financial Income	0.72	0.88	0.89	0.84	0.84
Non-Financial Expense	2.84	2.88	2.90	3.16	3.18
Net Loan Loss Expense	0.18	0.21	0.13	0.13	0.11
Net Operating Income	0.51	0.46	0.52	0.56	0.47
Income taxes	0.08	0.07	0.07	0.10	0.09
Net Income	0.36	0.28	0.30	0.41	0.38
Yield/Costs¹					
Investments	1.68%	2.04%	2.79%	3.75%	3.35%
Loans	4.89%	5.08%	5.59%	6.61%	6.21%
Deposits	1.88%	2.31%	2.82%	3.12%	2.72%
Number of Credit Unions	119	137	143	164	170
Number of Branches ²	470	481	449	477	517
Number of ATMs	497	570	570	544	520
Number of Members	1,191,887	1,209,106	1,222,033	1,226,444	1,245,120

¹ Interest yields and cost calculated as a percentage of average assets or liabilities.

² The definition of "Branch" was changed in 2009 to include all locations where a member can obtain products and services (excluding ATMs).

³ Where applicable, Income statement for member credit unions with September 30 year-ends have been adjusted to twelve months ending December 31st.

► CONSOLIDATED FINANCIAL STATEMENTS |

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 generally accepted accounting principles in Canada. The financial statements necessarily include some amounts that are based on estimates and judgments of management with appropriate consideration to materiality.

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

The credit union's accounting and internal control systems and supporting procedures are designed and maintained to provide reasonable assurance that financial records are complete, reliable, and accurate and that assets are safeguarded against loss from unauthorized use or disposition. The procedures include training and selection of qualified staff, the establishment of an organizational structure that provides a well-defined division of responsibilities, and accountability for performance. In addition, the systems include policies and standards of business conducted 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 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 Committee to discuss their audit and matters arising therefrom.



D. Rolfe
President & Chief Executive Officer



R. Kelly
Chief Operating Officer and
Chief Financial Officer

AUDITORS' REPORT TO THE MEMBERS

We have audited the accompanying consolidated financial statements of Central 1 Credit Union ("Central"), which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009, the consolidated statements of income, comprehensive income, changes in members' 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 Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

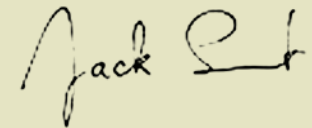
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Central as at December 31, 2010 and December 31, 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



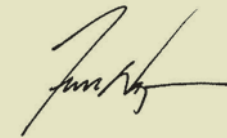
Chartered Accountants
Vancouver, Canada
February 25, 2011

(Thousands of dollars)	Note	2010	2009	2008
Assets				
Cash	(7)	\$ 121,337	\$ 202,591	\$ 228,378
Securities	(8)	8,740,182	8,254,183	5,299,595
Amounts on deposit with regulated financial institutions	(9)	135,358	54,753	126,471
Loans	(10)	1,110,286	2,165,958	2,425,947
Capital assets	(11)	15,088	14,259	11,414
Other	(12)	253,331	363,901	465,979
		\$ 10,375,582	\$ 11,055,645	\$ 8,557,784
Liabilities				
Notes	(14)	\$ 620,524	\$ 465,289	\$ 526,225
Deposits	(15)	8,620,365	8,879,977	6,938,186
Obligations related to securities sold under repurchase agreements		162,358	748,654	193,333
Other	(16)	195,539	209,795	414,763
		9,598,786	10,303,715	8,072,507
Subordinated debt	(17)	200,574	200,577	50,678
Members' equity				
Share capital	(18)	164,983	162,580	162,580
Shares to be issued as result of merger	(2)	—	—	2
Contributed surplus	(2)	87,901	87,901	87,901
Retained earnings		303,885	262,056	188,060
Accumulated other comprehensive income	(19)	19,453	38,816	(3,944)
		576,222	551,353	434,599
		\$ 10,375,582	\$ 11,055,645	\$ 8,557,784
Guarantees and contingencies	(26)			
Commitments	(27)			

On Behalf of the Board:



Jack Smit
CHAIRPERSON



Fred Wagner
CHAIRPERSON – AUDIT COMMITTEE

See accompanying notes to the consolidated financial statements

(Thousands of dollars)	Note	2010	2009	2008
Interest income				
Securities		\$ 180,382	\$ 181,896	\$ 170,688
Amounts on deposit with regulated financial institutions		1,264	2,284	7,588
Loans		22,149	22,945	74,806
		203,795	207,125	253,082
Interest expense				
Notes		11,739	8,253	30,703
Deposits		116,801	125,391	173,074
Subordinated debt		8,267	3,499	2,210
		136,807	137,143	205,987
Interest margin		66,988	69,982	47,095
Gains on disposal of financial instruments	(20)	42,815	18,121	25,253
Changes in fair value of financial instruments	(21)	(26,758)	52,459	(27,769)
Net financial income		83,045	140,562	44,579
Provision for credit losses	(10)	4,393	1,460	1,105
		78,652	139,102	43,474
Other income	(22)	90,865	87,601	73,885
Net interest and other income		169,517	226,703	117,359
Operating expenses				
Salaries and employee benefits	(23)	53,451	48,664	39,506
Premises and equipment		7,636	7,364	5,596
Other administrative expenses	(24)	53,032	53,612	38,356
		114,119	109,640	83,458
Income from operations before the following		55,398	117,063	33,901
Combination transaction costs		—	—	(2,440)
Income before income taxes		55,398	117,063	31,461
Income taxes	(25)	5,335	17,162	4,899
Net income		\$ 50,063	\$ 99,901	\$ 26,562

See accompanying notes to the consolidated financial statements

(Thousands of dollars)	Note	2010	2009	2008
Net income		\$ 50,063	\$ 99,901	\$ 26,562
Other comprehensive income (loss) (net of tax)				
Net unrealized gains on available-for-sale assets ¹		3,152	53,876	10,430
Reclassification of gains on available-for-sale assets to net income ²		(22,515)	(10,944)	(3,946)
		(19,363)	42,932	6,484
Net (losses) gains on derivative instruments designated as cash flow hedges ³		–	(172)	202
Reclassification of gains on derivative instruments designated as cash flow hedges recorded in prior periods ⁴		–	–	(41)
		–	(172)	161
Other comprehensive income (loss)		(19,363)	42,760	6,645
Comprehensive income		\$ 30,700	\$ 142,661	\$ 33,207
Income taxes (recoveries) deducted from above items:				
¹ Net unrealized gains on available-for-sale assets	(25)	\$ 406	\$ 9,066	\$ 1,923
² Reclassification of gains on available-for-sale assets to net income	(25)	\$ (3,723)	\$ (1,826)	\$ (713)
³ Net (losses) gains on derivative instruments designated as cash flow hedges	(25)	\$ –	\$ (32)	\$ 36
⁴ Reclassification of gains on derivative instruments designated as cash flow hedges recorded in prior periods	(25)	\$ –	\$ –	\$ (8)

See accompanying notes to the consolidated financial statements

(Thousands of dollars)	Note	2010	2009	2008
SHARE CAPITAL				
	(18)			
Balance at beginning of year		\$ 162,580	\$ 162,580	\$ 113,354
Shares issued during the year		4,651	1,964	1,657
Shares redeemed during the year		(2,248)	(1,967)	(1,654)
Shares issued on merger		–	3	49,223
Balance at end of year		\$ 164,983	\$ 162,580	\$ 162,580
Shares to be issued as result of merger	(2)	\$ –	\$ –	\$ 2
CONTRIBUTED SURPLUS				
Balance at beginning of year		\$ 87,901	\$ 87,901	\$ –
Amount credited as result of merger	(2)	–	–	87,901
Balance at end of year		\$ 87,901	\$ 87,901	\$ 87,901
RETAINED EARNINGS				
Balance at beginning of year		\$ 262,056	\$ 188,060	\$ 167,148
Transition adjustments on adoption of new accounting policies	(5)	–	(3,814)	–
Net income		50,063	99,901	26,562
Dividends		(9,596)	(25,837)	(6,665)
Related tax savings	(25)	1,362	3,746	1,015
Balance at end of year		\$ 303,885	\$ 262,056	\$ 188,060
ACCUMULATED OTHER COMPREHENSIVE INCOME				
	(19)			
Balance at beginning of year		\$ 38,816	\$ (3,944)	\$ (10,589)
Other comprehensive income (loss)		(19,363)	42,760	6,645
Balance at end of year		\$ 19,453	\$ 38,816	\$ (3,944)
Members' equity at end of year		\$ 576,222	\$ 551,353	\$ 434,599

See accompanying notes to the consolidated financial statements

(Thousands of dollars)	2010	2009	2008
Cash flows from operating activities			
Net income	\$ 50,063	\$ 99,901	\$ 26,562
Adjustments for:			
Depreciation (<i>Notes 11 & 12</i>)	4,954	3,299	2,100
Realized gains and holding gains	(16,057)	(70,580)	(1,284)
Net change in accrued interest	8,166	(44,669)	3,876
Provision for credit losses	4,393	1,460	1,105
Other items, net	(7,569)	(37,246)	(14,333)
	43,950	(47,835)	18,026
Cash flows from financing activities			
Merger with Credit Union Central of Ontario Limited, net of cash acquired	–	–	9,754
Proceeds from issue of shares	2,403	–	22
Dividends – net of income taxes	(24,485)	(6,798)	(5,650)
Net change – settlements-in-transit	(12,200)	11,966	13,884
Net change – notes	154,033	(59,292)	(440,274)
Net change – deposits	(251,261)	1,976,365	426,206
Net change – securities under repurchase agreements	(584,603)	554,088	192,767
Proceeds from issue of subordinated debt	–	150,000	–
	(716,113)	2,626,329	196,709
Cash flows from investing activities			
Acquisition of CUMIS (<i>Note 3</i>)	–	(103,365)	–
Net change – securities	(407,678)	(2,848,070)	261,734
Net change – amounts on deposit with regulated financial institutions	(80,758)	67,616	84,281
Net change – loans	1,051,546	259,583	(366,642)
Net change – loans available for sale	34,076	25,997	6,978
Capital and intangible asset acquisitions	(6,277)	(6,042)	(1,237)
	590,909	(2,604,281)	(14,886)
Increase (decrease) in cash	(81,254)	(25,787)	199,849
Cash – beginning of year	202,591	228,378	28,529
Cash – end of year (<i>Note 7</i>)	\$ 121,337	\$ 202,591	\$ 228,378

See accompanying notes to the consolidated financial statements

1. Incorporation and governing legislation

Central 1 Credit Union (Central) (formerly Credit Union Central of British Columbia) 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).

Central 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’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’s operations and its financial position.

2. Merger with Credit Union Central of Ontario Limited (CUCO)

On July 1, 2008, Central acquired substantially all of the assets of CUCO for a total cost of \$152.868 million as indicated below. The results of CUCO’s operations have been included in the Consolidated Financial Statements since that date.

The following table summarizes the fair value of the assets acquired and liabilities assumed by Central.

(Millions of dollars)	
Assets	
Cash and securities	\$ 1,795.076
Loans	578.794
Other	95.058
	2,468.928
Liabilities	
Deposits & borrowings	2,248.337
Other	67.723
	2,316.060
Net assets acquired	\$ 152.868

Central issued class A shares with a par value of \$49.194 million, class E shares with a par value of \$0.009 million and paid CUCO \$11.264 million in cash. Also on closing, Central committed to provide up to \$7.200 million to the Ontario ABCP limited partnership (ABCP LP). ABCP LP acquired a significant portion of CUCO’s ABCP holdings immediately prior to closing. Under the terms of this commitment, Central has agreed to share in a portion of losses

realized by ABCP LP according to a specified formula. The estimated fair value of this obligation at closing was \$4.500 million.

Central has recognized contributed surplus of \$87.901 million, being the excess of the estimated fair value of net assets acquired of \$152.868 million over the sum of the par value of shares and cash issued to CUCO of \$60.467 million and the \$4.500 million obligation to the ABCP LP.

3. Acquisition of CUMIS

On December 31, 2009, Central and The Co-operators Life Insurance Company (Co-operators Life) completed their acquisition of The CUMIS Group Limited (CUMIS) of Burlington, Ontario. The determination of the purchase price was subject to post closing adjustments which were finalized during 2010.

As at December 31, 2010 Central held a 27 percent interest in CUMIS which is recognized on its Consolidated Balance sheet at \$107.2 million. Effective January 1, 2010 Central’s interest in CUMIS is accounted for using the equity method of accounting. The carrying value of Central’s investment in CUMIS reflects acquisition costs of \$103.4 million as well as Central’s proportionate share of CUMIS’ comprehensive income.

4. Significant accounting policies

These financial statements have been prepared in accordance with Section 292 of the Cooperative Credit Associations Act (Canada) which states that, except as otherwise specified by the Office of the Superintendent of Financial Institutions (Canada)(OSFI), the financial statements are to be prepared in accordance with Canadian generally accepted accounting principles (GAAP). The significant accounting policies used in the preparation of these financial statements, including the accounting requirements of the Superintendent, are summarized below. These accounting policies conform, in all material respects, to Canadian GAAP.

(a) Basis of consolidation

The consolidated financial statements include the assets, liabilities, results of operations and cash flows of Central and its subsidiaries: 0789376 B.C. Ltd., Central Financial Corporation (1989) Ltd., C.U. Financial Services Ltd., Central Data Systems Ltd., Central Risk and Insurance Management Services Ltd., Inovera Solutions Inc., and Landmark Credit Limited, all of which are wholly owned. All inter-corporate transactions and balances have been eliminated in preparing the Consolidated Financial Statements.

(b) Use of estimates

In preparing the consolidated financial statements, management is required to make estimates and assumptions 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 pension and post-retirement benefits, require management to make subjective or complex judgments. Actual results could differ materially from those estimates.

(c) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at prevailing exchange rates at the dates of the financial statements. Revenue and expenses are translated using the prevailing exchange rate at the time of the transaction. Realized and unrealized gains and losses arising from the translations are included either in Net income or Other comprehensive income depending on the classification of the underlying financial instrument.

(d) Securities and amounts on deposit with regulated financial institutions

Securities and amounts on deposit with regulated financial institutions are classified as trading, available-for-sale, loans and receivable or held-to-maturity, depending on management’s intentions.

Trading securities and amounts on deposit with regulated financial institutions include assets acquired with the intention of generating profits in the near term and securities designated as trading under the fair value option. Securities and amounts on deposit with regulated financial institutions classified as trading are measured at fair value in the Consolidated Balance Sheets, with changes in fair value recognized in Net income under Changes in fair value of financial instruments. Dividend and interest income is recognized using the effective interest rate and included in Interest income.

Securities and amounts on deposit with regulated financial institutions classified as available-for-sale are carried at fair value with changes in fair value, including changes in foreign exchange rates, recognized in Other comprehensive income, net of tax. Equity securities designated as available for sale which do not have a readily available market value are carried at cost. Purchase premiums and discounts are amortized over the life of the instrument using the effective interest rate and are recognized in Interest income.

Securities and amounts on deposit with regulated financial institutions which have a fixed maturity date, for which Central intends, and has the ability, to hold until maturity, are classified as held-to-maturity. Financial assets classified as held-to-maturity are carried at amortized cost using the effective interest rate method.

(e) 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 to resell to the original seller on a specified date at a specified price. Financial assets acquired under reverse repurchase agreements are classified as loans and recognized at amortized cost in the Consolidated Balance Sheet. 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 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 are included in Other liabilities on the Consolidated Balance Sheets. The difference between the proceeds received on the sale of the security and the amount that Central agrees to repay under the repurchase agreement is recorded in Interest expense.

(f) Derivatives and hedge accounting

Derivative instruments are financial contracts whose value is derived from underlying changes in interest rates, foreign exchange rates, credit spreads, commodity prices or other financial measures.

In the ordinary course of business, Central enters into various derivative contracts, including interest rate and foreign exchange forwards, futures, swaps and options, for both itself and in its role as a financial intermediary for its members. Central enters into such contracts to manage its exposure to currency and interest rate fluctuations as part of its asset/liability management process.

Derivatives are measured at fair value in the Consolidated Balance Sheet, where derivatives with a positive fair value are recorded as assets and derivatives with negative fair value are recorded as liabilities.

Derivatives classified as trading

Derivatives classified as trading are recorded at fair value with changes in fair value recognized in Net income under Changes in fair value of financial instruments.

Derivatives which qualify for hedge accounting

Central may elect to apply hedge accounting for a derivative to which it is a party. In order to be eligible to apply hedge accounting, Central must designate and document the hedging relationship at its inception by outlining the risk management strategy being implemented along with the details of both the hedged item and the hedging item. Central must demonstrate that the hedging relationship will be effective in offsetting either the changes in cash flow or fair value attributable to the risk being hedged at both the inception of the hedging relationship and over the term of the hedging relationship.

Central classifies hedging derivatives as either: (i) hedges of the change in fair value of recognized assets or firm commitments (fair value hedges); or (ii) hedges of the variability in highly probable future cash flows attributable to a recognized asset or liability, or a forecasted transaction (cash flow hedges).

Changes in fair value of derivatives which are designated and qualify as fair value hedging instruments are recognized in Net income under Changes in fair value of financial instruments along with changes in fair value of the hedged item that are attributable to the hedged risk.

Derivatives designated and qualifying as cash flow hedges are recorded at fair value with the effective portion of the change in fair value recognized in Other comprehensive income, net of tax and the ineffective portion of the change in fair value is included in Net income.

(g) Loans

Loans are recorded at amortized cost using the effective interest method.

Loans are classified as impaired when, in management’s opinion, there has been deterioration in credit quality to the extent that there is no longer reasonable assurance of timely collection of the full amount of principal and interest. In such cases, the loan is written down to its estimated net realizable value. The net realizable value is determined by discounting the expected future cash flows at the effective interest rate inherent in the loan at the date of impairment, or by reference to the fair value of any security underlying the loan. If payments on a loan are contractually 180 days in arrears, the loan

will be classified as impaired, if not already classified as such, unless the loan is fully secured or guaranteed by the Government of Canada or a provincial government or an agency thereof.

Interest income is not recorded on impaired loans, or where, in management’s opinion, the interest may not be collected. Interest previously accrued is reversed upon identification of impairment.

(h) Allowance for credit losses

Central records an allowance for credit losses which, in management’s opinion, is adequate to absorb all credit related losses in its portfolio of both on and off-balance sheet items, including loans, derivative instruments and other credit commitments. Specific provisions are determined on an individual item basis and in the amount necessary to reduce the carrying value of the asset to its estimated realizable amount.

General allowances may be established to absorb losses estimated to be inherent in Central’s loan portfolio which are not identified on an item-by-item basis and thus are not included in the specific provision. The general allowance is reviewed regularly and is based on statistical analysis of past performance, the level of allowance already in place, and management’s judgement.

The amount recognized in the Provision for credit losses in the Statement of Income is the actual net credit loss experience for the year. It is the amount that is required to establish a balance in the allowance for credit losses account that Central’s management considers adequate to absorb all credit-related losses in its portfolio of on and off-balance sheet items after charging amounts written off during the year, net of recoveries, to the allowance for credit losses account.

Allowances against on-balance sheet items are included as a reduction of the related asset category. Allowances relating to off-balance sheet items are included in Other liabilities.

(i) Guarantees

Guarantees include contracts, such as standby letters of credit, where Central may be required to make payments if a third party fails to perform according to the terms of a contract. Collateral requirements for guarantees and standby letters of credit are consistent with collateral requirements for loans. Guarantees, which meet the definition of derivatives, are recognized in the Consolidated Balance Sheet at their fair value with adjustments to fair value recognized in Net income.

(j) Capital assets

Land is carried at cost. Buildings, computer hardware and software, furniture, fixtures and equipment are carried at cost less accumulated depreciation. Buildings and equipment are depreciated over their estimated useful lives on the straight-line basis. Management estimates the useful lives of Central's capital assets as follows:

<i>Buildings</i>	<i>50 years</i>
<i>Computer hardware and software</i>	<i>3 to 5 years</i>
<i>Furniture, fixtures and equipment</i>	<i>3 to 10 years</i>
<i>Leaseholds</i>	<i>Lesser of the useful life of the leasehold or the term of the lease plus one renewal period.</i>

(k) Loan securitization

Credit unions periodically securitize residential mortgage loans primarily to diversify their funding sources and enhance their liquidity positions. As the rated entity in the credit union system, Central plays a pivotal role in system securitization.

Central has conducted securitizations via asset-backed commercial paper conduits (ABCP Conduits) sponsored by major Canadian bank-owned dealers, and through programs run by Canada Mortgage and Housing Corporation (CMHC): National Housing Act Mortgage Backed Securities (NHA MBS), the Canada Mortgage Bond (CMB) program, and the Insured Mortgage Purchase Program (IMPP). Central conducts all of its securitization activity on behalf of the credit union system.

From its perspective, Central categorizes its securitization activities as either direct or indirect securitizations. For direct securitizations, Central purchases the underlying mortgages from member credit unions. For indirect securitizations, Central provides guarantees or acts as a swap counterparty to member credit unions, but does not acquire legal title to the underlying mortgage assets.

Direct Securitizations

Prior to 2010, Central securitized pools of residential mortgages acquired from its member credit unions by creating NHA MBS. Central sold some of these pools to either Canada Housing Trust (CHT) under the CMB program or to CMHC under the IMPP. Certain NHA MBS created prior to 2010 were retained by Central and are included in Securities on Central's consolidated balance sheet.

Under the terms of the CMB and the IMPP, member credit unions retain their interest in the excess spread on the sold MBS and continue to service the

mortgages underlying these MBS. Central records a gain or loss in Net income under Gains on disposal of financial instruments when the transfer of the securities to the Special Purpose Entity (SPE) results in a sale of loan receivables in accordance with *Accounting Guideline 12 – Transfer of Receivables*.

Central has also directly securitized pools of residential mortgages acquired from certain Ontario member credit unions by selling them into bank-sponsored ABCP Conduits.

Central is party to derivative contracts as part of its participation in direct securitization transactions. Central recognizes the fair value of the resulting swaps provided in either Other assets or Other liabilities as appropriate.

Indirect Securitizations

Credit unions have securitized residential and commercial mortgages via ABCP Conduits by forming collateral pools that meet certain diversification, leverage and debt coverage criteria, and selling these directly to a Special Purpose Entity (SPE). The SPE finances the purchase of these pools by issuing certificates that carry varying degrees of subordination. As part of the SPE pooling and servicing agreement, the credit unions continue to be the primary servicer of the loans under contract with a master servicer for the SPE. Under this arrangement, Central acts as a swap counterparty and also provides limited guarantees with respect to the timeliness of certain cash flows.

In 2010, Central discontinued its participation in direct securitizations under the NHA MBS, CMB, and IMPP programs. Central now provides administrative support to its member credit unions that wish to create NHA MBS and acts as swap counterparty for those members which wish to transfer NHA MBS under the CMB and IMPP programs. As such, Central's participation in these programs after 2009 is categorized as indirect securitization activity.

For all indirect securitization activity, Central recognizes the fair value of the resulting swaps and of the guarantees provided in either Other assets or Other liabilities as appropriate.

(l) Investments in affiliates

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

(m) Income taxes

Central follows the asset and liability method of accounting for income taxes, whereby future tax assets and liabilities are recognized for the expected future tax consequences attributable to temporary differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Future tax assets and liabilities are included in Other assets or Other liabilities, as applicable.

Dividends are deductible as interest in determining income that is subject to tax and the related tax saving is credited to Retained earnings.

(n) Employee future benefits

The cost associated with post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management’s best estimate of expected plan investment performance on the notional value of contributions associated with Central’s non-registered pension plan, salary escalation, retirement ages of employees, expected health care costs and mortality rates. Pension expense consists of the aggregate of:

- the actuarially computed cost of pension benefits provided in respect of the current year’s service,
- the imputed interest on the funding excess or deficiency of the plan,
- the amortization over the expected average remaining service life of employees of experience gains or losses determined to be in excess of 10% of the projected benefit obligation,
- the amount of experience gains or losses during the year which are less than 10% of the projected benefit obligation.

When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for, prior to the settlement. The excess (deficiency) between the plan assets and the accumulated benefit obligation at the end of the year is included in Other assets or Other liabilities, respectively.

Central also participates in multi-employer plans for which insufficient information is available to apply defined benefit accounting. These plans are therefore accounted for on a defined contribution basis.

(o) Subordinated debt

Subordinated debt is recorded at amortized cost using the effective interest method. Central is required to obtain regulatory approval before it may redeem, cancel or modify Subordinated debt.

(p) Revenue recognition

Membership dues and provincial advertising assessments are received from Central’s member credit unions and are recognized in income as earned. Fees earned by Technology and Payment Services, Financial Services and Trade Services operations are recorded in income when Central has rendered the related service and is entitled to receive income.

(q) Prior year financial information

During the year, the presentation of certain financial statement items was revised to better present the nature of these items. Accordingly, certain prior year financial information has been reclassified to conform to the current year’s presentation.

5. Change in accounting policies

2009 Changes

Effective January 1, 2009, Central adopted EIC-173 – *Credit Risk and the Fair Value of Financial Assets and Liabilities*, which clarifies that an entity’s own risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial instruments, including derivative instruments. This standard was adopted by Central on a retrospective basis without restatement of comparative balances. This resulted in a reduction to opening retained earnings of \$3.81 million, representing the adjustment to the fair value of applicable outstanding financial assets and liabilities, including derivatives, at January 1, 2009.

In June, 2009, the CICA amended Section 3862 – *Financial Instruments, Disclosures* to require that all financial instruments measured at fair value be categorized into one of three hierarchy levels. Each level is based on the transparency of the inputs used to measure that fair value of the assets or liabilities.

Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets.

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – one or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments.

Determination of fair value and the resulting hierarchy requires the use of observable market data where available. The classification in the hierarchy is based on the lowest level of input that is significant to the measurement of fair value. Note 6 provides details of the inputs used to determine the fair value of financial instruments held by Central.

Future changes

The CICA has announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS), effective for Central's 2011 fiscal year.

The areas which are expected to have the most significant impact include balance sheet derecognition of securitizations, financial instruments, consolidation and business combination. On transition to IFRS, Central will present its balance sheet for year ended December 31, 2011 as well as the comparative period. Central will present its IFRS opening balance sheet as at January 1, 2010 which represents the first day of the earliest comparative period to be included in its 2011 financial statements. As at that date, Central will record adjustments to amounts reported on its Canadian GAAP balance sheet to reflect the balances which would have been presented had IFRS always been used. Differences between Canadian GAAP and IFRS will be debited or credited to retained earnings as appropriate.

6. Fair value of financial instruments

Certain financial instruments are recognized in the Consolidated Balance Sheets at fair value. These include derivative instruments, deposits designated as trading and securities and amounts on deposit, other than equity shares with no quoted market value.

The fair value of a financial instrument 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. The best evidence of fair

value is a quoted bid price for financial assets held or an offer price for financial liabilities from an active market. Where independent quoted market prices do not exist, Central uses the quoted market prices for similar securities, other third party evidence or valuation techniques.

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

Financial instruments whose book values approximate fair value

Fair value is assumed to be equal to carrying value for cash, demand loans classified as loans and receivable and demand deposits classified as other liabilities because of their short-term nature. Equity securities classified as available-for-sale, for which fair value is not determinable through observable market information, are held at cost.

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 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

The following tables present the fair value of Central's assets and liabilities classified in accordance with the fair value hierarchy set out in Section 3862 of the CICA Handbook as described in *Note 5*.

(Thousands of dollars)	Level 1	Level 2	Level 3	Amounts at Fair Value	Amounts at Cost ¹	Total Carrying Value
December 31, 2010						
Assets						
Cash	\$ 121,337	\$ —	\$ —	\$ 121,337	\$ —	\$ 121,337
Securities – Trading	—	4,745,794	1,000	4,746,794	—	4,746,794
Securities – Available for sale	—	3,930,576	1,860	3,932,436	34,077	3,966,513
Securities – At amortized cost	—	—	—	—	26,875	26,875
Amounts on deposit	—	127,600	—	127,600	7,758	135,358
Loans	—	—	—	—	1,110,286	1,110,286
Capital assets	—	—	—	—	15,088	15,088
Derivative assets	—	54,339	2,060	56,399	—	56,399
Other assets	—	4,043	—	4,043	192,889	196,932
	\$ 121,337	\$ 8,862,352	\$ 4,920	\$ 8,988,609	\$ 1,386,973	\$ 10,375,582
Liabilities & Subordinated debt						
Notes	\$ —	\$ —	\$ —	\$ —	\$ 620,524	\$ 620,524
Deposits	—	2,074,718	—	2,074,718	6,545,647	8,620,365
Obligations under repurchase agreements	—	—	—	—	162,358	162,358
Derivative liabilities	—	80,123	—	80,123	—	80,123
Other liabilities	—	—	—	—	115,416	115,416
Subordinated debt	—	—	—	—	200,574	200,574
	\$ —	\$ 2,154,841	\$ —	\$ 2,154,841	\$ 7,644,519	\$ 9,799,360
Net Assets	\$ 121,337	\$ 6,707,511	\$ 4,920	\$ 6,833,768	\$ (6,257,546)	\$ 576,222
December 31, 2009						
Assets	\$ 202,591	\$ 8,302,214	\$ 45,694	\$ 8,550,499	\$ 2,505,146	\$ 11,055,645
Liabilities & Subordinated debt	—	1,873,958	—	1,873,958	8,630,334	10,504,292
Net Assets	\$ 202,591	\$ 6,428,256	\$ 45,694	\$ 6,676,541	\$ (6,125,188)	\$ 551,353

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

The following table presents the changes in fair value for financial instruments included in Level 3 of the fair value hierarchy as set out in Section 3862 of the CICA Handbook as described in Note 5.

(Thousands of dollars)	Fair Value at Jan 1, 2010	Transfers Into (Out of) Level 3	Changes in Unrealized Gains in Income	Settlements	Fair Value at Dec 31, 2010
Assets					
Securities – Trading	\$ 19,374	\$ (18,374)	\$ –	\$ –	\$ 1,000
Securities – Available for sale	4,070	1,860	–	(4,070)	1,860
Derivative assets	22,250	–	(20,190)	–	2,060
	\$ 45,694	\$ (16,514)	\$ (20,190)	\$ (4,070)	\$ 4,920

(Thousands of dollars)	Fair Value at Jan 1, 2009	Transfers Into (Out of) Level 3	Changes in Unrealized Gains in Income	Changes in Unrealized Gains in OCI	Fair Value at Dec 31, 2009
Net Assets	\$ 62,945	\$ (281)	\$ (16,963)	\$ (7)	\$ 45,694

7. Cash

(Thousands of dollars)	2010	2009	2008
With Credit Union Central of Canada	\$ 34,100	\$ 153,626	\$ 170,504
With other regulated financial institutions	87,237	48,965	57,874
	\$ 121,337	\$ 202,591	\$ 228,378
Supplemental cash flow information			
Interest received	\$ 209,061	\$ 185,780	\$ 243,404
Interest paid	\$ 133,119	\$ 160,355	\$ 191,694

8. Securities

Securities classified as held to maturity are as follows:

(Thousands of dollars)	2010	2009	2008
Amortized cost	\$ 26,875	\$ 37,287	\$ 139,691
Fair value	\$ 26,801	\$ 36,873	\$ 133,978

Securities designated as trading are as follows:

(Thousands of dollars)	2010	2009	2008
Amortized cost	\$ 4,683,355	\$ 4,437,813	\$ 1,439,136
Fair value	\$ 4,746,794	\$ 4,443,858	\$ 1,434,991

Securities classified as available-for-sale or as investment account securities are as follows:

(Thousands of dollars)	Available-for-sale 2010	Available-for-sale 2009	Investment Account 2008
Amortized cost	\$ 3,944,899	\$ 3,728,001	\$ 3,741,283
Fair value	\$ 3,966,513	\$ 3,773,038	\$ 3,724,913

The total amount of securities recorded in the Consolidated Balance Sheet is as follows:

(Thousands of dollars)	2010	2009	2008
	\$ 8,740,182	\$ 8,254,183	\$ 5,299,595

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

(Millions of dollars)	December 31 2010	December 31 2009	December 31 2008
Government & guarantees	\$ 4,344.4	\$ 5,143.0	\$ 1,285.9
Corporate & major financial Institutions R-1(Mid) or greater	4,200.7	2,956.6	3,680.2
Other	195.1	154.6	333.9
	\$ 8,740.2	\$ 8,254.2	\$ 5,300.0

At the period-end, securities having a par value of **\$384.3** million (December 31, 2009 – \$290.3 million; December 31, 2008 – \$316.1 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. In addition, Central had pledged securities with a par value of **\$176.9** million for repurchase agreements.

Included in securities designated as trading are debt instruments issued by Lehman Brothers Holdings Inc. (Lehman Brothers) with a par value of \$10 million. Lehman Brothers filed for bankruptcy protection on September 15, 2008, and these instruments are carried net of a provision of \$9.0 million (2009 – \$9.0 million; 2008 – \$9.0 million). Uncertainty remains with respect to the timing and amount of future cash flows which may result in changes in the fair value of this investment in future periods.

Included in trading securities are Master Asset Vehicle (MAV) II and III Notes acquired on January 19, 2009 in exchange for Central's holdings of third party asset backed commercial paper (ABCP). As at December 31, 2010, Central held MAV II and III notes with a par value of \$27.3 million (2009 – \$28.7 million). During 2010, trading activity on these notes increased such that in the opinion of Central's management an active market existed as at December 31, 2010. As such, these notes have been transferred from Level 3 to Level 2 in Central's fair value hierarchy (Note 6). Previously, Central estimated the fair value of its holdings of MAV II and III notes by discounting the expected future cash flows on these notes.

On March 23, 2009, the National Credit Union Administration (NCUA) (United States) placed U.S. Central under conservatorship and appointed a new Chief Executive Officer to oversee U.S. Central's operations. During 2009, Central recognized a provision of \$9.6 million to reduce the carrying value of its interest in membership shares of U.S. Central to \$nil. In 2010, Central was informed that its shareholdings had been extinguished and the balance was written off.

9. Amounts on deposit with regulated financial institutions

Amounts on deposit classified as loans and receivables are as follows:

(Thousands of dollars)	2010	2009	2008
Amortized cost	\$ 7,758	\$ 27,032	\$ 95,687
Fair value	\$ 7,995	\$ 27,614	\$ 98,549

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

(Thousands of dollars)	Available-for-sale 2010	Available-for-sale 2009	Investment Account 2008
Amortized cost	\$ 127,546	\$ 27,524	\$ 27,561
Fair value	\$ 127,600	\$ 27,721	\$ 30,784

The total of amounts on deposit with regulated financial institutions recorded in the Consolidated Balance Sheets is as follows:

(Thousands of dollars)	2010	2009	2008
	\$ 135,358	\$ 54,753	\$ 126,471

10. Loans

(Thousands of dollars)		2010	2009	2008
Due on demand	– Credit unions	\$ 61,476	\$ 36,660	\$ 41,268
	– Commercial and others	5,033	2,692	4,266
		66,509	39,352	45,534
Term	– Credit unions	895,362	1,965,818	2,200,642
	– Commercial and others	138,798	146,318	161,502
	– Officers and employees	16,647	17,374	20,767
		1,050,807	2,129,510	2,382,911
		1,117,316	2,168,862	2,428,445
Accrued interest		2,468	3,588	2,534
		1,119,784	2,172,450	2,430,979
Allowance for credit losses		9,498	6,492	5,032
		\$ 1,110,286	\$ 2,165,958	\$ 2,425,947

Officer and employee loans, which are part of their compensation packages, bear interest at rates varying from 1.53% to 5.75%.

Impaired loans are as follows:

	Gross Impaired	Specific Provision	General Provision	Net Impaired	Net Impaired	Net Impaired
				2010	2009	2008
Credit unions	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –
Commercial and others	10,650	(8,689)	(809)	1,152	3,073	2,272
Total	\$ 10,650	\$ (8,689)	\$ (809)	\$ 1,152	\$ 3,073	\$ 2,272

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

	Specific Provision	General Provision	2010	2009	2008
Balance at beginning of year	\$ 5,573	\$ 919	\$ 6,492	\$ 5,032	\$ 1,066
Acquired on merger with CUCO (Note 2)	–	–	–	–	2,861
Net write offs during the year	(1,387)	–	(1,387)	–	–
Provision (recovery) for credit losses	4,503	(110)	4,393	1,460	1,105
Balance at end of year	\$ 8,689	\$ 809	\$ 9,498	\$ 6,492	\$ 5,032

11. Capital assets

(Thousands of dollars)	2010	2009	2008
Land	\$ 349	\$ 349	\$ 349
Buildings	14,579	14,579	14,579
Accumulated depreciation	9,390	9,113	8,837
	5,189	5,466	5,742
Computer hardware	1,882	2,294	881
Accumulated depreciation	1,851	1,401	455
	31	893	426
Furniture, fixtures, equipment and leaseholds	25,786	23,754	20,043
Accumulated depreciation	16,267	16,203	15,146
	9,519	7,551	4,897
	\$ 15,088	\$ 14,259	\$ 11,414

The depreciation expense for capital assets for 2010 was **\$2.10** million (2009 – \$1.99 million; 2008 - \$1.17 million).

12. Other assets

(Thousands of dollars)	2010	2009	2008
Market revaluation of trading derivatives	\$ 56,399	\$ 128,435	\$ 316,668
Assets available for sale designated as Trading	4,043	9,470	17,287
Assets available for sale at amortized cost	33,268	62,517	80,842
Accounts receivable and other	19,938	27,576	19,081
Prepaid expenses	2,358	2,788	4,882
Future income taxes (Note 25)	4,357	5,785	9,464
Investment in affiliates (Note 3)	128,862	123,718	14,041
Intangible assets	4,106	3,612	3,714
	\$ 253,331	\$ 363,901	\$ 465,979

At year-end, the amortized cost of the assets available for sale designated as trading was **\$3,978** thousand (2009 – \$9,148 thousand; 2008 – \$16,664 thousand).

The depreciation expense for intangible assets for 2010 was **\$2.89** million (2009 – \$1.31 million; 2008 – \$0.93 million).

13. Loan Securitizations

During the year, Central did not securitize any mortgages with either Canada Mortgage Housing Corporation (CMHC) or with Canada Mortgage Housing Trust (the Trust). In 2009, Central securitized mortgages with a book value of **\$545.2** million (2008 – \$1,621.9 million) which had been acquired from member credit unions.

The fair value of derivative contracts acquired as a result of these transactions, together with proceeds received from CMHC and the Trust totalled **\$545.3** million in 2009 (2008 – \$1,630.7 million), which resulted in a gain on these transactions of **\$0.1** million in 2009 (2008 – \$8.8 million) and which was recorded in Gain on disposal of financial instruments.

The total principal amount of loans securitized by Central outstanding at December 31, 2010 was **\$1,152.3** million (2009 – \$1,839.2 million; 2008 – \$2,218.9 million).

14. Notes

(Thousands of dollars)	2010	2009	2008
Notes			
– due within three months	394,624	364,953	249,249
– due after three months and within one year	–	99,992	–
– due after one year and less than five years	224,354	–	274,988
	618,978	464,945	524,237
	618,978	464,945	524,237
Accrued interest	1,546	344	1,988
	\$ 620,524	\$ 465,289	\$ 526,225

Central has established \$365.5 million of unsecured credit facilities with various financial institutions. The unsecured facilities rank equally with the outstanding notes and deposits.

At December 31, 2010, no amounts were drawn against these facilities (2009 – \$0.0 million; 2008 – \$0.0 million).

Central is authorized to issue up to \$1.5 billion in short-term commercial paper and up to \$1.5 billion in other borrowings which includes Central’s medium-term note facility. At December 31, 2010, **\$395.0** million was borrowed under the short-term commercial paper facility (2009 – \$190.0 million; 2008 – \$249.2 million) and **\$225.0** million was borrowed under the medium-term note facility (2009 – \$275.0 million; 2008 – \$275.0 million).

15. Deposits

Deposits designated as trading are as follows:

(Thousands of dollars)	2010	2009	2008
Amortized cost	\$ 2,066,959	\$ 1,789,465	\$ 1,273,742
Fair value	\$ 2,074,718	\$ 1,808,022	\$ 1,302,983

Deposits classified as other liabilities are as follows:

(Thousands of dollars)	2010	2009	2008
Due on demand	\$ 948,928	\$ 940,595	\$ 356,652
Due within three months	1,905,640	2,756,384	2,948,378
Due after three months and within one year	1,784,472	1,392,533	1,124,171
Due after one year and less than five years	1,866,794	1,942,878	1,147,730
Due after five years and less than six years	1,500	250	145
	6,507,334	7,032,640	5,577,076
Accrued interest	38,313	39,315	58,127
	\$ 6,545,647	\$ 7,071,955	\$ 5,635,203

The total amount of deposits recorded in the Consolidated Balance Sheet is as follows:

(Thousands of dollars)	2010	2009	2008
	\$ 8,620,365	\$ 8,879,977	\$ 6,938,186

16. Other liabilities

(Thousands of dollars)	2010	2009	2008
Market revaluation of trading derivatives	\$ 80,123	\$ 65,936	\$ 278,709
Settlements in-transit	70,364	82,563	70,597
Dividends payable	2,418	18,669	3,376
Future income taxes (Note 25)	1,512	2,788	3,179
Accrued vacation and sick benefits	1,297	1,446	1,345
Employee future benefits (Note 23)	19,197	18,588	17,170
Due to CUCO on merger (Note 2)	–	–	10,763
Trade amounts and other	20,628	19,805	29,624
	\$ 195,539	\$ 209,795	\$ 414,763

17. Subordinated debt

On December 21, 2006, Central issued a \$50 million note due December 21, 2016. The note bears interest at a fixed rate of 4.52% until December 21, 2011, and thereafter at a floating rate based on 90-day Bankers' Acceptance plus 1.00%. Central has the option to redeem the note on December 21, 2011, subject to regulatory approval.

On October 9, 2009, Central issued \$150 million principal amount of 4.00% Series 2 Subordinated 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 has the option to redeem the note on October 9, 2014, subject to regulatory approval.

The notes are recognized in the Consolidated Balance Sheet at amortized cost.

18. Share capital

Central may issue an unlimited number of class "A", "B", "C" 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 class "A", "B" and "C" 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 shall be distributed proportionately among all shareholders.

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

The numbers of shares issued are as follows:

(Thousands of shares)	2010	2009	2008
Class A – credit unions			
Balance at beginning of year	162,536	162,539	113,345
Issued for cash during the year	4,651	1,964	1,654
Redeemed during the year	(2,248)	(1,967)	(1,654)
Issued on merger with CUCO (Note 2)	–	–	49,194
Balance at end of year	164,939	162,536	162,539
Class B – co-operatives			
Balance at beginning of year	5	5	3
Issued for cash during the year	–	–	2
Balance at end of year	5	5	5
Class C – other			
Balance at beginning of year	7	7	6
Issued for cash during the year	–	–	1
Balance at end of year	7	7	7
Class E – credit unions			
Balance at beginning of year	3,163	2,866	–
Issued to credit unions in B.C.	–	–	2,206
Issued on merger with CUCO (Note 2)	–	297	660
Balance at end of year	3,163	3,163	2,866

The amounts outstanding are as follows:

(Thousands of dollars)	2010	2009	2008
Outstanding \$1 par value shares			
Class A – credit unions	\$ 164,939	\$ 162,536	\$ 162,539
Class B – cooperatives	5	5	5
Class C – other	7	7	7
Outstanding \$.01 par value shares			
Class E – credit unions	32	32	29
	\$ 164,983	\$ 162,580	\$ 162,580

19. Accumulated other comprehensive income

The components of accumulated other comprehensive income, net of taxes, are as follows:

(Thousands of dollars)	2010	2009	2008
Unrealized gains (losses) on available-for-sale assets	\$ 19,453	\$ 38,816	\$ (4,116)
Gains on derivatives designated as cash flow hedges	–	–	172
	\$ 19,453	\$ 38,816	\$ (3,944)

20. Gains on disposal of financial instruments

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

(Thousands of dollars)	2010	2009	2008
Net gains on disposal of securities	\$ 44,352	\$ 22,751	\$ 11,250
Net gains on securitization transactions as described in <i>Note 13</i>	–	89	8,802
Other	(1,537)	(4,719)	5,201
	\$ 42,815	\$ 18,121	\$ 25,253

21. Change in fair value of financial instruments

(Thousands of dollars)	2010	2009	2008
Trading assets	\$ 57,083	\$ 10,190	\$ 13,791
Provision against Lehman Brothers (<i>Note 8</i>)	–	–	(9,000)
Write off of U.S. Central (<i>Note 8</i>)	–	(9,620)	–
Trading deposits	10,798	10,383	(26,027)
Provision against ABCP holdings (<i>Note 8</i>)	–	–	(6,590)
Ineffective portion of cash flow hedges	–	(53)	16
Ineffective portion of fair value hedges	–	–	(13)
Securitization derivatives (<i>Note 13</i>)	(20,190)	(18,150)	15,221
Trading derivatives	(74,449)	59,709	(15,167)
	\$ (26,758)	\$ 52,459	\$ (27,769)

22. Other income

(Thousands of dollars)		2010	2009	2008
Membership dues		\$ 7,011	\$ 9,577	\$ 7,297
Provincial advertising assessment		2,009	2,543	2,497
Technology and Payment services	- Processing	38,058	39,692	32,602
	- Direct banking	18,588	15,735	11,669
	- Other technology services	2,302	2,263	2,159
Financial services	- Treasury services	2,650	2,443	2,827
	- Funding services	3,285	3,720	2,679
	- Property rents	890	939	1,038
	- Equity income	3,620	-	-
	- Other	123	438	1,785
Trade services	- Risk management	4,194	2,584	2,598
	- Manuals	1,405	1,407	1,211
	- Registered plans	2,341	2,223	1,862
	- Other	4,389	4,037	3,661
		\$ 90,865	\$ 87,601	\$ 73,885

23. Post-employment benefits

Central offers its employees the opportunity to participate in defined benefit, money purchase, retiree non-pension benefit and supplemental pension programs as described below.

Defined Benefit Options

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

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

The defined benefit pension options are contributory and provide pension benefits based on the employee's years of service and average earnings for a limited period prior to retirement. An actuarial valuation is performed periodically to determine the present value of accrued pension benefits and

recommended plan contributions, based on projections of the employees' average compensation levels at retirement. Pension fund assets are valued at market value.

As at December 31, 2009, the multi-employer plan actuary reported that the plan had a shortfall of plan assets over actuarial liabilities for accrued pension benefits of \$34.1 million. The plan actuary further reported that, as at December 31, 2009, the solvency valuation indicated that there was a shortfall of accrued assets over accrued liabilities of \$26.4 million. The multi-employer plan is available to qualifying employees of participating credit unions. As the assets and liabilities of the plan are not tracked by employer group, it is not possible to determine the portion of the deficit which related to Central.

Effective January 1, 2010 changes were made to the plan's provisions to address this shortfall including increasing employee contributions and increasing the normal retirement date from age 60 to age 62. An actuarial review, which would be effective as at December 31, 2012, is expected to be completed during 2013.

As at December 31, 2008, the single-employer plan actuary reported that the plan had an excess of plan assets over actuarial liabilities for accrued pension benefits of \$0.6 million. However, the plan actuary also reported that, as at December 31, 2008, the solvency valuation indicated that there was a shortfall of accrued assets over accrued liabilities of \$0.2 million. An actuarial review, which would be effective as at December 31, 2011, is expected to be completed during 2012.

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)	2010		2009		2008	
Accumulated benefit obligation						
Accumulated obligation at beginning of year	\$	7,775	\$	7,015	\$	–
Balance acquired on merger with CUCO <i>(Note 2)</i>		–		–		8,049
Current service cost		109		92		70
Interest cost on projected benefit obligation		508		497		242
Employees' contributions		73		46		19
Benefits paid		(403)		(366)		(156)
Actuarial gains		1,141		491		(1,209)
Accumulated obligation at end of year	\$	9,203	\$	7,775	\$	7,015
Plan assets						
		10,285		8,055		6,989
Excess (deficit) of plan assets over accumulated benefit obligation	\$	1,082	\$	280	\$	(26)
Defined benefit expense						
Current service cost	\$	109	\$	92	\$	70
Interest cost		508		497		242
Return on plan assets		(568)		(455)		1,138
Experience loss		–		–		(1,422)
Amortization		135		118		59
Defined benefit expense	\$	184	\$	252	\$	87
Amounts recognized in the Consolidated Balance Sheet						
Unrecognized actuarial loss	\$	2,800	\$	2,068	\$	2,263
Unrecognized transitional obligation		16		19		22
Unrecognized impact of plan amendments		257		278		299
Funding surplus (deficit)		1,082		280		(26)
Prepaid benefit costs recognized in Other assets	\$	4,155	\$	2,645	\$	2,558

Continuity of actuarial gains (losses)

Unrecognized actuarial loss, beginning of year	\$	2,068	\$	2,263	\$	-
Balance acquired on merger with CUCCO (Note 2)		-		-		2,096
Valuation gain (loss)		65		(345)		-
Gain arising from changes in assumption		1,076		836		(1,209)
Shortfall of actual return on plan assets		(298)		(592)		1,422
Amortization of unrecognized actuarial loss		(111)		(94)		(46)
Unrecognized actuarial loss, end of period	\$	2,800	\$	2,068	\$	2,263

	2010	2009	2008
Actuarial assumptions used to determine Defined benefit expense:			
Weighted average discount rate on benefit obligation	6.50%	7.50%	6.00%
Weighted average salary escalation	3.00%	3.00%	3.50%
Actuarial assumptions used to determine Accumulated benefit obligation:			
Weighted average discount rate on benefit obligation	5.50%	6.50%	7.50%
Weighted average salary escalation	3.00%	3.00%	3.50%

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	2010 Expense
Assumed discount rate		
Impact of 1% increase	\$ (1,076)	\$ (17)
Impact of 1% decrease	\$ 1,347	\$ 18
Weighted average salary escalation		
Impact of 1% increase	\$ 435	\$ 45
Impact of 1% decrease	\$ (377)	\$ (38)

Money Purchase Options

Subject to eligibility requirements, employees of Central may be eligible to participate in one of the following money purchase options.

- the money purchase option under the B.C. Credit Union Employees' Pension Plan, which is a multi-employer plan administered by Central;
- the money purchase option administered by Central; and
- the group registered retirement savings plan under the B.C. Central Retirement Savings Plan (group RRSP), which is administered by Central.

Money purchase plan contributions and group RRSP expense included in the Statement of Income was **\$1,204** thousand (2009 – \$985 thousand; 2008 – \$783 thousand).

Retiree Non-Pension Benefits (B.C. Employees)

In addition to the base retirement plans Central provides post-retirement benefits consisting of extended health, Medical Services Plan, dental and life insurance premiums to employees that qualify. This plan was closed to new entrants effective May 1, 2006.

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

(Thousands of dollars)	2010	2009	2008
Reconciliation of accumulated benefit obligation to projected benefit obligation			
Accumulated benefit obligation at end of year	\$ 7,355	\$ 6,031	\$ 7,409
Unamortized net actuarial gain (loss)	3,612	4,888	3,036
Projected benefit obligation	\$ 10,967	\$ 10,919	\$ 10,445
Projected benefit obligation			
Benefit obligation at beginning of year	\$ 10,919	\$ 10,445	\$ 8,923
Current service cost	207	272	672
Interest cost on projected benefit obligation	400	552	744
Actuarial (gains) losses	(559)	(350)	106
Benefit obligation at end of year	10,967	10,919	10,445
Plan assets	-	-	-
(Deficit) of plan assets over projected benefit obligation	\$ (10,967)	\$ (10,919)	\$ (10,445)
Annual expense			
Current service cost	\$ 207	\$ 272	\$ 672
Interest cost on projected benefit obligation	400	552	744
Actuarial losses	(559)	(350)	106
Retiree Non-Pension Benefits expense	\$ 48	\$ 474	\$ 1,522
Actuarial assumptions used to determine Retiree Non-Pension Benefits expense:			
Weighted average discount rate on benefit obligation	6.50%	7.25%	7.25%
Actuarial assumptions used to determine Accumulated benefit obligation:			
Weighted average discount rate on benefit obligation	5.50%	6.50%	7.25%
Health care cost trend assumptions:			
Health care cost trend rate assumed for next year	8.00%	10.0%	10.0%
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	2016	2020	2019

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	2010 Expense
Assumed overall health care cost trend rate		
Impact of 1% increase	\$ 1,385	\$ 114
Impact of 1% decrease	\$ (1,122)	\$ (92)

Retiree Non-Pension Benefits (Ontario Employees)

In addition to the base retirement plans Central provides certain post-retirement benefits including extended health, dental and life insurance premiums to employees that qualify. This plan was closed to new entrants effective January 1, 2009.

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

(Thousands of dollars)	2010	2009	2008
Accumulated benefit obligation			
Accumulated obligation at beginning of year	\$ 4,497	\$ 4,968	\$ —
Balance acquired on merger with CUCO (Note 2)	—	—	6,055
Current service cost	236	175	170
Interest cost on projected benefit obligation	301	276	186
Benefits paid	(204)	(192)	(82)
Actuarial gains	890	(730)	(1,361)
Accumulated obligation at end of year	5,720	4,497	4,968
Plan assets	—	—	—
(Deficit) of plan assets over accumulated benefit obligation	\$ (5,720)	\$ (4,497)	\$ (4,968)
Defined benefit expense			
Current service cost	\$ 236	\$ 175	\$ 170
Interest cost	301	276	186
Amortization	76	30	68
Defined benefit expense	\$ 613	\$ 481	\$ 424
Amounts recognized in the Consolidated Balance Sheets			
Unrecognized actuarial loss	\$ (130)	\$ (1,058)	\$ (412)
Unrecognized transitional obligation	1,111	1,225	1,339
Funding deficit	(5,720)	(4,497)	(4,968)
Prepaid benefit costs recognized in Other liabilities	\$ (4,739)	\$ (4,330)	\$ (4,041)
Continuity of actuarial gains (losses)			
Unrecognized actuarial loss, beginning of year	\$ (1,058)	\$ (412)	\$ —
Balance acquired on merger with CUCO (Note 2)	—	—	960
Gain arising from changes in assumption	890	(730)	(1,361)
Amortization of unrecognized actuarial loss	38	84	(11)
Unrecognized actuarial loss, end of period	\$ (130)	\$ (1,058)	\$ (412)
Actuarial assumptions used to determine Retiree Non-Pension Benefits expense:			
Weighted average discount rate on benefit obligation	6.50%	7.50%	6.00%
Actuarial assumptions used to determine Accumulated benefit obligation:			
Weighted average discount rate on benefit obligation	5.50%	6.50%	7.50%
Health care cost trend assumptions:			
Health care cost trend rate assumed for next year	7.0%	7.0%	8.0%
Rate to which the cost trend rate is assumed to decline	5.0%	5.0%	4.5%
Year that the rate reaches the ultimate trend rate	2013	2014	2019

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	2010 Expense
Assumed overall health care cost trend rate		
Impact of 1% increase	\$ 1,156	\$ 112
Impact of 1% decrease	\$ (962)	\$ (84)

Supplemental Pension Plan

Central 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 for each year of the past three years, are as follows:

(Thousands of dollars)	2010	2009	2008
Projected benefit obligation			
Benefit obligation at beginning of year	\$ 3,340	\$ 3,224	\$ 3,060
Current service cost	93	116	119
Interest cost on projected benefit obligation	198	193	172
Actuarial (gains)	(139)	(193)	(127)
Benefit obligation at end of year	3,492	3,340	3,224
Plan assets			
	-	-	-
(Deficit) of plan assets over projected benefit obligation	\$ (3,492)	\$ (3,340)	\$ (3,224)
Annual expense			
Current service cost	\$ 93	\$ 116	\$ 119
Interest cost on projected benefit obligation	198	193	172
Actuarial (gains)	(139)	(193)	(127)
Supplemental Pension Plan expense	\$ 152	\$ 116	\$ 164
Actuarial assumptions used to determine Supplemental Pension Plan Expense:			
Weighted average salary escalation	3.00%	3.50%	3.50%
Weighted average discount rate on benefit obligation	6.50%	7.25%	7.25%
Actuarial assumptions used to determine Accumulated benefit obligation:			
Weighted average salary escalation	3.00%	3.00%	3.50%
Weighted average discount rate on benefit obligation	5.50%	6.50%	7.25%

24. Other administrative expenses

(Thousands of dollars)	2010	2009	2008
Costs of sales and services	\$ 25,535	\$ 27,021	\$ 19,874
Automobile and travel	1,647	1,395	1,155
Projects and business development	5,614	5,828	3,751
Professional services	11,332	9,521	6,237
Directors and officers	1,392	1,779	1,308
Membership fees	4,346	5,042	3,566
Other	3,166	3,026	2,465
	\$ 53,032	\$ 53,612	\$ 38,356

The Directors in their capacity as directors received aggregate remuneration of **\$619** thousand (2009 – \$614 thousand; 2008 – \$579 thousand).

25. Provision for income taxes

Income taxes reported in Net Income and tax recovery related to dividends are as follows:

(Thousands of dollars)	2010	2009	2008
Provision for income taxes in statement of income	\$ 5,335	\$ 17,162	\$ 4,899
Income tax benefit related to dividends paid	1,362	3,746	1,015
Total	\$ 3,973	\$ 13,416	\$ 3,884

Components of total income taxes are as follows:

(Thousands of dollars)	2010	2009	2008
Current income taxes	\$ 3,847	\$ 11,359	\$ 8,469
Future income taxes	126	2,057	(4,585)
Total	\$ 3,973	\$ 13,416	\$ 3,884

Income taxes reported in Other Comprehensive Income are as follows:

(Thousands of dollars)	2010	2009	2008
Current income taxes	\$ (3,343)	\$ 5,977	\$ 1,067
Future income taxes	26	1,231	171
Total	\$ (3,317)	\$ 7,208	\$ 1,238

Components of future income tax balances are as follows:

(Thousands of dollars)	2010	2009	2008
Future income tax assets:			
Financial instruments	\$ 1,169	\$ 2,853	\$ 6,230
Employee future benefits	2,697	2,658	2,674
Other	491	274	560
	4,357	5,785	9,464
Future income tax liabilities:			
Financial instruments	29	1,799	2,234
Capital assets	763	641	559
Other	720	348	386
	1,512	2,788	3,179
Total	\$ 2,845	\$ 2,997	\$ 6,285

No valuation allowance has been recorded against the future income tax assets as Central has determined that it is more likely than not that the future income tax assets will be realized through a combination of future reversals of temporary differences and taxable income.

Central's effective tax rate differs from the amount that would be computed by applying the federal and provincial statutory rates of 30.5% (2009 – 30.5%; 2008 – 31.0%) to income before taxes. The reasons for this are as follows:

(Percentage of pre-tax income)	2010	2009	2008
Combined federal and provincial statutory income tax rates	30.5	30.0	31.0
Reduction available to credit unions	(17.0)	(16.0)	(16.0)
Impact of completion of tax election as described below	(3.0)	–	–
Other	(0.8)	0.7	0.6
Total	9.7	14.7	15.6

On July 1, 2008 Central acquired substantially all of the assets of Credit Union Central of Ontario Limited (CUCO). The terms of the Combination Agreement (the Agreement) between Central and CUCO provided for the transfer of certain of these assets to Central in 2009 and the Agreement further required the parties to elect to transfer those assets at their adjusted cost base pursuant to subsection 85(1) of the Income Tax Act (ITA).

As such, Central acquired these assets on a tax-deferred basis during its 2009 fiscal year and recognized a future tax liability of approximately \$1.7 million. During the year ended December 31, 2010, Central and CUCO determined that the election should more appropriately have reflected the fair value of the transferred assets. Accordingly, the parties agreed to amend the Agreement and the related tax election. Central and CUCO have jointly filed a revised election under subsection 85(1) of the ITA to reflect the transfer of these assets at their agreed value with the result that Central reversed the related future tax liability and record a credit to income tax expense of \$1.7 million during the year.

26. Guarantees and contingencies

Central is exposed to risk as a party to off-balance sheet financial instruments that, in the normal course of business, are used to meet its own and its credit union members' financial needs. These instruments include guarantees such as standby letters of credit as well as commitments to accept deposits at agreed rates and terms.

(Contractual amounts in thousands of dollars)	2010	2009	2008
Standby letters of credit	\$ 122,644	\$ 148,507	\$ 172,170
Commitments to extend credit	\$ 3,364,105	\$ 2,059,036	\$ 2,894,462

The fair value of Central's derivative guarantees is included in *Note 30*.

27. Commitments under leasing agreements

Central has obligations under operating lease agreements for equipment. Future minimum operating lease commitments for equipment are as follows:

(Thousands of dollars)	
Less than 1 year	\$ 1,746
More than 1 year and less than 2 years	950
More than 2 years and less than 3 years	707
More than 3 years and less than 4 years	565
More than 4 years and less than 5 years	457
	\$ 4,425

Total lease payments charged to net income for the year were **\$2.24** million (2009 – \$2.85 million; 2008 – \$1.12 million)

28. 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. Also shown are average effective yields, by the earlier of the contractual repricing or maturity dates.

(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	\$ 121.3 0.89%	\$ — —	\$ — —	\$ — —	\$ — —	\$ — —	121.3 0.89%
Securities	—	1,164.0 1.46%	547.3 2.86%	5,466.6 2.84%	1,323.6 4.05%	238.7 —	8,740.2 2.76%
Amounts on deposit with regulated financial institutions	—	100.0 1.18%	35.2 5.16%	—	—	0.2 —	135.4 2.21%
Loans	121.9 2.36%	657.4 1.59%	29.2 3.64%	297.5 3.20%	6.8 5.70%	(2.5) —	1,110.3 2.19%
Other assets	—	8.4 4.93%	15.4 4.59%	13.3 5.20%	—	231.3 —	268.4 0.68%
Total	\$ 243.2	\$ 1,929.8	\$ 627.1	\$ 5,777.4	\$ 1,330.4	\$ 467.7	\$ 10,375.6
	1.18%	1.50%	3.07%	2.86%	4.06%	—	2.61%
Liabilities							
Notes	\$ — —	\$ 394.6 1.13%	\$ — —	\$ 224.4 3.51%	\$ — —	\$ 1.5 —	620.5 1.99%
Deposits	949.0 0.94%	2,232.8 1.01%	2,672.3 1.68%	2,704.1 2.72%	1.5 2.71%	60.7 —	8,620.4 1.74%
Subordinated debt	—	—	50 4.52%	150.0 4.00%	—	0.6 —	200.6 4.12%
Obligations related to securities sold under repurchase agreements	—	162.3 1.00%	—	—	—	0.1 —	162.4 1.00%
Other liabilities	—	—	—	—	—	195.5 —	195.5 —
Members' equity	—	—	—	—	—	576.2 —	576.2 —
Total	\$ 949.0	\$ 2,789.7	\$ 2,722.3	\$ 3,078.5	\$ 1.5	\$ 834.6	\$ 10,375.6
	0.94%	1.03%	1.73%	2.84%	2.71%	—	1.66%
On Balance Sheet Gap	(705.8)	(859.9)	(2,095.2)	2,698.9	1,328.9	(366.9)	
Off Balance Sheet Gap	—	1,723.0	1,604.1	(2,142.9)	(1,184.2)	—	
Total Gap – 2010	\$ (705.8)	\$ 863.1	\$ (491.1)	\$ 556.0	\$ 144.7	\$ (366.9)	
Total Gap – 2009	\$ (698.7)	\$ (86.7)	\$ (131.5)	\$ 1,330.8	\$ (102.5)	\$ (311.5)	
Total Gap – 2008	\$ (80.3)	\$ (1,132.6)	\$ (58.7)	\$ 1,598.9	\$ 53.6	\$ (380.9)	

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.

Additional information on the impact of changes in interest rates on Central's interest margin and the fair value of Central's Members' Equity can be found in *Note 31*.

29. Financial instruments – Foreign currency exposure

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

(Thousands of U.S. dollars)	2010	2009	2008
Assets			
Cash	\$ 34,014	\$ 42,003	\$ 28,445
Securities	750,620	503,665	423,771
Amounts on deposit with regulated financial institutions	7,800	25,828	79,744
Loans	567	2,086	5,496
Other	609	288	10,170
	793,610	573,870	547,626
Liabilities			
Deposits	774,730	579,635	508,634
Other	13,917	–	–
	788,647	579,635	508,634
On balance sheet exposure	4,963	(5,765)	38,992
Off balance sheet exposure	7,787	4,870	(35,811)
	\$ 12,750	\$ (895)	\$ 3,181

Central does not have significant exposure to other foreign currencies.

30. Financial instruments – Fair value

The following table sets out the fair values of on-balance sheet and derivative instruments of Central 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.

(Millions of dollars)	Fair Value		Book Value		Unrealized Gain (Loss)	
	2010	2009	2010	2009	2010	2009
Assets						
Cash	\$ 121.34	\$ 202.60	\$ 121.34	\$ 202.60	\$ -	\$ -
Securities	8,740.11	8,253.77	8,740.18	8,254.18	(0.07)	(0.41)
Amounts on deposit with regulated financial institutions	135.60	55.33	135.36	54.75	0.24	0.58
Loans	1,113.62	2,164.16	1,110.29	2,165.96	3.33	(1.80)
Other assets	37.95	74.20	37.31	71.99	0.64	2.21
Liabilities						
Notes & Deposits	9,267.67	9,385.24	9,240.89	9,345.27	(26.78)	(39.97)
Obligations related to securities sold under repurchase agreements	162.35	747.74	162.36	748.65	0.01	0.91
Subordinated note	200.28	203.08	200.57	200.58	0.29	(2.50)
Off-Balance Sheet Financial Instruments						
Derivatives	(23.72)	62.50	(23.72)	62.50	-	-
Total					\$ (22.34)	\$ (40.98)

Central's net unrealized gain on its financial instruments at December 31, 2008 was \$62.09 million.

31. Nature and extent of risks arising from financial instruments

The nature of Central's holdings of financial instruments exposes Central 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's lending operations, its investment activities and its payment and settlement operations. Credit risk associated with Central's loans to its member credit unions is minimal because these loans are fully secured and Central has no previous history of losses on these loans. 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.

In managing credit risk exposure, Central 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's securities and loans is included in *Notes 8 and 10* 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 is responsible for ensuring that managed assets are available to meet its own needs, together with those of its member credit unions.

Central is also the manager of national liquidity under the terms of the National Liquidity Fund Agreement (NLFA), an agreement by which participating central credit unions have agreed to provide liquidity to one another under certain conditions. Under this agreement, participating central credit unions are required to keep liquid securities in the amount of 2 percent of their respective system's assets in segregated accounts under the management of Credit Union Central of Canada.

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

Provincial regulations in Ontario require Class 2 credit unions, which represent approximately 98 percent of the Ontario system by assets, adhere to a "prudent person" approach to maintaining adequate liquidity. As a condition of membership, Ontario credit unions are required to enter into a Liquidity Agreement with Central. Under the terms of those agreements, Central's member credit unions in Ontario must maintain deposits with Central equal to the greater of that required by Ontario provincial regulations less cash on hand, and 6 percent of assets.

Central's liquidity management framework is designed to ensure that reliable and cost-effective sources are available to satisfy current and prospective commitments of Central's member credit unions, as well as Central's obligations under the NLFA. 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 NLFA.

Diversification, which provides flexibility, minimizes concentration risk and generally lowers the cost of funds, is a crucial component of Central's overall liquidity management strategy. Central's primary funding source is deposits

from credit unions, the majority of which are required by regulation.

Central 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's commercial paper and medium-term note programs and lines of credit with other financial institutions, details of which are provided in *Note 14*. Central's members also use asset securitization programs as an alternative source of funding and for liquidity and asset/liability management purposes.

Central'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's and its member credits unions' earnings. Central constantly monitors and assesses the liquidity requirements of its members in light of current and forecast economic conditions. This allows Central to identify potential liquidity imbalances and to take corrective action through its liquidity management framework.

Central has imposed limits on projected net fund outflows for specified short-term periods and on the minimum degree of liquidity inherent in its pool of marketable securities. Central also has minimum funding coverage ratios on the lines of credit granted to its members. The contractual maturity of Central's non-trading notes and deposits is included in *Notes 14* and *15* of the Consolidated Financial Statements.

Market Risk

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

Interest rate risk is the potential adverse impact on Central'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 potentially has significant exposure to interest rate changes. Information regarding the weighted average yields and costs of Central's assets and liabilities is provided in *Note 28*.

Central 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.

Central's interest rate risk policy defines standards and sets acceptable risks limits on Central's interest margin and the fair value of Central's net assets over a 12-month horizon. Those limits are based on an immediate and sustained +/- 200 basis point shift in the yield curve. The limit for fluctuations in interest income from the base forecast is 25% and the limit for changes in fair value of net assets from the base forecast is 20%.

The following table summarizes the pre-tax impact of a sustained 200 basis increase or decrease in interest rates on interest margin and fair value of Members' Equity.

Before Tax Impact of: (Thousands of dollars)	Interest Margin		Fair Value of Members' Equity	
	Amount	Percentage of Base Forecast	Amount	Percentage of Base Forecast
200 bp increase in rates	7,631	12.1	(61,866)	(10.5)
200 bp decrease in rates	(5,117)	(8.1)	24,493	4.8

Central also analyzes the impact of interest rate volatility on net interest income using Monte Carlo simulations, and sets statistical limits on the variance of net interest income in such simulations.

Foreign exchange rate risk is the potential adverse impact on Central's earnings and economic value due to currency rate movements and volatility. Central 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 December 31, 2010, Central did not have significant exposure to changes in foreign currency exchange rates as indicated in *Note 29*.

33. Capital management

Central's capital levels are regulated under federal guidelines issued by the Office of the Superintendent of Financial Institutions and provincial regulations administered by the Financial Institutions Commission of British Columbia. Pursuant to federal regulations, Central is required to maintain a borrowing multiple, the ratio of debt to regulatory capital, of 20:1 or less.

Central targets an operating borrowing multiple of 16:1 to 18:1 to ensure that it has capacity to absorb sudden increases in system deposits or to increase external borrowings to meet member demand for funds.

Provincial regulations, which apply to Central, use a risk-weighted approach to capital adequacy that is based on standards issued by the Bank for International Settlements. The provincial risk weightings, which generally parallel the methodology used by OSFI to regulate Canadian chartered banks, require Central's risk-weighted capital, calculated by dividing capital by risk-weighted assets, to be no less than 8 percent. Furthermore, Central must maintain a risk-weighted capital ratio of at least 10 percent to enable member credit unions in British Columbia to risk-weight their deposits with Central at zero percent.

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

At year-end, Central was in compliance with these regulatory requirements.

▶ SYSTEM AND CORPORATE INFORMATION |

SYSTEM STRUCTURE

Credit unions are co-operative financial organizations. They are much like banks in their physical appearance, the services they offer and the nature of their operations. There are, however, major differences. Credit unions are owned by their members (customers). These members participate in the development of operating policies by serving as credit union directors or as members of credit union committees.

Each credit union is an autonomous unit, operated by management appointed by its board of directors. The directors are elected by credit union members.

A key principle in the operation of a credit union is that each member, regardless of financial involvement, is entitled to an equal vote in electing directors and in directing the affairs of the organization. This co-operative principle ensures that credit unions remain accountable to their members.

THE SYSTEM IN CANADA

In Canada, there are 877 credit unions and caisses populaires, many of them with multiple branch offices. They had, at December 31, 2010, estimated combined Canadian dollar assets of \$256 billion and a membership of 10.8 million. The credit union system consists of a number of elements. In order of importance, they are:

1. the credit union members who own the credit union. In other financial institutions, these would be referred to as “customers.”
2. the individual credit unions. Through their offices, they provide financial and other services to their members.
3. provincial credit union centrals, which are owned collectively by the individual credit unions of the province. They provide services to their member credit unions.
4. the national credit union central facility, which is owned collectively by provincial centrals. This entity provides services to provincial centrals.
5. other affiliated organizations that complement the system.

Throughout its history, the Canadian credit union system has maintained a record of sound, prudent financial management, solid growth, and uncompromising service to credit union members.

THE SYSTEMS IN BRITISH COLUMBIA AND ONTARIO

In British Columbia, there are 45 local credit unions with 370 branch locations, serving 1.7 million members. In Ontario there are 119 active credit unions that are members of Central; they have 470 branches and serve 1.2 million members.

Credit union membership in British Columbia mirrors that of Canada generally; one in three British Columbians belongs to a credit union. Ontario's membership is one in ten.

Central 1 Credit Union (Central)

Central's members include credit unions, co-operatives, and other corporations.

Central provides financial, trade associational and support services to its member credit unions. Central's key financial role is management of the provincial liquidity reserves and provision of central and investment banking services to credit unions.

Member credit unions are required to maintain their statutory liquidity reserves with Central. The vast majority of deposits that credit unions do not use to make loans to members are invested in or on deposit with Central.

As a central banker to its members, Central acts as the primary liquidity vehicle. As a member of the Canadian Payments Association, it provides centralized cheque processing and other related payments services. Central also plays a key role in delivery of electronic transaction services, ranging from Internet banking to bill payment.

As a commercial banker, Central provides a variety of lending services, primarily to credit unions. These include short- and long-term loans at both fixed and variable rates to meet a large variety of funding requirements.

Other services provided to Central's members include:

- government relations and legislative representation;
- property, bonding, directors' and officers', key person, corporate errors and omissions, and insurance agency liability insurance;
- policy and procedures manuals;
- advice on interest rates and economic trends;
- administration of a pension plan and benefits program;
- education and training programs;
- service and product development;

- market research and planning;
- province-wide advertising;
- public relations, publications and communications services;
- personnel recruiting, salary administration and employee relations;
- trusteeship and administration of registered savings plans (where permitted by law);
- consulting, operational reviews and strategic planning assistance; and
- business library and reference services.

Legislation

There are a number of statutes under which Central and credit unions in British Columbia and Ontario are regulated.

Central was incorporated under the former *Credit Union Act* of British Columbia. It also holds a certificate under the *Cooperative Credit Associations Act* (Canada) (the “federal Act”).

The federal Act regulates Central’s investments and lending activities, its capital adequacy and its borrowing ratio. The federal Act is administered by the federal Superintendent of Financial Institutions.

The federal Act provides Central with access to funds from the Canada Deposit Insurance Corporation (CDIC). CDIC is authorized to extend financial accommodation to central credit unions to enable them to meet short-term requirements for liquid funds needed to discharge maturing debt obligations. This provision facilitates Central’s role as a liquidity vehicle for its Class A member credit unions.

Credit unions in British Columbia and Ontario are incorporated under provincial credit union legislation. B.C. credit unions are authorized to carry on deposit business or both deposit and trust business under the *Financial Institutions Act of British Columbia*. Credit unions in Ontario are incorporated under that province’s *Credit Unions and Caisses Populaires Act, 1994*.

Provisions relating to credit union membership and shares in British Columbia are set out in the *Credit Union Incorporation Act* and, in Ontario, in the *Credit Unions and Caisses Populaires Act, 1994*.

Regulation

In B.C., the *Financial Institutions Act* requires that each credit union have an audit committee and be audited by an independent auditor. Credit unions

are also subject to annual inspection by the Superintendent of Financial Institutions, an official of the Financial Institutions Commission (FICOM), or his appointee. FICOM is established under the *Financial Institutions Act* and is empowered to regulate the province’s financial institutions, including credit unions. It is responsible to the provincial Minister of Finance.

In Ontario, credit unions are regulated through a comprehensive framework that involves both the Deposit Insurance Corporation of Ontario (DICO), an agency of the province, and the Financial Services Commission of Ontario (FSCO), an arm’s-length agency of the Ministry of Finance.

FSCO registers credit unions and caisses populaires under the *Credit Unions and Caisses Populaires Act, 1994*. Under that Act, every credit union must have an audit committee composed of directors of that credit union and be audited by an independent auditor.

DICO is responsible for overseeing solvency and for providing deposit insurance protection for deposits held in Ontario credit unions, up to prescribed limits. As part of this responsibility, DICO has the authority to issue by-laws to ensure that insured institutions operate in accordance with sound business and financial practices. In 2009, DICO legislatively assumed many of the regulatory powers previously administered by FSCO.

Deposit Insurance

The Credit Union Deposit Insurance Corporation of British Columbia (CUDIC), a government corporation, protects against the loss of deposits held by British Columbia credit unions. CUDIC’s responsibility is to administer and operate a deposit insurance fund. FICOM is responsible for administering CUDIC.

The fund administered by CUDIC is maintained through assessments paid by credit unions. In the fall of 2008, the B.C. government extended CUDIC’s guarantee to all deposits accepted by B.C. credit unions.

To minimize the likelihood of claims arising against the fund and to ensure the safety of members’ deposits in credit unions, FICOM has wide-ranging regulatory and supervisory powers over the operations and practices of credit unions. FICOM can require undertakings of credit unions and their directors and officers, issue cease and desist orders, remove directors and officers from office, and place a credit union under its supervision.

In Ontario, DICO protects members of Ontario credit unions against the loss of deposits held in credit unions. Deposit insurance covers eligible deposits up to the prescribed statutory limit of \$100,000 in each of the following categories – deposits held in one name; jointly in more than one name; and in trust accounts. Deposits in registered plans (RRSPs, RRIFs, RESPs and TSFAs) are unlimitedly guaranteed.

The deposit fund is financed by insurance premiums paid by each credit union. DICO has wide-ranging regulatory powers to ensure credit unions are acting in a manner that protects deposits.

Insured institutions that exhibit a higher than normal risk profile are monitored more closely by DICO. This involves more frequent reporting and examinations to ensure that any deteriorating trends are actively monitored and appropriately managed and addressed by the institution.

Institutions which meet certain risk-based criteria may be placed under supervision. When an insured institution goes out of business, a liquidator is appointed to manage the orderly winding-up of operations. In most cases, DICO is appointed as liquidator, in order to pay depositors and wind up the affairs in an orderly manner to minimize the impact on the credit union's members, while maximizing the recovery of assets.

In circumstances where a credit union encounters serious financial or operational distress, DICO has the authority to place it under administration.

Stabilization Authority

Stabilization Central Credit Union of British Columbia was incorporated in 1989 to facilitate self-regulation within the credit union system. Its Core Values provide that its primary purpose is to monitor credit unions to facilitate early action to correct any identified problems. The *Financial Institutions Act* provides that a central credit union may be designated a stabilization authority. Accordingly, Stabilization Central supervises credit unions assigned to it by the Financial Institutions Commission. As a condition of holding a business authorization, every local credit union in British Columbia must become and remain a member of Stabilization Central. Stabilization Central is funded by assessment of its members. It is directed by a board elected or appointed by and from its member credit unions. It, too, is regulated under the *Financial Institutions Act*, the *Credit Union Incorporation Act* and regulations thereunder.

CORPORATE GOVERNANCE

The Board of Directors of Central 1 Credit Union comprises 16 elected or appointed representatives of its member credit unions.

Twelve directors are elected to represent “peer groups”, which are composed of credit unions grouped on an asset-size or regional basis; four are appointed (two from each credit union) by Central's two largest member credit unions.

At fiscal year-end 2010, seven of Central's 16 directors were credit union presidents, chief executive officers or general managers. All have a professional or business background that contributes significant expertise at the board table. Three of Central's directors are female.

Central's Directors come from every part of British Columbia and Ontario — from Vancouver to Williams Lake, from Trail to Courtenay and from Thunder Bay to Ottawa. Members of Central's executive management team do not sit on the Board; it is composed entirely of “external” directors. In furthering the independence of its directors, Central's corporate policies also provide that every director has the right to communicate directly, at Central's expense, with Central's auditors, legal counsel and executive compensation counsellors.

Directors are elected or appointed to three-year terms on a rotating basis. While there is no limit on the number of terms that one may serve on the Board, by policy no director may serve more than three consecutive years as Chairperson, an individual elected by and from the Board.

All of Central's directors participate in the national system's Credit Union Director Achievement (CUDA) program. Pursuant to a regulation adopted under the *Credit Union Incorporation Act*, Central requires that every credit union director elected for the first time since 1991 complete the New Director Orientation Program. Completion of the CUDA program involves an additional six courses, including, among other topics: board development and performance evaluation and management recruitment, performance planning and evaluation.

The Board of Directors met eight times in 2010. During the year, it reviewed and revised Central's corporate goals and initiatives and monitored the performance of the President and Chief Executive Officer. Both the Board and its Committees meet, in camera, as necessary to fulfill their statutory obligations.

▶ THE CREDIT UNION SYSTEM

Annually, each director and executive manager, as well as other designated officers of Central, must complete and file a Conflict of Interest Disclosure Statement and a Related Party Declaration. Directors are also required to certify that they have read and considered Central's Code of Ethics for Directors and agree to abide by it and to conduct themselves, accordingly.

One of the Board's most important functions remains communication and liaison with Central's principal shareholders — member credit unions in British Columbia and Ontario. In 2010, the Board met with the credit unions that comprise the Northline Region of British Columbia and the Ontario Region, in conjunction with Central's annual general meeting. Opportunities were provided for shareholders to discuss issues and reach consensus around topical matters at its general membership meeting and at peer group and contact meetings in both provinces. At each peer group or contact meeting, the Director elected to represent the group apprised constituents of matters under consideration by the Board of Directors.

▶ BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

Director Resident Location	Board Representation	Other Representation	Attendance at Board Meetings	Remuneration (Honorarium & per diem)
Richard Allen Courtenay, B.C.	Peer Group Four Vancouver Island Region	Director Coastal Community Credit Union	7/8	\$33,001
Daniel A. Burns Vancouver, B.C.	Coast Capital Savings Credit Union Appointee	Director Coast Capital Savings Credit Union	6/8	\$37,502
Forrest Drinnan Trail, B.C.	Peer Group Three Kootenay Region	Director Kootenay Savings Credit Union	8/8	\$43,001
Terry Enns Surrey, B.C.	Board Vice-Chairperson, Peer Group Five (larger credit unions, Lower Mainland)	Director First West Credit Union	8/8	\$42,644
Fred Gorbet Thornhill, Ont.	Peer Group Seven Ontario Region	Director Alterna Savings Credit Union Limited	8/8	\$33,001
Sean Jackson Vineland, Ont.	Peer Group Seven Ontario Region	President & Chief Executive Officer Meridian Credit Union Limited	8/8	\$29,001
Scott Kennedy Kakabeka Falls, Ont.	Peer Group Seven Ontario Region	Director Superior Credit Union Limited	8/8	\$55,751
Catherine McCreary Vancouver, B.C.	Vancouver City Savings Credit Union Appointee	Director Vancouver City Savings Credit Union	7/8	\$43,358
Ross Montgomery Surrey, B.C.	Peer Group Five (larger credit unions, Lower Mainland)	Director Westminster Savings Credit Union	7/8	\$31,501
J. Philip Moore Burnaby, B.C.	Peer Group Six (smaller credit unions, Lower Mainland)	General Manager Greater Vancouver Community Credit Union	8/8	\$28,252
Tracy Redies Surrey, B.C.	Coast Capital Savings Credit Union Appointee	President & Chief Executive Officer, Coast Capital Savings Credit Union	5/6	\$11,463
Jack Smit London, Ont.	Board Chairperson, Peer Group Seven, Ontario Region	President & Chief Executive Officer Libro Credit Union Limited	7/8	\$83,247

▶ BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

Director Resident Location	Board Representation	Other Representation	Attendance at Board Meetings	Remuneration (Honorary & per diem)
Malcolm Stoffman Hamilton, Ont.	Peer Group Seven Ontario Region	Chief Executive Officer Momentum Credit Union Limited	6/6	\$22,463
Tamara Vrooman Vancouver, B.C.	Vancouver City Savings Credit Union Appointee	Chief Executive Officer Vancouver City Savings Credit Union	5/8	\$0
Fred Wagner Williams Lake, B.C.	Peer Group One Northline Region	Chief Executive Officer Williams Lake & District Credit Union	8/8	\$49,499
Jack Whittaker Osoyoos, B.C.	Peer Group Two Okanagan Region	Director Osoyoos Credit Union	7/8	\$53,252

EXECUTIVE MANAGEMENT

Donald Rolfe

President and Chief Executive Officer

Rowland Kelly

Chief Operating Officer and Chief Financial Officer

Richard J. Thomas

Senior Vice-President, Government Relations and Corporate Secretary

Linda Archer

Senior Vice-President, Marketing and Human Resources

Oscar van der Meer

Chief Technology and Payments Officer

Helen Blackburn

Senior Vice-President, Strategy, Planning and Integration

Charles Milne

Senior Vice-President, Treasury and Funding Services

Committee	# Meetings	Members – Credit Union	Attendance**	Functions
Audit	8	Daniel Burns – Coast Capital Savings Forrest Drinnan – Kootenay Savings Fred Gorbet – Alterna Savings Ross Montgomery – Westminster Savings *Fred Wagner – Williams Lake & District	4/6 6/6 8/8 8/8 8/8	Elected annually by and from the Board of Directors. Reviews, with the external auditor, Central’s audited financial statements for the fiscal year then ended prior to presenting them to the Board of Directors for approval. Reviews the contents of management’s representation letter to the external auditors. Provides financial oversight together with the Investment and Loan Committee on behalf of the Board. Oversees internal audit function. Reviews and assesses Central’s Enterprise Risk Management program.
Conduct Review and Corporate Governance	8	Terry Enns – First West Sean Jackson – Meridian *Catherine McCreary – Vancouver City Savings Philip Moore – Greater Vancouver Community Jack Smit – Libro Jack Whittaker – Osoyoos	7/7 2/4 4/4 3/4 7/7 4/4	Elected annually by and from the Board, this Committee is required by both federal and provincial statutes but has slightly differing responsibilities under each. Where required, it approves related-party transactions, establishes and ensures adherence to measures preventing conflicts of interest (resolving them if they occur), and provides disclosure to customers regarding parties with whom they are dealing. Monitors best practices and new trends in board governance; oversees quality and effectiveness of corporate governance policies and procedures; leads annual board and director evaluation process, assesses and makes recommendation thereon; biennially reviews director remuneration and perquisites and expense policies; reviews director education and orientation policies, practices and funding; reviews terms of reference of board of directors, all board committees and president and CEO; reviews adequacy of directors and officers liability and corporate errors and omissions insurance coverage; reviews Central’s Rules; monitors the adoption and implementation of and adherence to enterprise risk management guidelines relative to corporate governance.

*Chairperson.

SHAREHOLDER INFORMATION 2010 – CORPORATE GOVERNANCE

Committee	# Meetings	Members – Credit Union	Attendance**	Functions
Governance Review Task Force	5	Beth Bruesch, Peterborough Community David Craigen, First Theresa Dergousoff, Grand Forks District Savings Terry Enns, First West Bruce Howell, Prospera Sean Jackson, Meridian Wayne Lee, Community First *Catherine McCreary, Vancouver City Savings Philip Moore, Greater Vancouver Community John Morton, Williams Lake and District Jack Smit, Libro Kathy Stevenson, Interior Savings Jack Whittaker, Osoyoos	5/5 5/5 5/5 3/5 4/5 3/5 5/5 5/5 5/5 5/5 5/5 3/5 5/5	Established as an ad hoc Committee of the Board for the purpose of reviewing and making recommendations regarding the governance of Central to the Board. Membership comprises the six members of the Board's Conduct Review and Corporate Governance Committee and up to seven other individuals appointed by the Committee.
Human Resources	5	Richard Allen – Coastal Community Scott Kennedy – Superior Ross Montgomery – Westminster Savings *Jack Smit – Libro Jack Whittaker – Osoyoos	4/4 5/5 3/4 4/5 4/5	Elected by and from the Board of Directors. Oversees recruitment of President & CEO. Reviews human resources matters including the compensation of the President & CEO; manages process of evaluating performance of President & CEO; and serves as administrator of non-registered supplemental pension plan. Oversees Ontario Region employees' pension plan. Reviews methodology by which President & CEO assesses performance of other executive management. Reviews succession planning for executive management.
Investment and Loan	5	*Philip Moore – Greater Vancouver Community Tracy Redies – Coast Capital Savings Jack Smit – Libro Malcolm Stoffman – Momentum Tamara Vrooman – Vancouver City Savings	5/5 3/4 5/5 3/4 4/5	Elected annually by and from the Board of Directors. Reviews Central's investment and lending policies and recommends amendments to the Board.
Legislative	3	Antero Elo – Finnish Terry Enns – First West Barry Forbes – Westminster Savings Sean Jackson – Meridian John Lahey – Alterna Savings Philip Moore – Greater Vancouver Community Tracy Redies – Coast Capital Savings Tamara Vrooman – Vancouver City Savings *Jack Whittaker – Osoyoos	3/3 3/3 3/3 2/3 3/3 3/3 1/2 3/3 3/3	Appointed annually by the Board of Directors and composed of nine people (six from credit unions having head offices in B.C. and three from credit unions having head offices in Ontario; one of the Ontario members and two of the B.C. members required to be directors or officers from a credit union with less than 10,000 members). Analyzes legislative developments at both the national and provincial levels and recommends policies and strategies to the Board in connection therewith.

*Chairperson.

Committee	# Meetings	Members – Credit Union	Attendance**	Functions
Strategic Relationships	5	Daniel Burns – Coast Capital Savings Terry Enns – First West Sean Jackson – Meridian Catherine McCreary – Vancouver City Savings *Jack Smit – Libro	5/5 5/5 5/5 5/5 5/5	Appointed by the Board of Directors, the Committee comprises the Board Chairperson, four other Directors and the President & CEO. Responsible for negotiating the consolidation of the wholesale financial (business) assets of the second and third tiers of the Canadian credit union system and considering strategic issues of national concern, with other parties including, but not limited to, system owned suppliers.
System Operations	6	Sheila Baker – Coast Capital Savings Mark Carter – Westminster Savings David Craigen – First Janet Grantham – Sydenham Community Gus Hartl – Aldergrove Bruce Howell – Prospera Denis Laframbois – Your Rick Sielski – Vancouver City Savings Al Suraci – Northern Brent Tremblay – Kootenay Savings *Fred Wagner – Williams Lake and District Michael Wagner – Salmon Arm Savings	2/6 5/6 5/6 5/6 4/4 3/6 4/4 5/6 4/4 4/6 5/6 4/6	Appointed annually by the Board of Directors. Recommends initiatives to facilitate the implementation of the system's strategic plan and reviews and recommends Central's dues budget for the forthcoming year. Recommends the implementation of system-wide programs, products and services for credit unions and/or their members. Recommends to management funding of operationally-related projects.

*Chairperson.

**Attendance records for past directors and past committee members whose service on a committee was discontinued during the year are not documented.

Thanks are also extended to credit union directors and officers who serve on the eCommerce Committee, the Interac Association, the C2C Committee, the Operations Manual Advisory Committees, the RRSP Advisory Committee, the RRSP Trustees Committee, and the Province-Wide Communications Committee.

The directors of Central Financial (1989) Corporation, Central Data Systems Ltd., CU Financial Services Ltd., Inovera Solutions Inc., Central Risk and Insurance Management Services Ltd., the Stabilization Fund Corporation, Landmark Credit Ltd. and 0789376 B.C. Ltd. are appointed from the management of Central. Policy issues relative to subsidiary corporations are referred to Central's Board of Directors.

PROVINCIAL AND NATIONAL INVOLVEMENT

Central appointed representatives to the following affiliated organizations in British Columbia, Ontario and across Canada.

CREDIT UNION CENTRAL OF CANADA

Daniel Burns, Director
Terry Enns, Alternate Delegate
Sean Jackson, Director
Scott Kennedy, Director
Philip Moore, Director
Donald Rolfe, Director
Jack Smit, Delegate

BRITISH COLUMBIA CO-OPERATIVE ASSOCIATION

Richard Allen, Delegate
Daniel Burns, Delegate
Catherine McCreary, Delegate
Jack Whittaker, Delegate

CANADIAN CO-OPERATIVE ASSOCIATION

Richard Allen, Delegate
Daniel Burns, Delegate
Jill Kelly, Director
Scott Kennedy, Delegate
Catherine McCreary, Delegate
David Sitaram, Director and Delegate

CANADIAN PAYMENTS ASSOCIATION

Oscar van der Meer, Director

CEDA

Sandi MacArthur
Nancy McNeill
Susan McNulty
Jeremy Trigg
Oscar van der Meer

CONCENTRA FINANCIAL SERVICES ASSOCIATION

Terry Enns, Alternate Delegate
Scott Kennedy, Director
Jack Smit, Delegate
Malcolm Stoffman, Director

THE CO-OPERATORS

Daniel Burns, Director
Janet Grantham, Director
Rowland Kelly, Director
Sheena Lucas, Director
David Sitaram, Director
Richard Allen, Delegate
Sean Jackson, Delegate
Scott Kennedy, Delegate
Fred Wagner, Delegate

CREDENTIAL FINANCIAL INC.

Stephen Bolton, Director
Rod Dewar, Director
Tamara Vrooman, Director

CREDIT UNION FOUNDATION OF BRITISH COLUMBIA

Ross Montgomery, Representative

CUISA MGA

Dave Barker, Director

THE CUMIS GROUP LTD.

Terry Enns, Director and Alternate Delegate
John Lahey, Director
Don Rolfe, Director
Jack Smit, Delegate

CUPP SERVICES LTD.

Jody Burk, Director
Forrest Drinnan, Director
*Terry Enns, Director
Rick Parent, Director
Richard J. Thomas, Director

FEDERATED CO-OPERATIVES LTD.

Jack Whittaker, Delegate

NORTHWEST & ETHICAL INVESTMENTS L.P.

Ross Montgomery, Director
Jack Smit, Director

STABILIZATION CENTRAL CREDIT UNION OF BRITISH COLUMBIA

Terry Enns, Alternate Delegate
Jack Smit, Delegate
Jack Whittaker, Director

*Chairperson

As of December 31, 2010

CENTRAL CREDIT UNIONS

Central 1 Credit Union
Credit Union Central of Ontario Limited
Stabilization Central Credit Union of British Columbia

BY PEER GROUPS

GROUP ONE (Northline)

Bulkley Valley Credit Union
Integris Credit Union
Lake View Credit Union
North Peace Savings and Credit Union
Northern Savings Credit Union
Spruce Credit Union
Williams Lake and District Credit Union

GROUP TWO (Okanagan)

Enderby & District Credit Union
Interior Savings Credit Union
Osoyoos Credit Union
Revelstoke Credit Union
Salmon Arm Savings and Credit Union
Summerland & District Credit Union
VantageOne Credit Union

GROUP THREE (Kootenay)

Columbia Valley Credit Union
Creston & District Credit Union
East Kootenay Community Credit Union
Grand Forks District Savings Credit Union
Heritage Credit Union
Kootenay Savings Credit Union
Nelson & District Credit Union

GROUP FOUR (Vancouver Island)

Coastal Community Credit Union
Cumberland & District Credit Union
First Credit Union
Island Savings Credit Union

Ladysmith & District Credit Union
Union Bay Credit Union

GROUP FIVE

Coast Capital Savings Credit Union
First West Credit Union
North Shore Credit Union
Prospera Credit Union
Vancouver City Savings Credit Union
Westminster Savings Credit Union

GROUP SIX

Aldergrove Credit Union
CCEC Credit Union
Community Savings Credit Union
Compensation Employees Credit Union
Greater Vancouver Community Credit Union
Gulf and Fraser Fishermen's Credit Union
Khalsa Credit Union
Mount Lehman Credit Union
Sharons Credit Union
Sunshine Coast Credit Union
Vancouver Firefighters Credit Union
V.P. Credit Union

GROUP SEVEN (Ontario)

3M Employees (London) Credit Union Limited
Adjala Credit Union Limited
Alterna Savings & Credit Union Limited
Anishinabek Nation Credit Union Inc.
APPLE Community Credit Union Limited
Auto Workers Community Credit Union Limited
Bay Credit Union Limited
Bayshore Credit Union Limited
Buduchnist Credit Union Limited
C.N.R. Employees' (Lakehead Terminal) Credit Union Ltd.
Canada Sand Papers Employees' (Plattsville) Credit Union Limited
Canal City Savings and Credit Union Limited
Cataract Savings & Credit Union Limited
CCB Employees Credit Union Limited

City Savings & Credit Union Limited
 CN London Credit Union
 Community First Credit Union Limited
 Community Savings & Credit Union Limited
 Copperfin Credit Union Limited
 Creative Arts Savings & Credit Union Limited
 Croatian (Toronto) Credit Union Limited
 Dunnville & District Credit Union Limited
 Durham Educational Employees Credit Union Limited
 Education Credit Union Limited
 Equity Credit Union Inc.
 Espanola & District Credit Union Limited
 Estonian (Toronto) Credit Union Ltd.
 ETCU Financial Credit Union Ltd.
 Etobicoke Aluminum Employees Credit Union Limited
 Federal Employees (Kingston) Credit Union Limited
 Finnish Credit Union Limited
 FirstOntario Credit Union Limited
 Food Family Credit Union Limited
 Fort Erie Community Credit Union Limited
 Fort York Community Credit Union Limited
 Frontline Financial Credit Union Limited
 G.S.W. (Fergus) Credit Union Limited
 Ganaraska Credit Union Ltd
 Goodyear Employees (Bowmanville) Credit Union Limited
 Grey Bruce Health Services Credit Union Limited
 Hald-Nor Community Credit Union Ltd.
 Hamilton Municipal Employees' Credit Union Ltd.
 Hamilton Teachers Credit Union Limited
 Health Care Credit Union Limited
 Heritage Savings & Credit Union Inc.
 Hir-Walk Employees' (Windsor) Credit Union Limited
 Hobart Employees' (Owen Sound) Credit Union Limited
 Holy Angels & St. Anne's Parish (St. Thomas) Credit Union Limited
 Italian Canadian Savings & Credit Union Limited
 Kawartha Credit Union Limited
 Kellogg Employees Credit Union Ltd.
 Kingston Community Credit Union Limited
 Korean Catholic Church Credit Union Limited

Korean (Toronto) Credit Union Limited
 Krek Slovenian Credit Union Ltd.
 L.I.U.N.A. Local 183 Credit Union Limited
 Lambton Financial Credit Union Limited
 Lasco Employees' (Whitby) Credit Union Limited
 Libro Credit Union Limited
 London Civic Employees' Credit Union Limited
 London Diesel Employees' Credit Union Limited
 London Fire Fighters' Credit Union Limited
 McMaster Savings and Credit Union Limited
 Margosa Credit Union Limited
 Media Group Financial Credit Union Ltd.
 Member Savings Credit Union Limited
 MemberOne Credit Union Ltd.
 Mennonite Savings and Credit Union (Ontario) Limited
 Meridian Credit Union Limited
 Miracle Credit Union Ltd.
 Momentum Credit Union Limited
 Motor City Community Credit Union Limited
 Municipal Employees (Chatham) Credit Union Ltd.
 Northern Credit Union Limited
 Northern Lights Credit Union Limited
 Northridge Savings & Credit Union Limited
 Ontario Educational Credit Union Limited
 Ontario Provincial Police Association Credit Union Limited
 Oshawa Community Credit Union Ltd.
 Ottawa Police Credit Union Limited
 Ottawa Women's Credit Union Limited
 PACE Savings & Credit Union Limited
 Parama Lithuanian Credit Union Limited
 Pedeco (Brockville) Credit Union Limited
 Peek Frean Employees' (Toronto) Credit Union Limited
 PenFinancial Credit Union Limited
 Peoples Credit Union Limited
 Peterborough Community Credit Union Limited
 Prosperity One Credit Union Limited
 Provincial Alliance Credit Union Limited
 QuintEssential Credit Union Limited
 R.B.W. Employees' (Owen Sound) Credit Union Limited

Railway Employees' (Sarnia) Credit Union Limited
Resurrection Credit Union Limited
Rochdale Credit Union Limited
Saugeen Community Credit Union Limited
Scarborough Hospitals Employees' Credit Union Limited
Sheridan Park Credit Union Limited
Slovenia Parishes (Toronto) Credit Union Limited
Smiths Falls Community Credit Union Limited
Southlake Regional Health Centre Employees' Credit Union Limited
Southwest Regional Credit Union Ltd.
Starnews Credit Union Limited
State Farm (Toronto) Credit Union Limited
Sudbury Credit Union Limited
Superior Credit Union Limited
Sydenham Community Credit Union Limited
Taiwanese Canadian Toronto Credit Union Limited
Talka Lithuanian Credit Union Limited
Thamesville Community Credit Union Limited
The Energy Credit Union Limited
The Fire Department Employees Credit Union
The Police Credit Union Limited
The Toronto Municipal Employees' Credit Union Limited
Thorold Community Credit Union
Toronto Catholic School Board Employees Credit Union Limited
Ukrainian Credit Union Limited
Unigasco Community Credit Union Limited
United Communities Credit Union Limited
United Employees Credit Union Limited
United Ukrainian Credit Union Limited
Unity Savings and Credit Union Limited
Utilities Employees Credit Union (Windsor) Limited
Victory Community Credit Union Limited
Wallace Barnes Employees' Credit Union Limited
Windsor Family Credit Union Limited
Your Credit Union Limited
Your Neighbourhood Credit Union Ltd.

Corporate Headquarters

Central 1 Credit Union
 1441 Creekside Drive
 Vancouver, B.C.
 Canada V6J 4S7

Ontario Regional Offices

Central 1 Credit Union
 2810 Matheson Boulevard East
 Mississauga, Ontario
 Canada L4W 4X7

Central 1 Credit Union
 908-120 Adelaide Street West
 Toronto, Ontario
 Canada M5H 1T1

Tel: 1 800 661 6813
www.central1.com

Debtholder Contact

Main Agent
 Computershare Trust Company of Canada

Street and mailing address
 510 Burrard Street, 3rd Floor
 Vancouver, B.C.
 Canada V6C 3B9

Tel: 604 661 9400
 Fax: 604 685 4979

www.computershare.com

**Central 1 Credit Union
 2011 Annual General Meeting**

The Annual General Meeting will be held on Saturday, April 30, 2011 at The Hyatt Regency Vancouver, 655 Burrard Street, Vancouver, BC.

Credit Ratings

(As of March 31, 2011)	Short-term debt	Senior long-term debt
Dominion Bond Rating Service	R-1 (Mid)	A (High)
Standard & Poor's	A-1	A+

MemberDirect® is a registered trademark of Credit Union Central of Canada.



Is a registered certification of The World Council of Credit Unions and is used under license.

For financial information inquiries, contact:
Chief Operating Officer and Chief Financial Officer
 Central 1 Credit Union
 1441 Creekside Drive
 Vancouver, B.C.
 Canada V6J 4S7

Tel: 1 800 661 6813 ext. 6473
 Fax: 604 737 5085