Second Quarter Report 2017
Report to Members

Central 1

Central 1 Reports Results for the Second Quarter of 2017

Second quarter highlights compared to the same period last year:

- Profit of $10.5 million, down 21.6 per cent from $13.4 million
- Return on average equity of 3.8 per cent, compared to 5.3 per cent
- Assets of $17.7 billion, up 12.7 per cent from $15.7 billion
- Tier 1 capital ratio of 35.2 per cent, compared to 33.6 per cent
- B.C. network's net operating income of $94.2 million, up 15.9 per cent from $81.3 million
- B.C. network's assets of $74.4 billion, up 6.6 per cent from $69.8 billion
- Ontario network's net operating income of $47.6 million, up 0.8 per cent from $47.2 million
- Ontario network's assets of $47.2 billion, up 11.3 per cent from $42.4 billion

Year-to-date highlights compared to the same period last year:

- Profit of $25.1 million, up 14.6 per cent from $21.9 million
- Return on average equity of 4.6 per cent, compared to 5.5 per cent
- B.C. network's net operating income of $180.3 million, up 17.6 per cent from $153.3 million
- Ontario network's net operating income of $101.1 million, up 11.8 per cent from $90.4 million

For the quarter ended June 30, 2017, Central 1 reported a profit of $10.5 million, down 21.6 per cent from the same period in 2016. Central 1's profit is impacted by financial markets which impact realized and unrealized gains recorded each period. The increase in interest rates near the quarter end resulted in unrealized losses on securities that were partially offset by unrealized gains on deposits. Credit spreads narrowed in the second quarter of 2017 resulting in gains, but these gains were less than those recorded in the second quarter of 2016 when credit spreads narrowed by a greater amount. Central 1 recognized a litigation settlement of $1.1 million during the second quarter of 2017. Excluding the impact of that settlement, operating loss increased $1.6 million from a year ago mainly driven by the increased costs to support strategic initiatives and implement the *MemberDirect*® roadmap on the Backbase platform.

For the six months ended June 30, 2017, Central 1 recorded a profit of $25.1 million, up 14.6 per cent from the same period in 2016 largely driven by higher interest margin resulting from higher interest-earning net assets and higher net realized and unrealized gains due to narrowing of credit spreads. These increases were partially offset by higher operating loss, mainly attributable to increased costs to support strategic initiatives and develop the *MemberDirect*® roadmap on the Backbase platform.

For the quarter ended June 30, 2017, Central 1 was in compliance with all regulatory capital requirements and all Risk Appetite Statements.

The B.C. network reported net operating income of $94.2 million in the second quarter of 2017, up $12.9 million or 15.9 per cent from the same period in 2016. Growth resulted from higher net-interest and non-interest income which outweighed higher non-interest expense. Combined assets of the B.C. network at the end of June 2017 rose 6.6 per cent year-over-year to reach $74.4 billion.

The Ontario network reported a net operating income of $47.6 million in the second quarter of 2017, up from $47.2 million in the same period in 2016. The increase was mainly driven by growth in mortgages and loans, largely offset by lower non-interest income and higher salary and employee benefit expense. Combined assets of the Ontario network at the end of June 2017 rose 11.3 per cent year-over-year to reach $47.2 billion.

In the second quarter of 2017, after extensive review and analysis including member consultation, Central 1's Board of Directors (the Board) concluded that there was an opportunity to create a national payments organization supporting the Canadian credit union network more quickly and with less disruption, by not proceeding with PayCo as proposed in the CEO Payments Strategy Committee (CEOPSC) proposal of November 2016. After announcing the decision to Central 1's membership and stakeholders, an Ad Hoc Digital & Payment Future State Committee of the Board was established to direct the work underway to build on the important work of the CEOPSC, and the critical mass of experience, innovation and success achieved within Central 1, and create a National Payments Strategy.

At the end of the second quarter, Central 1 and Collabria Financial Services Inc. (Collabria), a payments provider focused on solutions for credit unions, signed a Letter of Intent to integrate Collabria's credit card solution with both Central 1's online banking (*MemberDirect*®) and origination platforms (Borrow Anywhere™ and Open Anywhere™). This will offer credit cardholders increased payment flexibility and a consolidated view of their credit card balances, transactions and spending analysis all within their online banking. The intended integration would allow credit union members to apply for a credit card at a branch or online, making it easier for credit unions to acquire new members through their online channels and grow share of wallet.

Management's Discussion & Analysis

Central 1

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Management's Discussion and Analysis for the period ended June 30, 2017

This portion of the report updates Central 1 Credit Union's (Central 1) Management's Discussion and Analysis (MD&A) for the year ended December 31, 2016, and reviews and analyzes the financial condition and results of operations of Central 1 for the six-month period ended June 30, 2017, compared to the corresponding period in the prior fiscal year. The financial information included in this MD&A should be read in conjunction with Central 1's unaudited Interim Consolidated Financial Statements for the six-month period ended June 30, 2017 as well as Central 1's 2016 Annual Report for the year ended December 31, 2016. This MD&A, covering the six-month period ended June 30, 2017, is as at August 25, 2017.

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

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

Financial information for the B.C. network has been provided by the Financial Institutions Commission of British Columbia (FICOM), the provincial credit union regulator. Financial information for the Ontario network has been provided by the Deposit Insurance Corporation of Ontario (DICO). The differing provincial regulatory guidelines reduce the comparability of the information between the two provincial networks. Central 1 has no means of verifying the accuracy of information provided by credit unions to FICOM or DICO or the subsequent compilation of that information by FICOM or DICO. This information is provided purely to assist the reader with understanding Central 1's results and should be read in the proper context. Financial information provided by B.C. credit unions to FICOM and by Ontario credit unions to DICO has been prepared using reporting templates developed by FICOM and DICO, respectively. The format and accounting principles used to complete these templates are not fully consistent with IFRS. The net operating income of the B.C. and Ontario credit union networks reported herein is not equivalent to income from continuing operations as would be reported under IFRS.

Legislative reviews that have been ongoing in both B.C. and Ontario continued in the second quarter. In August 2015, Central 1 responded to the B.C. Ministry of Finance's summary paper on the review of the *B.C. Financial Institutions Act and Credit Union Incorporation Act*, commenting on items such as residential mortgage lending, small business lending, governance, capital and liquidity. Central 1 continued to correspond with the Ministry of Finance officials throughout the second quarter. The Ministry of Finance under the previous government had indicated that it would release a White Paper with initial policy positions sometime in 2017. However, with the change in the B.C. government effective on July 22, 2017, the release date of the White Paper is still to be confirmed.

The Ontario Minister of Finance announced in the Fall 2016 Economic Statement that the government would be moving forward with some of its proposed changes with respect to the scheduled five-year review of the *Credit Unions and Caisses Populaires Act (CUCPA), 1994*. The Ontario government has taken the next steps in moving forward with a number of positive changes for credit unions that are anticipated to come into force on January 1, 2018. The government has also committed to a comprehensive re-write of the CUCPA. Central 1's Government Relations has assembled a working group of credit union representatives that will work with the government to provide input for the re-write of the CUCPA.

In response to the challenges of competing effectively in today's highly competitive payments marketplace, Interac Association, an affiliate of Central 1, has announced its intention to restructure for the purpose of offering a single integrated portfolio of payment products to help the organization to continue offering effective, convenient and secure products, while remaining a low-cost payment option for Canadian customers.

In the second quarter, Central 1 began moving forward to develop a national payments strategy, after determining the organization could achieve a solution supporting the credit union network by building on the significant work of the CEO Payments Strategy Committee, and leveraging the strengths and opportunities within Central 1. Completion of the strategy development is scheduled for November 2017.

On August 14, 2017, FICOM issued a notice of its consent to Coast Capital Savings Credit Union (Coast), a member of Central 1, applying to the federal Minister of Finance to continue under the federal *Bank Act*, subject to certain conditions.

Cautionary Note Regarding Forward-Looking Statements

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

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

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

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

Additional information about these and other factors can be found in the Overview and Risk Discussion sections of Central 1's 2016 Annual Report.

Economic Developments and Outlook

The following summaries of the economic environment, the state of financial markets and performance by both provincial networks in the second quarter of 2017 offer a context for interpreting Central 1's quarterly results and provide insight into its future performance.

The Economic Environment

The Bank of Canada's (the Bank) latest Monetary Policy Report, issued in July 2017, states that global economic growth continues to strengthen and broaden across countries and regions. The U.S. economy is expanding at a moderate pace and there are signs of a more consistent pickup in the Eurozone. Some emerging market economies have resumed growth following recession. Both trade and investment growth have firmed and the effects of the oil price shock have bottomed out. The Bank forecasts global economic growth of 3.5 per cent this year, as does the International Monetary Fund (IMF), up from 3.1 per cent in 2016 but below average annual growth of 3.8 per cent observed since 2000.

Moody's Analytics estimates economic growth in the U.S. at 3.0 per cent annualized and seasonally adjusted in the second quarter, up from 1.4 per cent in the first quarter. Consumer spending rebounded from a low first quarter and drove second quarter growth, although private sector investment spending also contributed materially to growth. The IMF's latest World Economic Outlook, issued in July 2017, states that economic growth in the U.S. has been revised down from 2.3 per cent to 2.1 per cent in 2017. The major factor behind the growth revision is the assumption that fiscal policy will be less expansionary than previously assumed given the uncertainty about the timing and nature of U.S. fiscal policy changes. Market expectations of fiscal stimulus have also receded.

The Bank projects economic growth in Canada at 3.0 per cent annualized and seasonally adjusted in the second quarter, down from 3.7 per cent in the first quarter. Export growth increased and household spending remained robust while business investment growth eased and housing resales in Toronto and surrounding areas declined sharply. On July 12, 2017, the Bank raised the bank rate by 25 basis points (bps) to 0.75 per cent, judging the current economic outlook warrants some withdrawal of current monetary stimulus. A further 25 bps increase in the bank rate is widely expected before the end of 2017.

Financial Markets

The Bank's rate hike in July was the first rate hike in over seven years. The Bank signaled a rate hike in mid-June which caused a dramatic repricing of Government of Canada (GOC) yields, with the five year benchmark rising over 50 bps.

With the expectation to hike once more over 2017, likely at its October meeting, the output gap is expected to close by the end of the year. The Federal Reserve (Fed) has struck a more dovish tone of late, highlighting nascent inflation and focusing the bond market's attention on its balance sheet reduction plans. Markets are not pricing in a Fed rate hike until mid-2018. The combination of a surprisingly hawkish tone from the Bank and dovish tone from the Fed has caused a sharp rally in the Canadian Dollar, which has gained 12 cents since early May versus the U.S. Dollar (USD).

Deposit note spreads have narrowed to the tightest levels in ten years as the Global reflation trend gathers firmer footing which has increased investor's risk tolerance and increased flows into investment grade and high yield debt markets. Canada has the best growth rate over the past year in the G7 which has helped maintain strong consumer and corporate credit fundamentals. A strong economy and buoyant investor demand for credit has pushed Provincial debt spreads to their tightest levels in over two years. Domestic deposit note issuance has underwhelmed expectations as Canadian Banks have found more attractive funding alternatives in USD, Euro and GBP markets.

Network Performance

British Columbia

Net operating income for the second quarter of 2017 was $94.2 million, compared to $81.3 million for the second quarter of 2016. Net interest income increased $24.7 million over the same period last year, mainly driven by growth in personal and commercial mortgages. Non-interest income increased $11.2 million year-over-year, largely due to increased equity investments and member service fees. Non-interest expenses increased $23.1 million year-over-year, led by increases in salaries and benefits.

Total assets increased 6.6 per cent year-over-year to reach $74.4 billion at the end of the second quarter in 2017. Asset growth was led by personal mortgages, up 5.4 per cent, commercial mortgages, up 8.5 per cent, and liquid investments, up 11.0 per cent. Liability growth was led by non-registered demand deposits, up 9.7 per cent, non-registered term deposits, up 4.2 per cent, and borrowings, up 24.2 per cent.

The network's rate of loan delinquencies over 90 days was 0.18 per cent of total loans at the end of June 2017, down 10 bps year-over-year. Provision for credit losses as a percentage of loans was 0.28 per cent, unchanged from a year earlier. The network's loan loss expense ratio was 0.06 per cent annualized in the second quarter of 2017, up one bp year-over-year.

The B.C. network's regulatory capital as a percentage of risk-weighted assets was 14.5 per cent at the end of June 2017, a slight decrease of five bps from a year ago. The aggregate liquidity ratio of B.C. credit unions, including that held by Central 1, was 15.7 per cent of deposit and debt liabilities, up 60 bps year-over-year.

Ontario

Net operating income for the second quarter of 2017 was $47.6 million, compared to $47.2 million for the second quarter of 2016. Net interest income increased $15.8 million over the same period last year, mainly driven by growth in residential mortgages and commercial loans. Non-interest income decreased $8.6 million year-over-year, largely offset by $6.7 million year-over-year increase in non-interest expenses led by increases in salaries and benefits.

Total assets increased 11.3 per cent year-over-year to reach $47.2 billion at the end of the second quarter in 2017. Asset growth was led by residential mortgages, up 11.4 per cent, commercial loans, up 12.6 per cent, and cash & deposits, up 17.1 per cent. Liability growth was led by non-registered demand deposits, up 13.5 per cent, non-registered term deposits, up 13.6 per cent, registered deposits, up 6.2 per cent, and borrowings, up 11.0 per cent.

The network's rate of loan delinquencies over 90 days was 0.26 per cent of total loans at the end of June 2017, down 11 bps year-over-year. Provision for credit losses as a percentage of loans was 0.26 per cent, almost unchanged from a year earlier. The network's loan loss expense ratio was 0.04 per cent annualized in the second quarter of 2017, down four bps year-over-year.

The Ontario network's regulatory capital as a percentage of risk-weighted assets was 12.7 per cent at the end of June 2017, a decrease of 79 bps from a year ago. The aggregate liquidity ratio was 11.6 per cent of deposit and debt liabilities, up 37 bps from a year ago.

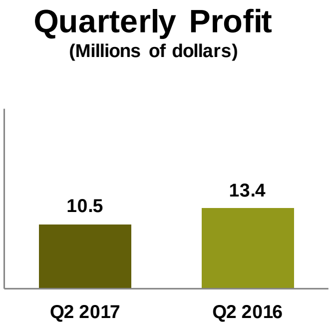
Overall Performance

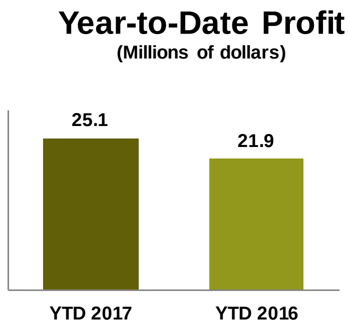
The following table summarizes Central 1's Financial Overview as at June 30, 2017 with comparatives.

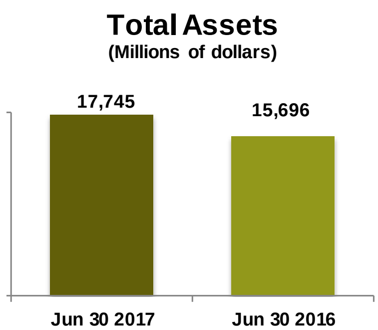
Figure 1 – Financial Overview

	For the three months ended		For the six months ended	
	Jun 30 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
Operating results *(milions of dollars, unless otherwise indicated)*				
Net financial income	**12.3**	15.8	**33.2**	27.2
Net financial and other income	**51.0**	54.0	**106.9**	97.7
Operating income (loss)	**(0.3)**	0.2	**(3.5)**	(1.7)
Profit for the period	**10.5**	13.4	**25.1**	21.9
Productivity ratio	**76.3%**	70.5%	**72.2%**	74.1%
Productivity ratio - non-financial	**100.8%**	99.3%	**104.8%**	102.4%
Return on average assets	**0.2%**	0.4%	**0.3%**	0.3%
Return on average equity	**3.8%**	5.3%	**4.6%**	4.4%
Earnings per share *(cents)*				
Basic	**2.5**	3.6	**6.0**	5.9
Diluted	**2.5**	3.6	**6.0**	5.9
Dividends per share *(cents)*				
Class A	**0.17**	0.50	**1.64**	1.11
Class B & C	**0.33**	0.24	**0.59**	0.49
Weighted average shares outstanding	**425.2**	375.8	**421.1**	373.4
Average assets	**17,982.8**	14,999.9	**17,709.1**	14,867.0

	As at Jun 30 2017	As at Jun 30 2016
Balance sheet *(millions of dollars)*		
Total assets	**17,744.7**	15,695.5
Long-term financial liabilities	**8,610.1**	5,948.8
Regulatory ratios		
Tier 1 capital ratio	**35.2%**	33.3%
Provincial capital ratio	**52.2%**	43.0%
Borrowing multiple (times)	**11.7**	13.6
Share Information *(thousands of dollars, unless otherwise indicated)*		
Outstanding $1 par value shares		
Class A - credit unions	**440,952**	384,952
Class B - cooperatives	**5**	5
Class C - other	**7**	7
Outstanding $0.01 par value shares with redemption value of $100		
Class E - credit unions	**32**	32







Statement of Financial Position

Cash and Liquid Assets

The following tables summarize Central 1's Cash and Liquid Assets for Mandatory Liquidity Pool (MLP) and Wholesale Financial Services (WFS) as at June 30, 2017 with comparatives.

Figure 2 – Cash and Liquid Assets

(Millions of dollars)	MLP Liquid Assets	WFS Liquid Assets	Securities Received as Collateral	Total Liquid Assets	Encumbered Liquid Assets	Jun 30 2017 Unencumbered Liquid Assets
Cash	$ 91.4	$ 138.5	$ -	138.5	$ -	$ 138.5
Federal and provincial government issued and guaranteed securities	7,241.6	3,160.3	543.0	3,703.3	1,572.5	2,130.8
Corporate and financial institutions AA or greater	998.8	1,941.0	-	1,941.0	15.4	1,925.6
U.S. dollar denominated corporate and financial institution securities AA or greater	33.8	335.6	-	335.6	-	335.6
Insured mortgages securitized as National Housing Act Mortgage-Backed Securities	-	222.6	-	222.6	-	222.6
Other assets	-	520.0	-	520.0	90.5	429.5
Total	**$ 8,365.6**	**$ 6,318.0**	**$ 543.0**	**$ 6,861.0**	**$ 1,678.4**	**$ 5,182.6**

(Millions of dollars)	MLP Liquid Assets	WFS Liquid Assets	Securities Received as Collateral	Total Liquid Assets	Encumbered Liquid Assets	Jun 30 2016 Unencumbered Liquid Assets
Cash	$ 80.7	$ -	$ -	$ -	$ -	$ -
Federal and provincial government issued and guaranteed securities	6,584.4	2,908.2	304.4	3,212.6	1,214.4	1,998.2
Corporate and financial institutions AA or greater	775.1	1,481.0	115.2	1,596.2	124.2	1,472.0
U.S. dollar denominated corporate and financial institution securities AA or greater	117.3	448.7	-	448.7	-	448.7
Insured mortgages securitized as National Housing Act Mortgage-Backed Securities	-	247.1	-	247.1	-	247.1
Other assets	-	473.0	-	473.0	103.6	369.4
Total	$ 7,557.5	$ 5,558.0	$ 419.6	$ 5,977.6	$ 1,442.2	$ 4,535.4

(Millions of dollars)	MLP Liquid Assets	WFS Liquid Assets	Securities Received as Collateral	Total Liquid Assets	Encumbered Liquid Assets	Dec 31 2016 Unencumbered Liquid Assets
Cash	$ 127.7	$ 359.4	$ -	$ 359.4	$ -	$ 359.4
Federal and provincial government issued and guaranteed securities	6,872.2	3,588.4	298.0	3,886.4	1,471.1	2,415.3
Corporate and financial institutions AA or greater	1,046.3	2,093.5	-	2,093.5	42.5	2,051.0
U.S. dollar denominated corporate and financial institution securities AA or greater	102.8	418.5	-	418.5	-	418.5
Insured mortgages securitized as National Housing Act Mortgage-Backed Securities	-	258.1	-	258.1	-	258.1
Other assets	-	374.7	-	374.7	95.6	279.1
Total	$ 8,149.0	$ 7,092.6	$ 298.0	$ 7,390.6	$ 1,609.2	$ 5,781.4

Cash and liquid assets increased $0.8 billion in MLP and $0.8 billion in WFS year-over-year, funded by deposit growth, and the issuance of debt securities and subordinated liabilities. Cash and liquid assets in MLP and WFS represent 47.1 per cent and 35.6 per cent, respectively, of Central 1's total assets. Compared to the prior year, the weighting of cash and liquid assets in MLP relative to Central 1's total assets decreased 1.0 per cent due to the impact of higher growth in WFS.

Loans

The following table summarizes Central 1's Loans as at June 30, 2017 with comparatives.

Figure 3 – Loans

(Millions of dollars)	Jun 30 2017	Jun 30 2016	Dec 31 2016
Loans to credit unions	**$ 822.8**	$ 655.7	$ 329.5
Syndicated commercial loans	**623.0**	620.7	611.2
Non syndicated commercial loans	**9.3**	15.2	13.4
Other loans	**8.3**	9.1	8.8
Residential mortgages	**155.3**	130.3	161.6
	795.9	775.3	795.0
Securities acquired under reverse repurchase agreements	**535.9**	307.4	316.4
	$ 2,154.6	$ 1,738.4	$ 1,440.9

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

Total loans increased $416.2 million compared to a year ago, primarily driven by higher loans to credit unions, residential mortgages and securities acquired under reverse repurchase agreements. Loans to credit unions increased $167.1 million reflective of the growth in the credit union system. Securities acquired under reverse repurchase agreements increased $228.5 million, attributable to short term cash management purposes. Commercial loans represented 29.3 per cent of Central 1's total loan portfolio, down from 36.5 per cent a year ago.

Funding

The following table summarizes Central 1's Funding as at June 30, 2017 with comparatives.

Figure 4 – Funding

(Billions of dollars)	Jun 30 2017	Jun 30 2016	Dec 31 2016
Deposits and trading liabilities by type			
Mandatory deposits	**$ 7.9**	$ 7.1	$ 7.6
Non-mandatory deposits	**4.1**	3.3	3.5
Deposits from member credit unions	**12.0**	10.4	11.1
Deposits from non-credit unions	**0.1**	0.8	0.8
	12.1	11.2	11.9
Debt securities issued			
Commercial paper issued	**0.8**	0.7	0.7
Medium-term notes issued	**0.8**	0.6	0.8
Subordinated liabilities	**0.4**	0.2	0.4
	2.0	1.5	1.9
Obligations under the CMB Program	**1.2**	1.1	1.2
Securities under repurchase agreements	**0.4**	0.1	0.3
	$ 15.7	$ 13.9	$ 15.3

Deposits from Central 1's member credit unions increased $1.6 billion or 15.4 per cent compared to the prior year. Mandatory deposits from credit unions increased $0.8 billion, reflective of the growth within the B.C. and Ontario credit union networks. Non-mandatory deposits from credit unions increased $0.8 billion, reflective of the increased liquidity reported within the B.C. and Ontario credit union networks. Deposits from member credit unions represented 76.4 per cent of Central 1's total borrowing portfolio at the end of the second quarter, up from 74.8 per cent a year ago.

Total debt securities outstanding increased $0.5 billion compared to the prior year. Debt securities represented 12.7 per cent of Central 1's total funding at the end of the second quarter, up from 10.8 per cent a year ago. Of the total amount outstanding, $0.8 billion was borrowed under Central 1's medium-term note facility, $0.4 billion was borrowed through subordinated debt issuance and the remainder was borrowed through Central 1's commercial paper facility. The increase in debt securities was in line with the overall growth in Central 1's balance sheet.

Direct securitization transactions are accounted for on-balance sheet while indirect securitizations are off-balance sheet. Total obligations outstanding were $1.2 billion, an increase of $0.1 billion compared to the prior year due to the participation in new securitization transactions.

Details of these balances can be found in Note 8 and 10 of the Interim Consolidated Financial Statements.

Equity

Central 1's total equity increased $103.4 million from a year ago to $1,130.1 million. Central 1 distributes the net earnings of MLP to its Class A members as dividends and requires its Class A members to contribute additional Class A shares to support the growth of MLP. The increase in share capital in MLP and the earnings retained by Central 1's other business lines account for most of the increase in capital year-over-year.

Central 1's Interim Consolidated Statements of Changes in Equity provides a summary of items that increase or decrease the total equity and Note 14 of the Interim Consolidated Financial Statements provides details on the changes in share capital.

Statement of Profit

Net Financial Income

The following table summarizes Central 1's Net Financial Income for the three and six months ended June 30, 2017 with comparatives.

Figure 5 – Net Financial Income

	For the three months ended		For the six months ended	
(Millions of dollars)	Jun 30 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
Interest margin	**$ 12.7**	$ 12.5	**$ 24.8**	$ 22.9
Gain (loss) on disposal of financial instruments	**6.6**	(0.9)	**2.8**	(2.1)
Change in fair value of financial instruments	**(7.0)**	4.2	**5.6**	6.4
Net financial income	**$ 12.3**	$ 15.8	**$ 33.2**	$ 27.2

Q2 2017 vs Q2 2016

Net financial income for the second quarter of 2017 decreased $3.5 million compared to the second quarter of 2016.

Interest margin increased $0.2 million due to a combination of balance sheet growth and a higher credit union and commercial lending volumes which resulted in higher interest income. This increase was partially offset by increased interest expense as a result of additional deposits from credit unions, as well as increased funding.

Unrealized gains declined $11.2 million year-over-year due to an increase in interest rates near the quarter end and credit spreads narrowing by a smaller magnitude during the second quarter of 2017 compared to the second quarter of 2016, partially offset by narrowing of Canada Mortgage Bond spreads. This decline was partially offset by the increased realized gains due to disposal of available-for-sale (AFS) assets, for which changes in fair value in prior periods were recognized in accumulated other comprehensive income (AOCI).

YTD 2017 vs YTD 2016

Net financial income for the first six months of 2017 increased $6.0 million compared to the first six months of 2016.

Interest margin increased $1.9 million due to higher trading assets and investment securities balances driving higher investment income. This increase was partially offset by increased interest expense as a result of additional deposits from credit unions, as well as higher medium-term note and subordinated liabilities balances.

In aggregate, net realized and unrealized gains increased $4.1 million primarily driven by a $4.9 million increase in realized gains on trading deposits and disposal of AFS assets, for which changes in fair value in prior periods were recognized in AOCI. This increase was partially offset by a $0.8 million decrease in unrealized gains year-over-year.

Operating Income (Loss)

The following table summarizes Central 1's Operating Income (Loss) for the three and six months ended June 30, 2017 with comparatives.

Figure 6 – Operating Income (Loss)

	For the three months ended		For the six months ended	
(Millions of dollars)	Jun 30 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
Other income				
Mandatory Liquidity Pool	**$ (0.1)**	$ -	**$ (0.2)**	$ (0.2)
Wholesale Financial Services				
Lending fees	**1.5**	1.2	**2.9**	2.5
Securitization fees	**1.8**	1.6	**3.7**	3.1
Foreign exchange income	**1.2**	1.6	**2.8**	2.8
Other	**0.6**	0.6	**1.2**	1.2
Digital & Payment Services				
Payment processing and other fees	**14.3**	13.4	**27.2**	25.9
Direct banking fees	**6.8**	7.8	**14.3**	14.7
Trade Services	**4.8**	4.6	**8.6**	8.4
Other				
Equity interest in affiliates	**2.9**	2.5	**5.3**	3.6
Income from investees	**2.1**	3.6	**3.4**	4.1
Litigation settlement	**1.1**	-	**1.1**	-
Other	**1.6**	1.4	**3.3**	4.5
Total other income	**38.6**	38.3	**73.6**	70.6
Operating expenses				
Salaries and employee benefits	**19.3**	19.8	**38.1**	38.8
Premises and equipment	**1.9**	1.6	**3.9**	3.4
Other administrative expenses				
Management information systems	**3.6**	2.4	**7.0**	4.8
Flow through membership dues	**1.4**	1.4	**2.9**	2.8
Professional fees	**3.7**	2.3	**6.5**	4.1
Other	**9.0**	10.6	**18.7**	18.4
Total operating expenses	**38.9**	38.1	**77.1**	72.3
Operating income (loss)	**$ (0.3)**	$ 0.2	**$ (3.5)**	$ (1.7)

Q2 2017 vs Q2 2016

Excluding the impact of the litigation settlement of $1.1 million during the second quarter of 2017, Central 1 reported an operating loss of $1.4 million, compared to an operating income of $0.2 million during the second quarter of 2016, primarily driven by an increase in operating expenses.

Operating expenses increased $0.8 million over the same period in 2016, driven by higher professional fees to support the strategic initiatives and higher management information systems expense arising from the development of the Backbase platform to accelerate the *MemberDirect*® product development roadmap.

YTD 2017 vs YTD 2016

Central 1 reported an operating loss of $3.5 million for the first six months of 2017, compared to an operating loss of $1.7 million for the first six months of 2016.

Other income increased by $3.0 million primarily driven by increases in WFS and Digital & Payment Services. Other income within WFS increased $1.0 million primarily due to increased standby lending fees and securitization fees. Digital & Payments Services' revenue increased $0.9 million mainly from stronger transaction volumes in electronic payments, partially offset by a decrease in paper payment volumes and declining client implementation revenues.

Operating expenses increased $4.8 million from the second quarter of 2016. Professional fees increased $2.4 million in support of operational and strategic initiatives. Central 1 incurs cost to assess strategic opportunities including legal, consulting and other professional fees. Management information systems expense increased $2.2 million primarily reflecting costs of implementing the Backbase platform.

Results by Segment

Central 1's operations and activities are organized around four key business segments: MLP, WFS, Digital & Payment Services and Trade Services. Activities or transactions which do not relate directly to these four business segments, such as the costs of implementing strategic initiatives and exploring strategic alternatives to enhance Central 1's ability to support credit unions in the future, are reported in Other. The costs of Corporate Support functions are also included in Other and are attributed to business lines as appropriate.

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

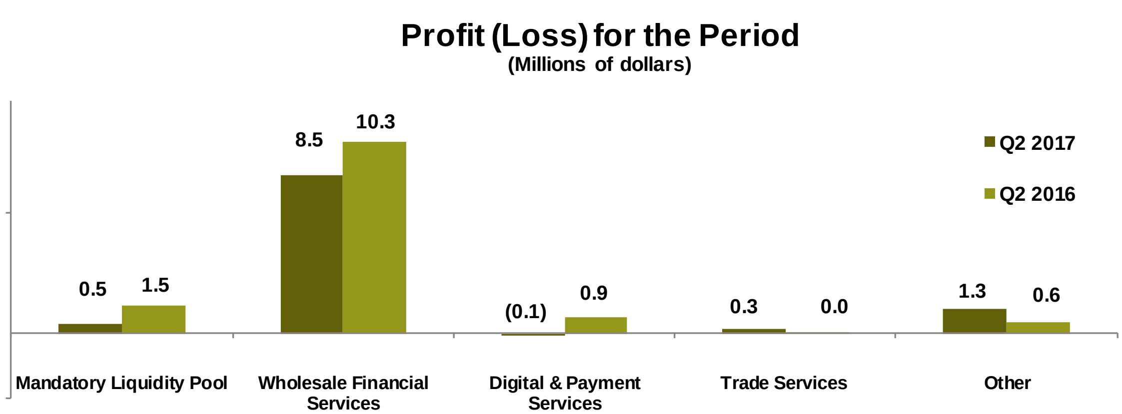
Q2 2017 vs Q2 2016

The following tables summarize Central 1's Results by Segment for the three months ended June 30, 2017 with comparatives.

Figure 7 – Results by Segment

						For the three months ended June 30, 2017
(Thousands of dollars)	Mandatory Liquidity Pool	Wholesale Financial Services	Digital & Payment Services	Trade Services	Other	Total
Net financial income (expense), including provision for credit losses	$ 2,916	$ 10,593	$ (68)	$ 17	$ (1,046)	$ 12,412
Other income	(108)	5,054	21,138	4,767	7,724	38,575
Net financial and other income	2,808	15,647	21,070	4,784	6,678	50,987
Operating expenses	2,053	5,443	21,182	4,478	5,736	38,892
Profit (loss) before income taxes	755	10,204	(112)	306	942	12,095
Income taxes (recoveries)	296	1,684	(3)	54	(388)	1,643
Profit (loss) for the period	$ 459	$ 8,520	$ (109)	$ 252	$ 1,330	$ 10,452

						For the three months ended June 30, 2016
(Thousands of dollars)	Mandatory Liquidity Pool	Wholesale Financial Services	Digital & Payment Services	Trade Services	Other	Total
Net financial income (expense), including provision for credit losses	$ 3,785	$ 12,895	$ (54)	$ 84	$ (1,021)	$ 15,689
Other income	(2)	5,015	21,200	4,675	7,445	38,333
Net financial and other income	3,783	17,910	21,146	4,759	6,424	54,022
Operating expenses	1,919	5,234	20,036	4,735	6,137	38,061
Profit before income taxes	1,864	12,676	1,110	24	287	15,961
Income taxes (recoveries)	344	2,337	249	5	(343)	2,592
Profit for the period	$ 1,520	$ 10,339	$ 861	$ 19	$ 630	$ 13,369



Mandatory Liquidity Pool

MLP's profit was $0.5 million, a decrease of $1.0 million compared to the second quarter of 2016. Net financial income decreased by $0.9 million. Central 1 benefited from a narrowing of credit spreads during the second quarters of both 2016 and 2017, but the impact in 2017 was less than in the previous year. This decline was partially offset by higher gains on disposal of AFS assets. Interest margin increased $0.6 million driven by increases in trading assets and securities balances, accompanied by a small increase in mandatory deposits. Operating expenses were largely in line with the second quarter of 2016.

Wholesale Financial Services

WFS' profit was $8.5 million, a decrease of $1.8 million compared to the second quarter of 2016, driven by a decrease of $2.3 million in net financial income. Interest margin decreased $0.4 million driven by higher interest expense associated with increased external borrowings. Realized and unrealized gains decreased $2.1 million due to a combination of the increase in interest rates near the quarter end, the credit spreads narrowing by a smaller magnitude and lower net gains on disposal of AFS assets.

While WFS' other income for the second quarter of 2017 was consistent with the second quarter of 2016, operating expenses increased $0.2 million driven by increased information technology charges.

Digital & Payment Services

Digital & Payment Services reported a loss of $0.1 million compared to a profit of $0.9 million during the second quarter of 2016. The decrease was driven by lower client implementation revenues and higher infrastructure expenses, including the costs of implementing the Backbase platform. These investments in Central 1's infrastructure are expected to drive increased revenues in future periods. This decrease was partially offset by stronger transaction volumes in electronic payments and increased network access revenues.

Trade Services

Trade Services' profit increased $0.2 million compared to the second quarter of 2016. Membership dues revenue remained broadly unchanged while operating expenses were slightly lower than the same period in 2016.

Other

The Other operating segment's profit increased $0.7 million compared to the second quarter of 2016. Excluding a litigation settlement, this segment would have reported a profit of $0.4 million for the second quarter of 2017, a decrease of $0.2 million from a year ago. The decrease was attributable to higher professional fees incurred to support strategic initiatives to enhance Central 1's ability to support its members in the future, partially offset by higher income from affiliates.

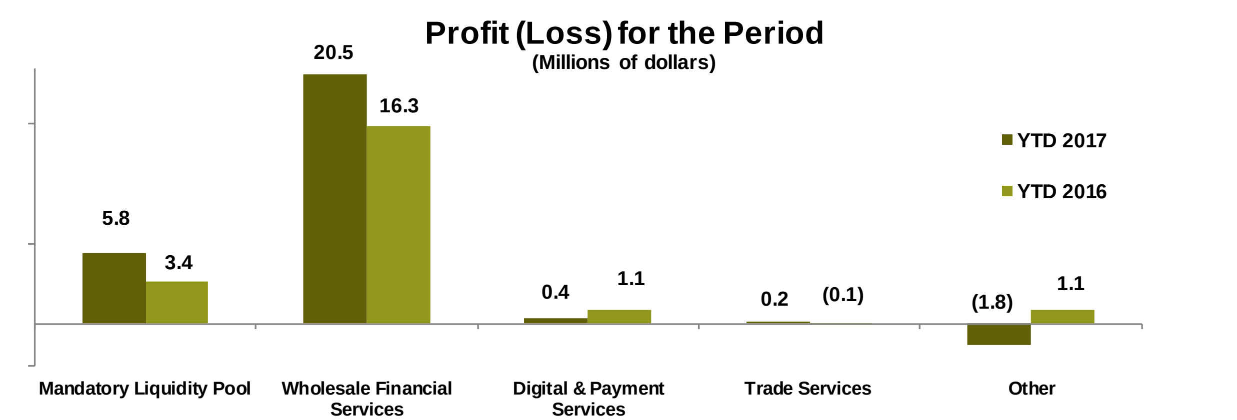
YTD 2017 vs YTD 2016

The following table summarizes Central 1's Results by Segment for the six months ended June 30, 2017 with comparatives.

Figure 8 – Results by Segment

(Thousands of dollars)	Mandatory Liquidity Pool	Wholesale Financial Services	Digital & Payment Services	Trade Services	Other	Total
						For the six months ended June 30, 2017
Net financial income (expense), including provision for credit losses	$ 11,138	$ 24,273	$ (140)	$ 101	$ (2,100)	$ 33,272
Other income	(201)	10,587	41,555	8,628	13,044	73,613
Net financial and other income	10,937	34,860	41,415	8,729	10,944	106,885
Operating expenses	4,025	10,831	40,935	8,482	12,870	77,143
Profit (loss) before income taxes	6,912	24,029	480	247	(1,926)	29,742
Income taxes (recoveries)	1,158	3,483	80	41	(86)	4,676
Profit (loss) for the period	$ 5,754	$ 20,546	$ 400	$ 206	$ (1,840)	$ 25,066

(Thousands of dollars)	Mandatory Liquidity Pool	Wholesale Financial Services	Digital & Payment Services	Trade Services	Other	Total
						For the six months ended June 30, 2016
Net financial income (expense), including provision for credit losses	$ 8,139	$ 20,949	$ (107)	$ 152	$ (2,084)	$ 27,049
Other income	(189)	9,602	40,564	8,475	12,155	70,607
Net financial and other income	7,950	30,551	40,457	8,627	10,071	97,656
Operating expenses	3,788	10,516	39,069	8,764	10,184	72,321
Profit (loss) before income taxes	4,162	20,035	1,388	(137)	(113)	25,335
Income taxes (recoveries)	768	3,698	262	(25)	(1,229)	3,474
Profit (loss) for the period	$ 3,394	$ 16,337	$ 1,126	$ (112)	$ 1,116	$ 21,861



Mandatory Liquidity Pool

MLP's profit was $5.8 million, an increase of $2.4 million compared to the first six months of 2016. The increase was driven by a $3.0 million increase in net financial income. Realized and unrealized gains increased $1.5 million due to the narrowing of credit spreads. Interest margin increased $1.5 million driven by an increase in securities balance, accompanied by a small increase in mandatory deposits. Operating expenses increased $0.2 million due to increased information technology charges.

Wholesale Financial Services

WFS' profit was $20.5 million, an increase of $4.2 million compared to the first six months of 2016, driven by an increase of $3.3 million in net financial income. Interest margin increased $0.5 million driven by a 30.4 per cent increase in interest-earning net assets. Realized and unrealized gains increased $2.7 million due to a combination of narrowing credit spreads and higher net gains on disposal of AFS assets that was partially offset by the increase in interest rates near the quarter end.

WFS' other income increased $1.0 million driven by higher securitization fees and credit union standby lending fees. Operating expenses increased $0.3 million driven by increased information technology charges.

Digital & Payment Services

Digital & Payment Services' profit decreased by $0.7 million from the first six months of 2016. Direct Banking reported a higher loss over the same period last year driven by lower client implementation revenues and increased infrastructure expenses arising from the Backbase platform. This decline was partially offset by an increase in Payment Processing profit largely attributable to increases in electronic payment transactions driven by volume increases in the Interac® *e-Transfers* business, partially offset by price reductions.

Trade Services

Trade Services' profit increased $0.3 million compared to the first six months of 2016. Membership dues revenue remained broadly unchanged while operating expenses were slightly lower than the same period in 2016.

Other

The Other operating segment reported a loss of $1.8 million compared to a profit of $1.1 million in the first six months of 2016. This was mainly attributable to increased operating expenses largely due to professional fees incurred in support of business and strategic opportunities to enhance Central 1's ability to support its members in the future. Other income within this segment increased $0.9 million year-over-year. The litigation settlement together with increased equity interest in affiliates during the first six months of 2017 outweighed the one-time credit to income on the restructuring of Credit Union Central of Canada, now Canadian Credit Union Association, during the first six months of 2016.

Summary of Quarterly Results

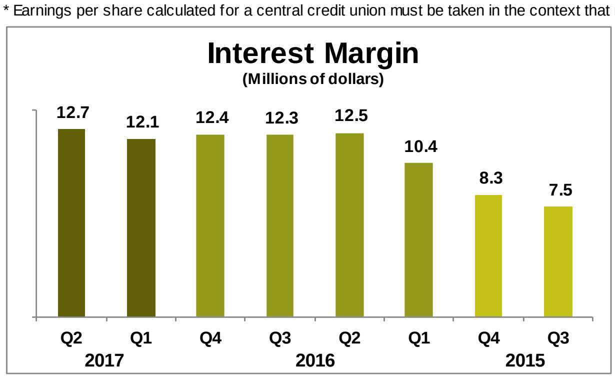
Quarterly Results

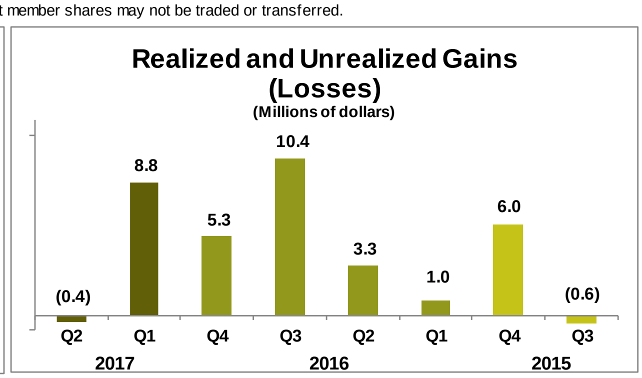
The following table summarizes Central 1's Quarterly Earnings for each of the last eight quarters.

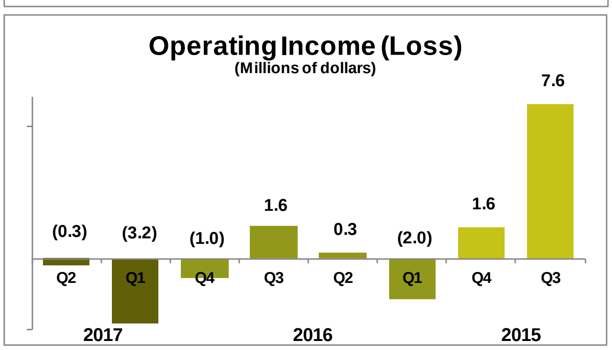
Figure 9 – Quarterly Earnings

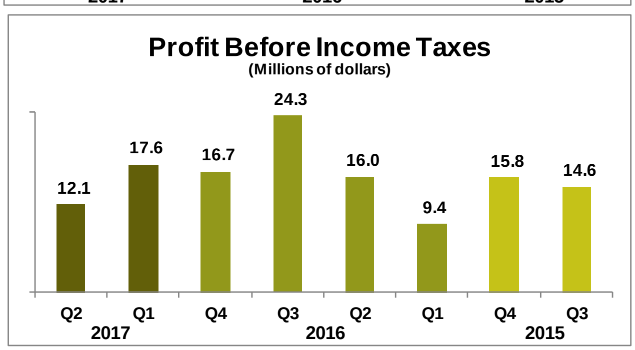
	2017		2016				2015	
(Thousands of dollars, except as indicated)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total interest income	**$ 60,513**	$ 57,366	$ 56,143	$ 52,296	$ 49,975	$ 48,059	$ 47,355	$ 45,580
Total interest expense	**47,807**	45,294	43,784	39,958	37,477	37,646	39,095	38,116
Interest margin	**12,706**	12,072	12,359	12,338	12,498	10,413	8,260	7,464
Realized and unrealized gains (losses)	**(434)**	8,815	5,286	10,395	3,261	979	5,961	(565)
Recovery of (provision for) credit losses	**140**	(27)	(6)	22	(70)	(32)	41	79
	12,412	20,860	17,639	22,755	15,689	11,360	14,262	6,978
Other income	**38,575**	35,038	35,431	34,461	38,333	32,274	34,832	40,160
Operating expenses	**(38,892)**	(38,251)	(36,408)	(32,868)	(38,061)	(34,260)	(33,281)	(32,567)
Operating income (loss)	**(317)**	(3,213)	(977)	1,593	272	(1,986)	1,551	7,593
Profit before income taxes	**12,095**	17,647	16,662	24,348	15,961	9,374	15,813	14,571
Income taxes	**(1,643)**	(3,033)	(2,942)	(2,889)	(2,592)	(882)	(2,318)	(1,845)
Profit for the period	**$ 10,452**	$ 14,614	$ 13,720	$ 21,459	$ 13,369	$ 8,492	$ 13,495	$ 12,726
Weighted average shares outstanding *(millions)*	**425.2**	417.0	396.1	385.0	375.8	371.0	357.3	350.0
Earnings per share								
Basic *(cents)*	**2.5**	3.5	3.5	5.6	3.6	2.3	3.8	3.6
Diluted *(cents)*	**2.5**	3.5	3.5	5.6	3.6	2.3	3.8	3.6

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









Central 1's interest margin has generally increased over the past two years. It has been consistent over the recent quarters since the rapid growth that was observed in 2015 and early 2016. Interest margin growth continues to be supported by higher asset levels driven by strong demand from members for mandatory and non-mandatory deposits. Increased lending activities in 2017 have also contributed to the strong interest margin, partially offset by an early issuance of medium-term notes during the first quarter of 2017 in anticipation of a note maturing in the second quarter of 2017. The redemption of this note during the second quarter of 2017 has restored the positive trend of interest margin growth.

Net realized and unrealized gains (losses) have a significant impact on profit or loss and their timing and magnitude are not predictable.

Off-Balance Sheet Arrangements

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

Derivative Financial Instruments

The following table summarizes the notional off-balance sheet derivative financial instruments as at June 30, 2017 with comparatives.

Figure 10 – Derivative Financial Instruments

(Millions of dollars)	Jun 30 2017	Jun 30 2016	Notional Amount Dec 31 2016
Interest rate contracts			
Bond forwards	**$ 6.5**	$ 166.0	$ 79.5
Futures contracts	**710.0**	283.8	432.8
Swap contracts	**23,409.0**	28,325.9	29,679.2
Options purchased	**10.0**	-	-
Options written	**10.0**	-	-
	24,145.5	28,775.7	30,191.5
Foreign exchange contracts			
Foreign exchange forward contracts	**171.8**	181.4	152.4
Other derivative contracts			
Equities index-linked options	**235.7**	264.5	253.7
	$ 24,553.0	$ 29,221.6	$ 30,597.6

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

Central 1 acts as a swap intermediary between Canada Housing Trust and member credit unions and additionally provides derivative capabilities for member credit unions to be used in the asset/liability management of their respective balance sheets. These activities represented $10.1 billion and $20.5 billion, respectively, of the total derivative notional balances as at June 30, 2017, compared to $9.0 billion and $15.8 billion at June 30, 2016, and $9.8 billion and $16.2 billion at December 31, 2016.

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

Guarantees and Commitments

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

Figure 11 – Guarantees and Commitments

(Millions of dollars)	Jun 30 2017	Jun 30 2016	Dec 31 2016
Commitments to extend credit	**$ 4,092.5**	$ 4,303.0	$ 4,447.3
Guarantees	**$ 760.0**	$ 822.0	$ 830.0
Standby letters of credit	**$ 174.6**	$ 155.4	$ 173.5
Mortgage purchase commitment	**$ -**	$ 19.9	$ -

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

Commitments to extend credit decreased $210.5 million from a year ago driven by decreased member credit unions lending activities. Guarantees decreased $62.0 million, due to lower transactional volumes, while standby letters of credit increased $19.2 million due to higher transactional volumes.

Guarantees are managed in accordance with Central 1's risk policies and are provided to enable member credit unions to enter transactions with counterparties without the need to have the counterparties individually assess the credit worthiness of each institution.

Assets under Administration

The following table summarizes Assets under Administration (AUA) as at June 30, 2017 with comparatives.

Figure 12 – Assets under Administration

(Millions of dollars)	Jun 30 2017	Jun 30 2016	Dec 31 2016
Registered Retirement Savings Plans	**$ 1,586.5**	$ 1,589.7	$ 1,558.0
Tax-Free Savings Accounts	**803.0**	699.6	729.2
Registered Retirement Income Funds/Life Income Funds	**375.5**	359.6	369.6
Registered Education Savings Plans	**219.4**	200.7	210.7
Registered Disability Savings Plans	**18.6**	14.1	15.8
	$ 3,003.0	$ 2,863.7	$ 2,883.3

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

As at June 30, 2017, AUA totaled $3.0 billion, up $139.3 million or 4.9 per cent from a year ago. The increase was mainly due to the increased Tax-Free Savings Accounts business from Ontario credit unions together with an increase in the Registered Education Savings Plans in response to the introduction of the B.C. Training and Education Savings Grant.

Capital Management and Capital Resources

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

Capital Management Framework

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

A key component of Central 1's capital management is the annual capital planning process that involves teams from all areas of the organization. Capital planning has two key integrated components, the annual budget process which established operating targets for the organization and the Internal Capital Adequacy Assessment Process (ICAAP) in determining the required amount of capital to cover material risks to which the organization is exposed. The capital planning process includes forecasting growth in assets, earnings and projected market conditions. These components are updated and monitored regularly during the year.

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

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

On April 28, 2017 Central 1's members approved changes to Central 1's capital structure that, subject to regulatory approval by FICOM, are scheduled to be implemented in the fourth quarter of 2017. The changes include the creation of a new class of shares, Class F Shares, which will be the primary form of capital supporting the MLP. Credit unions will be required to subscribe to Class F Shares based on the deposits they place in the MLP rather than their share of credit union system assets.

On transition, credit unions' investment in Class A Shares will be transferred to Class F Shares which will then be rebalanced. Credit unions that hold a larger portion of mandatory deposits than Class A Shares prior to transition will be required to contribute additional Class F Shares during the rebalancing phase. Credit unions that hold a higher portion of Class A Shares than their proportion of mandatory deposits will have a portion of their Class F Shares redeemed. All credit unions will be required to subscribe to new Class A Shares in proportion to their share of system assets. The aggregate level of Class A Shares will be based on Central 1's estimate of regulatory capital required to support strategic and operational initiatives over Central 1's planning cycle, which is currently $50.0 million. On transition, Central 1 also plans to redeem 750 thousand Class E Shares with an aggregate redemption value of $75.0 million. The redemption of Class E Shares would reduce Central 1's regulatory capital.

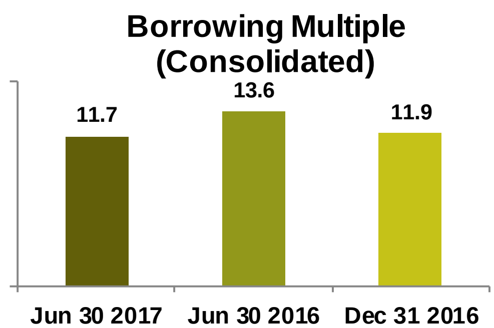
Regulatory Capital

As of June 30, 2017, Central 1's Tier 1 regulatory capital was $1,096.4 million and total capital before statutory capital adjustments was $1,522.1 million. In determining regulatory capital, adjustments are required to amounts presented in Central 1's Interim Consolidated Statements of Financial Position. Statutory capital adjustments are required for certain investments, including Central 1's substantial investments in affiliated cooperative organizations. The computation of the provincial capital base is broadly similar to the federal regulatory capital used for borrowing multiple purposes.

The following table summarizes Central 1's Capital Position as at June 30, 2017 with comparatives.

Figure 13 – Capital Position

(Millions of dollars)	Jun 30 2017	Jun 30 2016	Dec 31 2016
Share capital	$ **441.0**	$ 385.0	$ 417.0
Contributed surplus	**87.9**	87.9	87.9
Retained earnings	**572.2**	525.4	552.8
Less: accumulated net after tax gain in investment property	**(4.7)**	(4.7)	(4.7)
Tier 1 capital	**1,096.4**	993.6	1,053.0
Subordinated debt	**421.0**	218.0	421.0
Add: accumulated net after tax gain in investment property	**4.7**	4.7	4.7
Tier 2 capital	**425.7**	222.7	425.7
Total capital	**1,522.1**	1,216.3	1,478.7
Statutory capital adjustments	**(169.1)**	(170.0)	(171.2)
Capital base (federal)	$ **1,353.0**	$ 1,046.3	$ 1,307.5
Borrowing multiple - consolidated	**11.7:1**	13.6.1	11.9:1
Borrowing multiple - Mandatory Liquidity Pool	**15.0:1**	15.1.1	15.3:1
Borrowing multiple - Wholesale Financial Services	**11.4:1**	12.5.1	10.5:1



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

At the end of June 30, 2017, Central 1's consolidated borrowing multiple of 11.7:1 was slightly better compared to 11.9:1 at December 31, 2016. Central 1 manages the MLP's borrowing multiple through semi-annual capital calls from its membership and manages the WFS's borrowing multiple through growth in retained earnings and subordinated debt.

Effective August 16, 2017, FICOM amended the borrowing multiple requirements to no more than 17.0:1 for the MLP segment and no more than 15.0:1 for the WFS segment.

Note 22 to Central 1's Interim Consolidated Financial Statements provides further details of capital management.

Risk Discussion

This section of the MD&A should be read in conjunction with the Risk Discussion section of Central 1's 2016 Annual Report.

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

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

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

Strategic Risk

Central 1 believes that pressures on all financial institutions, including credit unions, from among other things, tight margins and financial technology disruption, characterize the current environment. Central 1 relies on the underlying network's direction, ongoing member engagement and a continuous strategic planning process to pursue a strategy that prepares it for the risks inherent in the environment and to deliver value for its member credit unions.

Compliance Risk

Central 1 is exposed to compliance risk in all areas of the organization, ranging from legislative and regulatory requirements enforced as a result of the products and services offered by the various business lines, or through the oversight and regulatory reporting obligations placed upon corporate control and support functions.

Compliance risk is managed by a framework that is in place to ensure that Central 1 continues to meet the requirements of:

- the law, to uphold its reputation and that of the credit union network;
- government regulators, to be allowed to continue to do business;
- financial network counterparties, to be able to provide products and services to the credit union network; and
- internal policies and procedures, to help ensure a strong and efficient governance structure.

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

Counterparty Risk

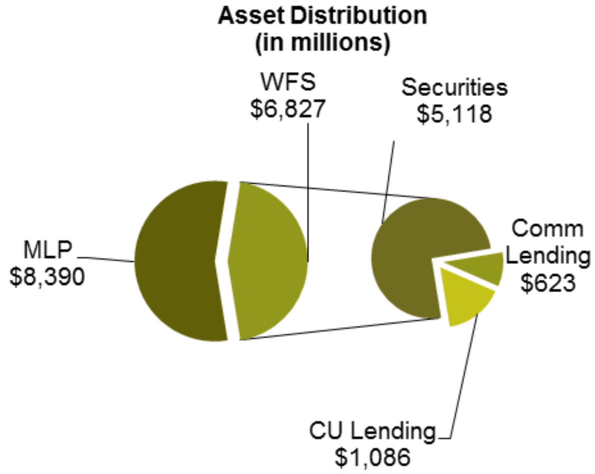
Counterparty risk continues to be assessed by management as low given the quality of counterparties being government entities, banks with external credit ratings AA-Low to AAA (Dominion Bond Rating Service (DBRS)), and its own credit union network where a robust internal risk rating regime is utilized.

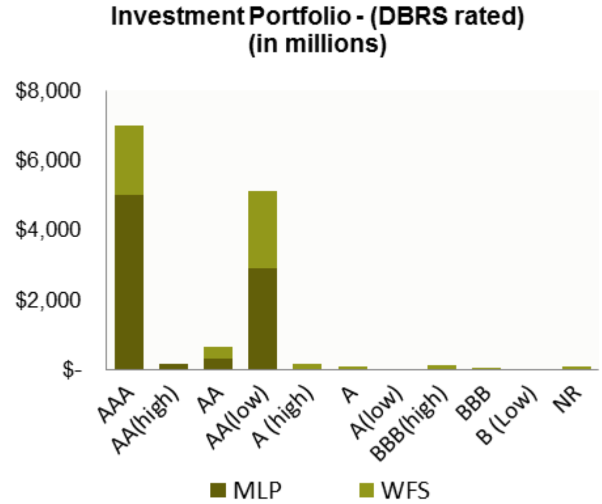
Credit Risk

Credit risk continues to be assessed by management as low. The exposures are concentrated in low-risk investment securities and loans with a very limited exposure to underperforming loans in the lending portfolios.

The figure below illustrates Central 1's credit exposure and risk profile based on outstanding balances in the investment portfolios held in MLP and WFS. WFS holds $307.0 million in securities rated A (DBRS) and below, representing 6.0 per cent of the investment portfolio.

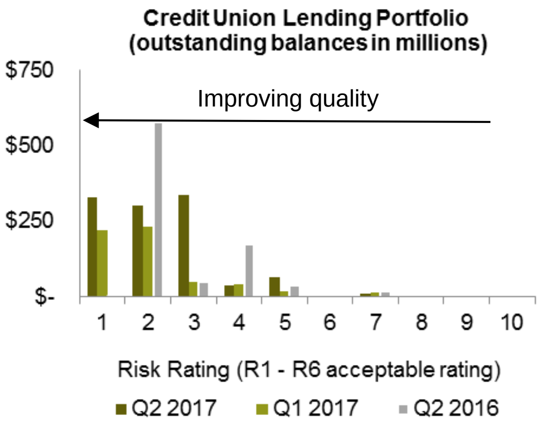
Figure 14 – Credit Exposure by Portfolio and Rating

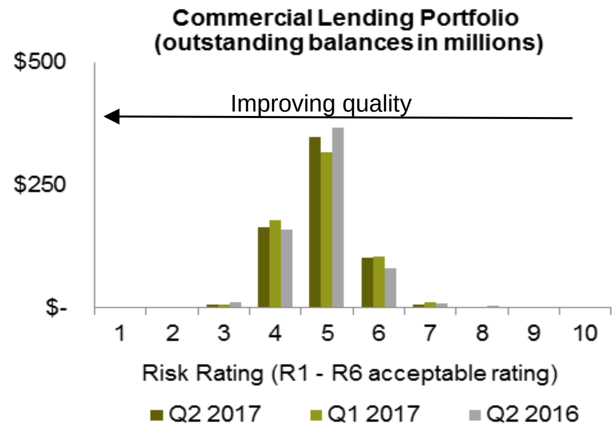




The figure below provides Central 1's quarter end balances in the Credit Union Lending and Commercial Lending Portfolios.

Figure 15 – Portfolio Balances by Risk Rating





Credit Quality Performance

Commercial Lending

Currently, there are no impaired loans in the Commercial Lending portfolio. Watch List accounts represent 1.1 per cent of the total outstanding portfolio balance.

Credit Union Lending

While there are no impaired facilities in the Credit Union Lending portfolio, a number of credit unions have been placed on the Watch List. To date, there are five Ontario credit unions and two B.C. credit unions classified as Watch List. The authorized balance of Watch List facilities represents 1.7 per cent of the total authorized portfolio balance; the outstanding balance of the Watch List facilities as at June 30, 2017 was $11.0 million representing 1.0 per cent of the total outstanding balance.

Investments

Central 1 continues to receive cash flows on the impaired investment related to Ethical Indemnified Asset-Backed Commercial Paper. Specific allowances as at June 30, 2017 were $0.4 million.

Liquidity Risk

Central 1's and its members' liquidity positions continue to be strong.

The Liquidity Coverage Ratio (LCR) demonstrates Central 1's ability to meet 30-day cashflow requirements under stressed conditions. The stress scenario assumes a run-off of deposits, no access to capital markets funding and that only highly liquid assets can be sold to raise cash subject to a haircut of their market value. Central 1 calculates the LCR for both portfolios and monitors the WFS portfolio against the 100% target set by the Risk Appetite Statement.

Central 1 monitors the LCR based on two liquid asset eligibility criteria, the Standing Liquidity Facility (SLF) approach and Modified OSFI approach. The SLF approach includes assets pledgeable to the Bank under the SLF, and is monitored against the Risk Appetite Statement limit. The Modified OSFI approach includes assets as defined by the Basel III guidance, which is modified to include a slightly broader range of high quality assets.

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

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

Figure 16 – Liquidity Coverage Ratio

	Mandatory Liquidity Pool		Wholesale Financial Services	
	Q2 2017	Q1 2017	Q2 2017	Q1 2017
Liquidity coverage ratio (SLF)	**104%**	**104%**	**167%**	**213%**
Liquidity coverage ratio (Modified OSFI)	**104%**	**104%**	**155%**	**195%**

WFS liquidity has strengthened over the quarter as a result of WFS investment in highly liquid assets, extended deposit maturities, and additional capital market funding.

Market Risk

The level of market risk to which Central 1 is exposed varies depending on market conditions, future prices and market movements and the composition of Central 1's investment, lending and derivative portfolios.

Central 1's Corporate Risk Management Policy currently defines Value at Risk (VaR) exposure limits in relation to changes in portfolio value. The current limits are set at 12 bps or 0.12 per cent of the market value of MLP and WFS assets. The dollar equivalent limits associated with 12 bps limits are recalculated on the last business day of each month. As of quarter end, the limits were $9.6 million for MLP and $9.6 million for WFS. Central 1 remained within all its market risk limits during the quarter.

The following tables summarize Central 1's VaR for the quarter ended June 30, 2017 with comparatives.

Figure 17 – VaR by Risk Type

Mandatory Liquidity Pool						
				2017		
(Millions of dollars)	Q2 2017	Q1 2017	Q2 2016	Average	High	Low
Interest Rate VaR	$ 9.0	$ 7.1	$ 4.3	$ 7.3	$ 9.8	$ 6.4
Credit Spread VaR	2.1	3.2	2.8	3.2	4.1	2.1
Foreign Exchange VaR	0.1	0.1	0.0	0.1	0.8	0.0
Diversification [1]	(2.5)	(4.4)	(2.6)	nm	nm	nm
Total VaR	$ 8.7	$ 6.0	$ 4.5	$ 6.5	$ 9.4	$ 5.4

Wholesale Financial Services						
				2017		
(Millions of dollars)	Q2 2017	Q1 2017	Q2 2016	Average	High	Low
Interest Rate VaR	$ 4.7	$ 3.9	$ 1.9	$ 4.2	$ 5.7	$ 3.2
Credit Spread VaR	1.5	1.7	2.2	1.7	2.1	1.4
Foreign Exchange VaR	1.9	2.6	1.5	1.9	3.4	0.8
Diversification [1]	(2.6)	(3.5)	(3.2)	nm	nm	nm
Total VaR	$ 5.5	$ 4.7	$ 2.4	$ 4.7	$ 6.3	$ 3.6

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

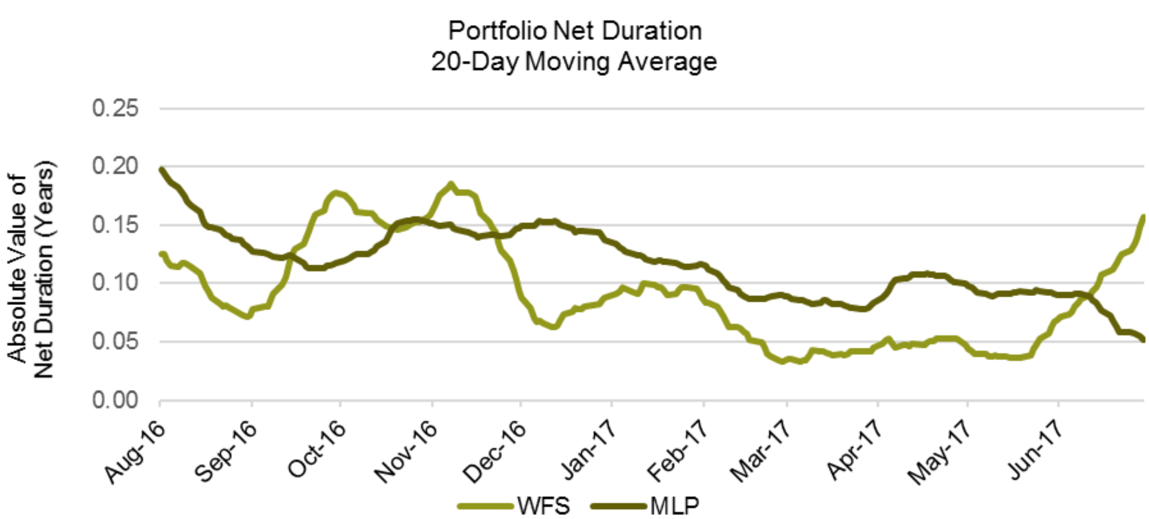
nm - Not meaningful to calculation

Central 1 will not incur market risk for speculative purposes or in pursuit of returns beyond those required to reasonably safeguard network liquidity.

Market risk is measured using VaR computed at a 99 per cent confidence level, meaning that the one-day change in portfolio value is expected to be less than the risk exposure limit 99 per cent of the time.

The interest rate VaR component for both MLP and WFS rose as interest rates increased starting in November 2016. A review of other interest rate risk measures, including portfolio net duration (asset and derivative duration less liability duration), indicates that portfolio exposure to interest rate movements remained in a narrow range over the same period. MLP and WFS portfolio net duration is shown in Figure 18.

Figure 18 – Portfolio Net Duration



Stable exposure and steady market volatility indicate that interest rate risk should be constant, not increasing. Management determined that, while the assumptions for VaR modelling were appropriate for declining and low interest rate environments, the VaR methodology overestimates interest rate risk in a rising interest rate environment. Management has reviewed its VaR methodologies and will be implementing improved measures in the third quarter of 2017.

Operational Risk

During the second quarter of 2017, Central 1's operational risk exposures were within the limits of allocated capital for operational risk.

Central 1 continues to experience increasing exposure to technology risk from both an adversarial threat environment and a complex ecosystem of integration with many financial institutions. Central 1 has implemented real-time intrusion detection and monitoring of its infrastructure and banking applications, including the use of external agencies to continuously evaluate security performance. Central 1 continues to invest in the infrastructure to successfully defend against a variety of cyber attacks on behalf of member credit unions, reducing their exposure, and the risk of significant negative effects.

Emerging Risks

Emerging risks are risks that are newly developing or rapidly changing. They are difficult to quantify and may have a major impact on Central 1.

Central 1 identifies and assesses emerging risks in various ways, including at the strategic planning and business unit levels. These include risk oversight committee discussions and regular risk reviews to identify, assess and ensure that management is forward-looking in its treatment of emerging risks. Emerging risks are quantified using established techniques where possible or qualitatively assessed on the basis of impact and likelihood.

Currently, Central 1 considers cyber-security attacks, anti-money laundering (AML) and de-risking, and housing policy as emerging risks. Although Central 1 is generally familiar with these risks, they are changing, sometimes in unexpected ways.

- **Cyber-security attacks -** Attacks are frequent and evolving, while methods of protecting against intrusions must be constantly refined and enhanced.
- **AML and de-risking** - Central 1 is focused on building transaction monitoring, sanctions screening and analytics, as its correspondent banks "de-risk" and money flows continue to evolve. Central 1 is undertaking this work to maintain compliance with correspondent banks' risk appetites and support the current level of services offered to members.
- **Housing Policy -** A slowdown in the Ontario housing market following implementation of the Ontario Fair Housing Plan and uncertainty about the incoming B.C. government's housing policy mean an unstable environment currently exists.

Accounting and Control Matters

Critical Accounting Policies and Estimates

A summary of significant accounting policies can be found in Note 3 to Central 1's 2016 Annual Consolidated Financial Statements, together with a discussion of critical accounting estimates and assumptions that affect the application of accounting policies and reporting amounts of assets, liabilities, income and expenses. Management is required to make subjective or complex estimates and judgements in certain significant areas of these financial statements.

Future Changes in Accounting Policies

The International Accounting Standards Board has issued new standards on financial instruments, revenues from contracts with customers, and leases. These new standards will be applicable to Central 1 in the future. Additional information related to these future changes in accounting policies can be found in Note 3 to the audited 2016 Annual Consolidated Financial Statements and in Note 3 to the unaudited Interim Consolidated Financial Statements for the six months ended June 30, 2017.

Controls and Procedures

Disclosure Controls and Procedures

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

Based on that evaluation, management has concluded that the disclosure controls and procedures were effective in providing reasonable assurance that information required to be disclosed in Central 1's interim filings, as defined under the Canadian Securities Administrators' National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109)*, is recorded, processed, summarized and reported within the time periods specified by those laws, and that material information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

Internal Controls and Procedures

Central 1 evaluated the design of its internal controls and procedures over financial reporting as defined under *NI 52-109* for the quarter ended June 30, 2017. Based on that evaluation, management has concluded that the design of its internal monitoring controls and procedures over financial reporting was effective.

There has been no change in Central 1's design of internal controls and procedures over financial reporting that has materially affected, or is reasonably likely to materially affect, Central 1's internal control over financial reporting during the period covered by this MD&A.

Related Party Disclosures

In the normal course of business, Central 1 grants loans to its key management personnel under the same terms as those offered to any other employees. Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of Central 1, which include Central 1's Executive Management and Vice-Presidents. Central 1's policies and procedures for related party transactions have not changed significantly since December 31, 2016.

Details of Central 1's related party disclosures were disclosed in Note 23 of the Interim Consolidated Financial Statements.

Credit Ratings

Central 1's debt securities are rated by Standard & Poor's (S&P) and DBRS.

Figure 19 – Credit Ratings

	DBRS	S&P
Instrument rating		
Senior debt	A (high)	A
Subordinated debt	A	A-
Short-term debt	R-1 (middle)	A-1
Issuer rating		
Rating outlook	Stable	Negative