

Second Quarter Report 2017

Report to Members

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

Table of Contents

Management's Discussion and Analysis for the period ended June 30, 2017	1
Cautionary Note Regarding Forward-Looking Statements	2
Economic Developments and Outlook.....	2
The Economic Environment	2
Financial Markets	3
Network Performance	3
British Columbia	3
Ontario	3
Overall Performance	5
Statement of Financial Position.....	6
Cash and Liquid Assets.....	6
Loans	7
Funding	7
Equity	8
Statement of Profit.....	8
Net Financial Income.....	8
Operating Income (Loss).....	9
Results by Segment	11
Summary of Quarterly Results	15
Off-Balance Sheet Arrangements	16
Derivative Financial Instruments	16
Guarantees and Commitments.....	16
Assets under Administration.....	17
Capital Management and Capital Resources.....	17
Capital Management Framework	17
Regulatory Capital.....	18
Risk Discussion	20
Strategic Risk	20
Compliance Risk	20
Counterparty Risk.....	20
Credit Risk.....	21
Credit Quality Performance	22
Liquidity Risk	22
Market Risk	22
Operational Risk.....	24
Emerging Risks	24
Accounting and Control Matters.....	24
Critical Accounting Policies and Estimates.....	24
Future Changes in Accounting Policies.....	24
Controls and Procedures.....	25
Related Party Disclosures	25
Credit Ratings.....	25

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.

CENTRAL 1 CREDIT UNION

Management's Discussion and Analysis

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.

CENTRAL 1 CREDIT UNION

Management's Discussion and Analysis

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.

CENTRAL 1 CREDIT UNION

Management's Discussion and Analysis

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.

CENTRAL 1 CREDIT UNION

Management's Discussion and Analysis

Overall Performance

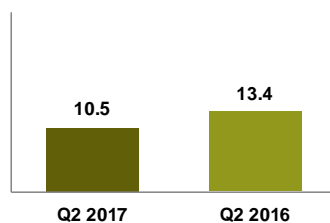
The following table summarizes Central 1's Financial Overview as at June 30, 2017 with comparatives.

Figure 1 – Financial Overview

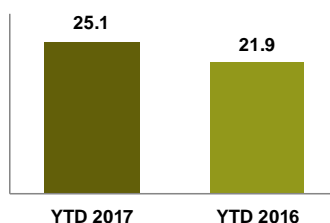
	For the three months ended		For the six months ended	
	Jun 30 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
Operating results (millions of dollars, unless otherwise indicated)				
Net financial income	12.3	15.8	33.2	27.2
Net financial and other income	51.0	54.0	106.9	97.7
Operating income (loss)	(0.3)	0.2	(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

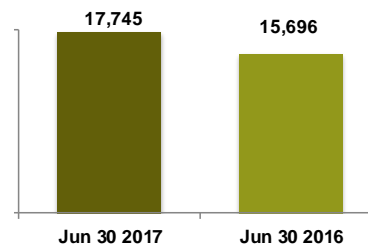
Quarterly Profit
(Millions of dollars)



Year-to-Date Profit
(Millions of dollars)



Total Assets
(Millions of dollars)



CENTRAL 1 CREDIT UNION

Management's Discussion and Analysis

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	Jun 30 2017	
					Encumbered Liquid Assets	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	Jun 30 2016	
					Encumbered Liquid Assets	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	Dec 31 2016	
					Encumbered Liquid Assets	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.

CENTRAL 1 CREDIT UNION

Management's Discussion and Analysis

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.

CENTRAL 1 CREDIT UNION

Management's Discussion and Analysis

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

(Millions of dollars)	For the three months ended		For the six months ended	
	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).

CENTRAL 1 CREDIT UNION

Management's Discussion and Analysis

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)

(Millions of dollars)	For the three months ended		For the six months ended	
	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)

CENTRAL 1 CREDIT UNION

Management's Discussion and Analysis

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.

CENTRAL 1 CREDIT UNION

Management's Discussion and Analysis

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

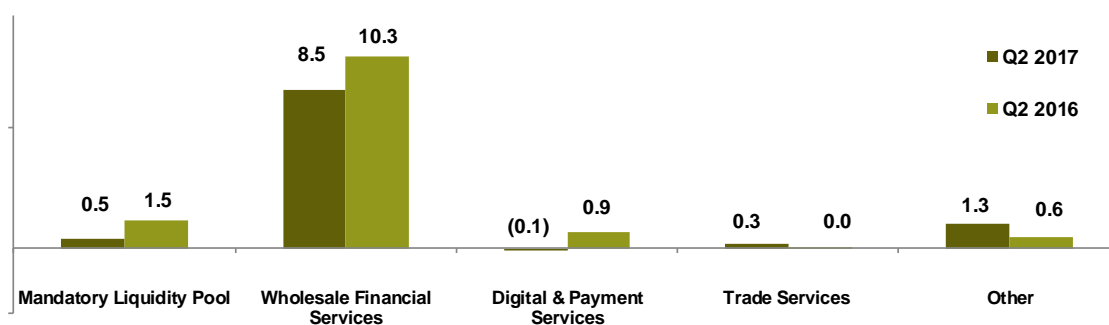
The following tables summarize Central 1's Results by Segment for the three months ended June 30, 2017 with comparatives.

Figure 7 – Results by Segment

(Thousands of dollars)	For the three months ended June 30, 2017					
	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

(Thousands of dollars)	For the three months ended June 30, 2016					
	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

Profit (Loss) for the Period (Millions of dollars)



CENTRAL 1 CREDIT UNION

Management's Discussion and Analysis

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.

CENTRAL 1 CREDIT UNION

Management's Discussion and Analysis

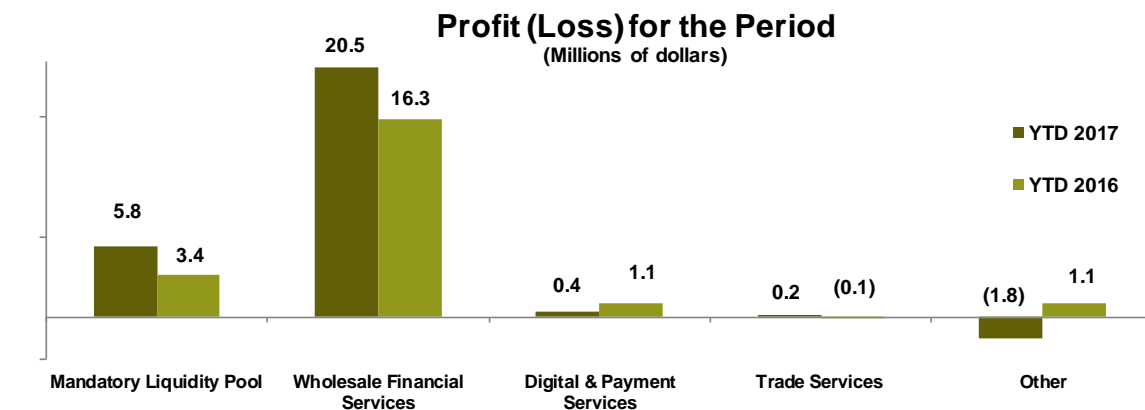
YTD 2017 vs YTD 2016

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

For the six 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	\$ 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

For the six 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	\$ 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



CENTRAL 1 CREDIT UNION

Management's Discussion and Analysis

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.

CENTRAL 1 CREDIT UNION

Management's Discussion and Analysis

Summary of Quarterly Results

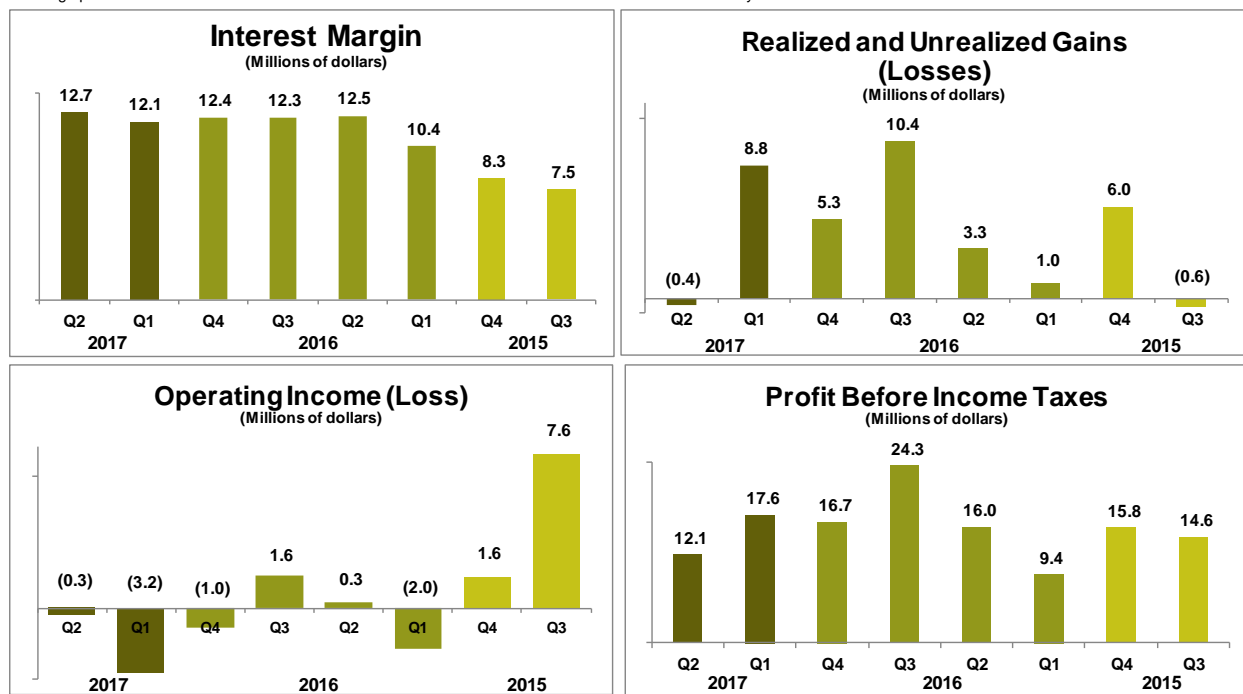
Quarterly Results

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

Figure 9 – Quarterly Earnings

(Thousands of dollars, except as indicated)	2017		2016				2015	
	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.

CENTRAL 1 CREDIT UNION

Management's Discussion and Analysis

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.

CENTRAL 1 CREDIT UNION

Management's Discussion and Analysis

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.

CENTRAL 1 CREDIT UNION

Management's Discussion and Analysis

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.

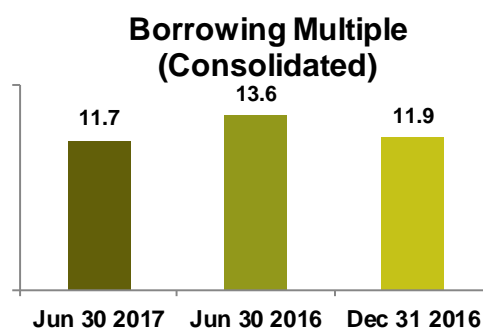
CENTRAL 1 CREDIT UNION

Management's Discussion and Analysis

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.

CENTRAL 1 CREDIT UNION

Management's Discussion and Analysis

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.

CENTRAL 1 CREDIT UNION

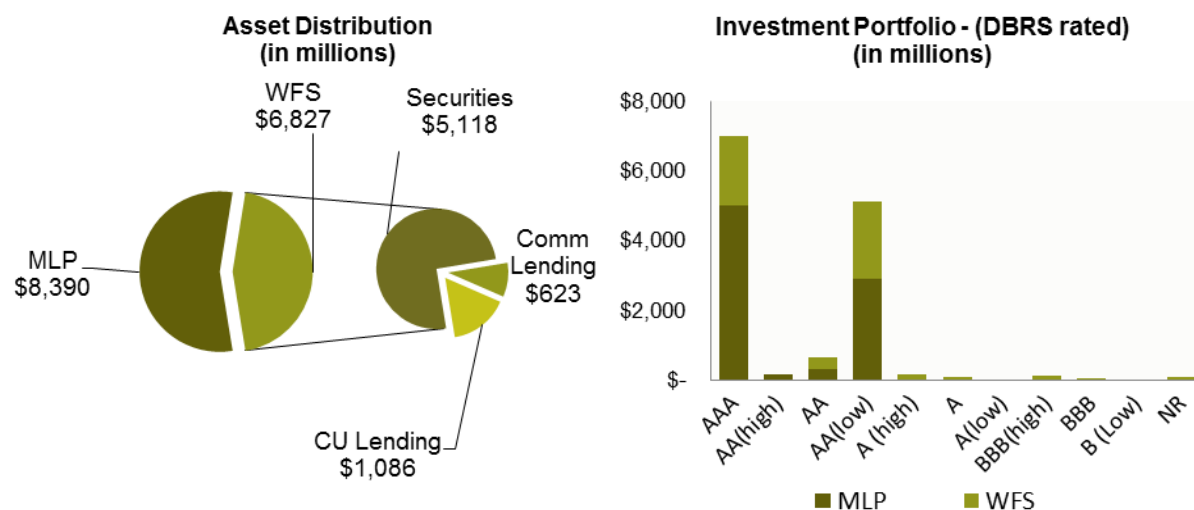
Management's Discussion and Analysis

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.

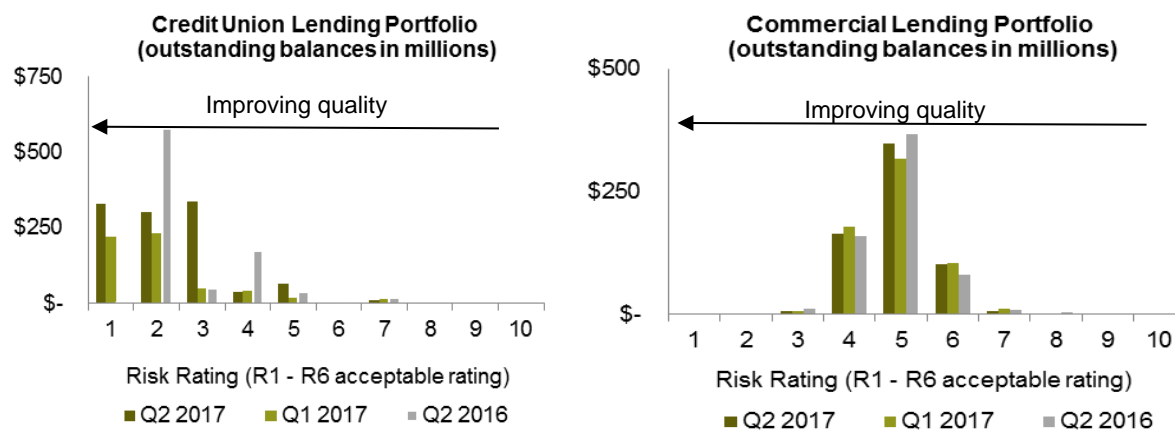
The figure below illustrates Central 1's credit exposure and risk profile based on outstanding balances in the investment portfolios held in MLP and WFS. WFS holds \$307.0 million in securities rated A (DBRS) and below, representing 6.0 per cent of the investment portfolio.

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



CENTRAL 1 CREDIT UNION

Management's Discussion and Analysis

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.

CENTRAL 1 CREDIT UNION

Management's Discussion and Analysis

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

Figure 17 – VaR by Risk Type

(Millions of dollars)	Mandatory Liquidity Pool			2017		
	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

(Millions of dollars)	Wholesale Financial Services			2017		
	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.

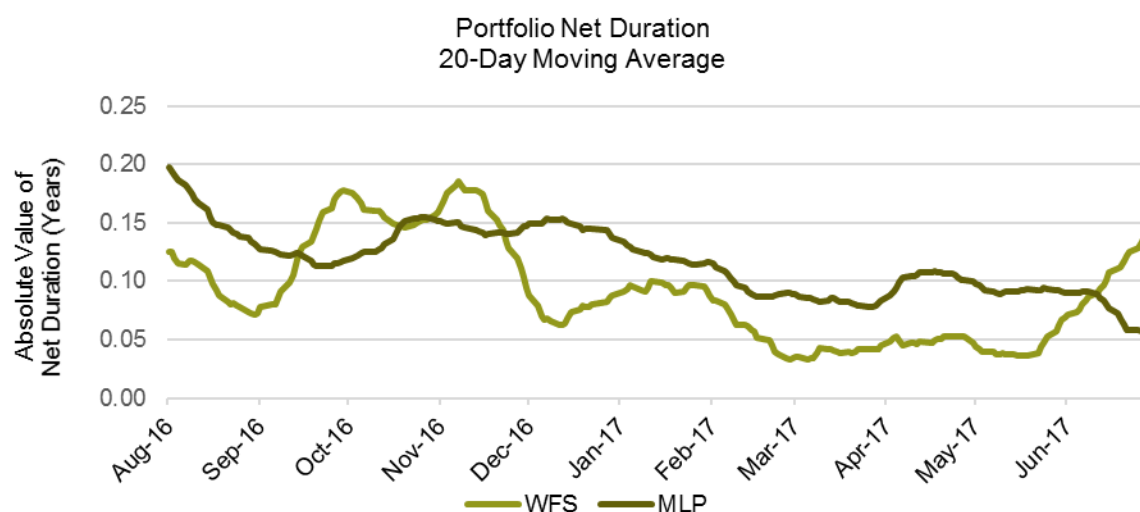
nm - Not meaningful to calculation

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



CENTRAL 1 CREDIT UNION

Management's Discussion and Analysis

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.

CENTRAL 1 CREDIT UNION

Management's Discussion and Analysis

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

Interim Consolidated Financial Statements

For the Quarter Ended June 30, 2017

Table of Contents

Interim Consolidated Statements of Financial Position (Unaudited)	1
Interim Consolidated Statements of Profit (Unaudited)	2
Interim Consolidated Statements of Comprehensive Income (Unaudited)	3
Interim Consolidated Statements of Changes in Equity (Unaudited)	4
Interim Consolidated Statements of Cash Flows (Unaudited).....	6
1. General information	7
2. Basis of presentation	7
3. Accounting policies	7
4. Securities	8
5. Derivative instruments	9
6. Loans	11
7. Other assets	12
8. Deposits	12
9. Obligations related to securities sold short	12
10. Funding transactions	13
11. Subordinated liabilities	14
12. Changes in liabilities arising from financing activities	15
13. Other liabilities	15
14. Share capital	15
15. Gain (loss) on disposal of financial instruments	16
16. Change in fair value of financial instruments	16
17. Other income	17
18. Other administrative expenses	17
19. Segment information.....	17
20. Guarantees, commitments and contingencies.....	21
21. Financial instruments – Fair value	22
22. Capital management.....	26
23. Related party disclosures	27

CENTRAL 1 CREDIT UNION
Interim Consolidated Statements of Financial Position (Unaudited)

(Thousands of dollars)	Notes	Jun 30 2017	Jun 30 2016	Dec 31 2016
Assets				
Cash		\$ 229,850	\$ 135,246	\$ 487,128
Deposits with regulated financial institutions		5,933	80,834	5,885
Trading assets	4	8,815,704	8,145,052	8,772,130
Reinvestment assets under the Canada Mortgage Bond Program	4	416,907	245,211	360,570
Derivative assets	5	73,393	113,705	81,807
Loans	6	2,163,990	1,756,844	1,453,802
Investment securities	4	5,221,094	4,644,388	5,621,749
Current tax assets		9,642	-	8,020
Property and equipment		19,407	18,051	18,022
Intangible assets		33,935	24,204	25,147
Deferred tax assets		-	16,537	5,171
Investment in affiliates		136,014	126,808	130,700
Settlements in-transit		596,714	369,789	327,062
Other assets	7	22,126	18,784	16,826
		\$ 17,744,709	\$ 15,695,453	\$ 17,314,019
Liabilities				
Deposits designated as trading	8	\$ 8,611,877	\$ 7,844,033	\$ 8,659,505
Obligations related to securities sold short	9	6,290	-	74,100
Derivative liabilities	5	77,641	123,622	85,660
Debt securities issued	10	1,644,143	1,258,033	1,490,730
Deposits	8	3,448,289	3,334,688	3,250,470
Obligations under the Canada Mortgage Bond Program	10	1,207,576	1,139,500	1,236,058
Subordinated liabilities	11	421,494	218,355	421,406
Provisions		2,014	1,875	1,688
Securities under repurchase agreements	10	421,441	120,687	298,416
Current tax liabilities		-	732	-
Deferred tax liabilities		9,469	7,997	9,146
Settlements in-transit		717,692	575,965	643,602
Other liabilities	13	46,678	43,236	58,363
		16,614,604	14,668,723	16,229,144
Equity				
Share capital	14	440,996	384,996	416,996
Contributed surplus		87,901	87,901	87,901
Retained earnings		572,227	525,361	552,782
Accumulated other comprehensive income		15,037	14,474	13,119
Reserves		3,965	4,039	4,034
		1,120,126	1,016,771	1,074,832
Total equity attributable to members of Central 1				
Non-controlling interest		9,979	9,959	10,043
		1,130,105	1,026,730	1,084,875
		\$ 17,744,709	\$ 15,695,453	\$ 17,314,019

Guarantees, commitments, and contingencies 20

Approved by the Directors:

"Rick Hoevenaars"

Rick Hoevenaars, Chairperson

"Robert Wellstood"

Robert Wellstood, Chairperson - Audit and Finance Committee

CENTRAL 1 CREDIT UNION
Interim Consolidated Statements of Profit (Unaudited)

(Thousands of dollars)	Notes	For the three months ended		For the six months ended	
		Jun 30 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
Interest income					
Securities		\$ 50,208	\$ 41,398	\$ 98,409	\$ 81,402
Deposits with regulated financial institutions		27	24	53	49
Loans		7,894	7,434	15,273	14,610
Reinvestment assets under the Canada Mortgage Bond Program		2,384	1,119	4,144	1,973
		60,513	49,975	117,879	98,034
Interest expense					
Debt securities issued		7,248	3,761	12,902	7,267
Deposits		32,666	27,815	64,480	56,185
Obligations under the Canada Mortgage Bond Program		1,407	4,383	6,166	8,631
Subordinated liabilities		6,486	1,518	9,553	3,040
		47,807	37,477	93,101	75,123
Interest margin		12,706	12,498	24,778	22,911
Gain (loss) on disposal of financial instruments	15	6,614	(879)	2,753	(2,159)
Change in fair value of financial instruments	16	(7,048)	4,140	5,628	6,399
Net financial income		12,272	15,759	33,159	27,151
Provision for (recovery of) credit losses	6	(140)	70	(113)	102
		12,412	15,689	33,272	27,049
Other income	17	38,575	38,333	73,613	70,607
Net financial and other income		50,987	54,022	106,885	97,656
Operating expenses					
Salaries and employee benefits		19,355	19,826	38,106	38,769
Premises and equipment		1,876	1,650	3,850	3,448
Other administrative expenses	18	17,661	16,585	35,187	30,104
		38,892	38,061	77,143	72,321
Profit before income taxes		12,095	15,961	29,742	25,335
Income taxes		1,643	2,592	4,676	3,474
Profit for the period		\$ 10,452	\$ 13,369	\$ 25,066	\$ 21,861

See accompanying notes to the Interim Consolidated Financial Statements

CENTRAL 1 CREDIT UNION
Interim Consolidated Statements of Comprehensive Income (Unaudited)

(Thousands of dollars)	For the three months ended		For the six months ended	
	Jun 30 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
Profit for the period	\$ 10,452	\$ 13,369	\$ 25,066	\$ 21,861
Other comprehensive income (loss), net of tax				
Items that may be reclassified subsequently to profit or loss				
Fair value reserves (available-for-sale financial assets)				
Net change in fair value of available-for-sale assets ¹	(2,464)	8,940	4,961	7,801
Reclassification of net realized gains on available-for-sale assets to profit or loss ²	(2,506)	(921)	(3,277)	(3,194)
Share of the other comprehensive income of affiliates accounted for using the equity method ³	(226)	292	234	605
	(5,196)	8,311	1,918	5,212
Item that will not be reclassified subsequently to profit or loss				
Net actuarial gain on employee benefits plans ⁴	-	-	-	31
Other comprehensive income (loss), net of tax	(5,196)	8,311	1,918	5,243
Comprehensive income, net of tax	\$ 5,256	\$ 21,680	\$ 26,984	\$ 27,104
Income taxes (recoveries) on items that may be reclassified subsequently to profit or loss				
¹ Net change in fair value of available-for-sale assets	\$ (558)	\$ 2,024	\$ 1,123	\$ 1,766
² Reclassification of net realized gains on available-for-sale assets to profit or loss	\$ (568)	\$ (209)	\$ (743)	\$ (724)
³ Share of the other comprehensive income of affiliates accounted for using the equity method	\$ (31)	\$ 13	\$ 10	\$ 26
Income tax on item that will not be reclassified subsequently to profit or loss				
⁴ Net actuarial gain on employee benefits plans	\$ -	\$ -	\$ -	\$ (31)

See accompanying notes to the Interim Consolidated Financial Statements

CENTRAL 1 CREDIT UNION
Interim Consolidated Statements of Changes in Equity (Unaudited)

(Thousands of dollars)	Attributable to equity members								Non-Controlling Interest	Total Equity
	Share Capital	Contributed Surplus	Retained Earnings	Fair Value and Affiliates Reserves	Employee Benefits Reserve	Other Reserves	Equity Attributable to Members			
Balance at January 1, 2017	\$ 416,996	\$ 87,901	\$ 552,782	\$ 16,280	\$ (3,161)	\$ 4,034	\$ 1,074,832	\$ 10,043	\$ 1,084,875	
Total comprehensive income for the period										
Profit for the period			25,130				25,130	(64)	25,066	
Other comprehensive income, net of tax										
Fair value reserve (available-for-sale financial assets)				1,684			1,684		1,684	
Share of the other comprehensive income of affiliates accounted for using the equity method				234			234		234	
Total comprehensive income	-	-	25,130	1,918	-	-	27,048	(64)	26,984	
Transactions with owners, recorded directly in equity										
Dividends to members			(6,913)				(6,913)		(6,913)	
Related tax savings			1,159				1,159		1,159	
Net Classes "A", "B" and "C" shares issued	24,000						24,000		24,000	
Transfer from reserves			69			(69)	-		-	
Total contributions from and distributions to owners	24,000	-	(5,685)	-	-	(69)	18,246	-	18,246	
Balance at June 30, 2017	\$ 440,996	\$ 87,901	\$ 572,227	\$ 18,198	\$ (3,161)	\$ 3,965	\$ 1,120,126	\$ 9,979	\$ 1,130,105	

Profit attributable to:

	2017	2016
Members of Central 1	\$ 25,130	\$ 21,861
Non-controlling interest	(64)	-
	\$ 25,066	\$ 21,861

Total comprehensive income attributable to:

Members of Central 1	\$ 27,048	\$ 27,104
Non-controlling interest	(64)	-
	\$ 26,984	\$ 27,104

See accompanying notes to the Interim Consolidated Financial Statements

CENTRAL 1 CREDIT UNION
Interim Consolidated Statements of Changes in Equity (Unaudited)

(Thousands of dollars)	Attributable to equity members									Non-Controlling Interest	Total Equity
	Share Capital	Contributed Surplus	Retained Earnings	Fair Value and Affiliates Reserves	Employee Benefits Reserve	Other Reserves	Equity Attributable to Members				
Balance at January 1, 2016	\$ 370,996	\$ 87,901	\$ 506,979	\$ 11,567	\$ (2,336)	\$ 3,954	\$ 979,061	\$ 9,959	\$ 989,020		
Total comprehensive income for the period											
Profit for the period			21,861				21,861	-	21,861		
Other comprehensive loss, net of tax											
Fair value reserve (available-for-sale financial assets)				4,607			4,607		4,607		
Share of the other comprehensive income of affiliates accounted for using the equity method				605			605		605		
Net actuarial gain on employee benefits plans					31		31		31		
Total comprehensive income	-	-	21,861	5,212	31	-	27,104	-	27,104		
Transactions with owners, recorded directly in equity											
Dividends to members			(4,162)				(4,162)		(4,162)		
Related tax savings			768				768		768		
Net Classes "A", "B" and "C" shares issued	14,000						14,000		14,000		
Transfer from reserves			(85)			85	-		-		
Total contributions from and distributions to owners	14,000	-	(3,479)	-	-	85	10,606	-	10,606		
Balance at June 30, 2016	\$ 384,996	\$ 87,901	\$ 525,361	\$ 16,779	\$ (2,305)	\$ 4,039	\$ 1,016,771	\$ 9,959	\$ 1,026,730		

See accompanying notes to the Interim Consolidated Financial Statements

CENTRAL 1 CREDIT UNION
Interim Consolidated Statements of Cash Flows (Unaudited)

(Thousands of dollars)	Notes	For the three months ended		For the six months ended	
		Jun 30 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
Cash flows from operating activities					
Profit for the period		\$ 10,452	\$ 13,369	\$ 25,066	\$ 21,861
Adjustments for:					
Depreciation and amortization		1,718	1,501	3,463	2,697
Interest margin		(12,706)	(12,498)	(24,778)	(22,911)
Gain (loss) on disposal of financial instruments		(6,614)	879	(2,753)	2,159
Change in fair value of financial instruments		7,048	(4,140)	(5,628)	(6,399)
Income tax expense		1,643	2,592	4,676	3,474
Provision for (recovery of) credit losses		(140)	70	(113)	102
Other items, net		(18,837)	(4,083)	(14,969)	(8,357)
		(17,436)	(2,310)	(15,036)	(7,374)
Change in trading assets		558,867	(518,113)	(66,815)	(1,353,780)
Change in settlements in-transit		(62,397)	(964)	(195,562)	200,430
Change in loans		(420,052)	(515,105)	(712,187)	(262,595)
Change in deposits designated as trading		54,458	514,769	(28,856)	273,075
Change in obligations related to securities sold short		(75,947)	(30,441)	(67,088)	(29,609)
Change in deposits		21,150	218,092	197,379	87,427
Change in derivative assets and liabilities		2,836	(192)	1,415	(6,127)
		61,479	(334,264)	(886,750)	(1,098,553)
Interest received		65,291	58,970	113,766	100,683
Interest paid		(53,938)	(46,776)	(85,545)	(76,555)
Income tax paid		(22)	(1,630)	(45)	(6,630)
Net cash from (used in) operating activities		72,810	(323,700)	(858,574)	(1,081,055)
Cash flows from investing activities					
Change in deposits with regulated financial institutions		(17)	(75,056)	(31)	(74,756)
Change in reinvestment assets under the CMB Program		(5,475)	(41,226)	(57,860)	(79,455)
Change in investment securities		442,260	342,897	407,592	1,043,488
Change in property and equipment		(1,469)	111	(2,614)	(442)
Change in intangible assets		(2,131)	(3,361)	(10,968)	(5,685)
Net cash from investing activities		433,168	223,365	336,119	883,150
Cash flows from financing activities					
Change in debt securities issued	12	(252,884)	107,559	151,899	182,612
Change in obligations under the CMB Program	12	(36,696)	73,784	(20,140)	144,648
Change in securities under repurchase agreements	12	(153,060)	(39,035)	122,998	(100,515)
Dividends paid	12	-	-	(13,580)	(14,428)
Issuance of shares		24,000	14,000	24,000	14,000
Net cash from (used in) financing activities		(418,640)	156,308	265,177	226,317
Increase (decrease) in cash		87,338	55,973	(257,278)	28,412
Cash - beginning of period		142,512	79,273	487,128	106,834
Cash - end of period		\$ 229,850	\$ 135,246	\$ 229,850	\$ 135,246

See accompanying notes to the Interim Consolidated Financial Statements

1. General information

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

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

2. Basis of presentation

These Interim Consolidated Financial Statements have been prepared in accordance with *IAS 34 Interim Financial Reporting* as issued by the International Accounting Standards Board (IASB).

The Interim Consolidated Financial Statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with Central 1's Annual Consolidated Financial Statements for the year ended December 31, 2016.

The policies set out below have been consistently applied to all the periods presented and by all subsidiaries included in the Interim Consolidated Financial Statements.

The Interim Consolidated Financial Statements were authorized for issue by the Board of Directors on August 25, 2017.

3. Accounting policies

These Interim Consolidated Financial Statements have been prepared using the same accounting policies as set out in Note 3 to Central 1's Annual Consolidated Financial Statements as at and for the year ended December 31, 2016.

Central 1 monitors new accounting standards issued by the IASB and analyzes the impact that these new standards may have on its Consolidated Financial Statements. International Financial Reporting Standards (IFRS) 9, *Financial Instruments* is to be applied on a retrospective basis, with certain exceptions. As permitted, Central 1 has made the decision not to restate comparative period financial information when adopting this new standard. Instead, Central 1 will recognize any transition adjustment on January 1, 2018 through an adjustment to opening retained earnings and accumulated other comprehensive income (AOCI).

IFRS 9 includes a policy choice which permits the application of existing rules for hedge accounting. As permitted, Central 1 has elected to not adopt IFRS 9 hedge accounting requirements and will retain the hedge accounting requirements under IAS 39, *Financial Instruments: Recognition and Measurement*.

For details of the future changes in accounting policies, refer to Note 3 to Central 1's 2016 Annual Consolidated Financial Statements.

CENTRAL 1 CREDIT UNION
Notes to the Interim Consolidated Financial Statements (Unaudited)
Period ended June 30, 2017

4. Securities

Trading assets

Total trading assets included in the Interim Consolidated Statements of Financial Position are as follows:

(Thousands of dollars)	Jun 30 2017	Jun 30 2016	Dec 31 2016
Government and government guaranteed securities	\$ 5,985,201	\$ 5,915,234	\$ 6,182,090
Corporate and major financial institutions AA ⁽¹⁾ or greater	2,479,063	1,804,279	2,203,441
Other	351,440	425,539	386,599
Fair value	\$ 8,815,704	\$ 8,145,052	\$ 8,772,130
Amortized cost	\$ 8,838,712	\$ 8,071,274	\$ 8,766,263

⁽¹⁾ The credit ratings are provided by Dominion Bond Rating Services (DBRS).

Investment securities

Total investment securities classified as available-for-sale included in the Interim Consolidated Statements of Financial Position are as follows:

(Thousands of dollars)	Jun 30 2017	Jun 30 2016	Dec 31 2016
Fair value			
Government and government guaranteed securities	\$ 3,999,667	\$ 3,332,081	\$ 3,917,866
Corporate and major financial institutions AA ⁽¹⁾ or greater	830,197	1,017,763	1,457,717
Other	359,110	262,424	214,046
Fair value	\$ 5,188,974	\$ 4,612,268	\$ 5,589,629
Cost			
Other	\$ 32,120	\$ 32,120	\$ 32,120
Total investment securities	\$ 5,221,094	\$ 4,644,388	\$ 5,621,749

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

The \$32.1 million presented in the above table represents equity investment securities that are measured at cost and for which disclosure of fair value is not provided because the fair value cannot be reliably measured. There have been no changes in this amount from prior periods.

CENTRAL 1 CREDIT UNION
Notes to the Interim Consolidated Financial Statements (Unaudited)
Period ended June 30, 2017

Reinvestment assets under the Canada Mortgage Bond Program

As principal payments on the underlying securitized assets are received, Central 1 is required to reinvest the proceeds on behalf of Canada Housing Trust (CHT). These reinvestment assets are recognized in the Interim Consolidated Statements of Financial Position at fair value, except for those classified as loans and receivables which are recognized at amortized cost. The following table provides a breakdown of these reinvestment assets:

(Thousands of dollars)	Jun 30 2017	Jun 30 2016	Dec 31 2016
Classified as FVTPL			
Government and government guaranteed securities	\$ 393,764	\$ 166,479	\$ 284,856
Amortized cost	\$ 393,370	\$ 164,925	\$ 283,135
Classified as available-for-sale			
Government and government guaranteed securities	\$ 23,143	\$ 77,070	\$ 75,714
Amortized cost	\$ 23,010	\$ 76,493	\$ 75,344
Classified as loans and receivables			
Assets acquired under reverse repurchase agreements	\$ -	\$ 1,662	\$ -
Total reinvestment assets under the CMB program	\$ 416,907	\$ 245,211	\$ 360,570

5. Derivative instruments

The following tables summarize the fair value of derivative assets and liabilities:

(Thousands of dollars)	Jun 30 2017		Jun 30 2016		Dec 31 2016	
	Asset	Liability	Asset	Liability	Asset	Liability
Interest rate contracts						
Bond forwards	\$ 240	\$ 58	\$ 874	\$ 678	\$ 427	\$ 455
Futures contracts	-	384	14	-	52	44
Swap contracts	149,368	153,572	236,412	246,675	161,698	165,727
Options purchased	205	-	-	-	-	-
Options written	-	202	-	-	-	-
	149,813	154,216	237,300	247,353	162,177	166,226
Foreign exchange contracts						
Forward contracts	3,476	3,328	1,696	1,560	1,205	1,009
Other						
Equity index-linked options	9,038	9,031	10,882	10,882	13,560	13,560
Total fair value before adjustment	162,327	166,575	249,878	259,795	176,942	180,795
Adjustment for master netting agreements	(88,934)	(88,934)	(136,173)	(136,173)	(95,135)	(95,135)
Fair value	\$ 73,393	\$ 77,641	\$ 113,705	\$ 123,622	\$ 81,807	\$ 85,660

The amounts that have been pledged and received as collateral are \$7.7 million and \$12.8 million, respectively, as at June 30, 2017 (June 31, 2016 - \$18.2 million and \$32.8 million; December 31, 2016 - \$9.1 million and \$23.5 million).

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

CENTRAL 1 CREDIT UNION
Notes to the Interim Consolidated Financial Statements (Unaudited)
Period ended June 30, 2017

Hedge accounting

Central 1 uses interest rate swaps to hedge its exposure to changes in the fair values of selected commercial loans and selected medium-term notes, both of which are at risk of changes in market interest rates. Interest rate swaps are matched to these specific commercial loans and medium-term notes. Central 1 has elected to adopt hedge accounting in respect of the swaps and the hedged items.

The fair values of derivatives designated as fair value hedges are as follows:

(Thousands of dollars)	Jun 30 2017		Jun 30 2016		Dec 31 2016	
	Asset	Liability	Asset	Liability	Asset	Liability
Interest rate contracts	\$ 1,274	\$ -	\$ -	\$ 2,503	\$ 1,614	\$ -

Hedging instruments are recorded at fair value, and the commercial loans and medium-term notes that are part of a hedging relationship are adjusted for the changes in value of the risk being hedged (fair value hedge adjustment). To the extent that the change in the fair value of the derivative does not offset changes in the fair value of the hedged item (hedge ineffectiveness), the net amount is recorded directly in the Consolidated Statements of Profit.

The following table presents the impact of fair value hedges on profit:

(Thousands of dollars)	For the three months ended		For the six months ended	
	Jun 30 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
Change in fair value on hedging derivatives	\$ (1,576)	\$ (315)	\$ (340)	\$ (2,924)
Fair value hedge adjustment on loans and medium-term notes	1,335	296	132	2,920
Hedge ineffectiveness recorded in profit	\$ (241)	\$ (19)	\$ (208)	\$ (4)

CENTRAL 1 CREDIT UNION
Notes to the Interim Consolidated Financial Statements (Unaudited)
Period ended June 30, 2017

6. Loans

(Thousands of dollars)	Jun 30 2017	Jun 30 2016	Dec 31 2016
<i>Amortized cost</i>			
Due on demand			
Credit unions	\$ 39,405	\$ 33,582	\$ 31,544
Commercial and others	2,886	2,317	3,716
	42,291	35,899	35,260
Term			
Credit unions	783,353	622,150	297,984
Commercial and others	618,058	574,706	609,357
Reverse repurchase agreements	535,855	307,393	316,362
Officers and employees	8,286	9,088	8,771
Residential mortgages	155,335	130,345	161,557
	2,100,887	1,643,682	1,394,031
	2,143,178	1,679,581	1,429,291
Accrued interest	2,035	1,820	2,146
Premium	7,524	16,420	10,758
	2,152,737	1,697,821	1,442,195
Allowance for credit losses	(534)	(556)	(518)
Amortized cost	\$ 2,152,203	\$ 1,697,265	\$ 1,441,677

Fair value through profit or loss

Term			
Commercial and others	\$ 11,404	\$ 58,828	\$ 11,582
Accrued interest	37	187	36
Premium	116	408	128
Amortized cost	\$ 11,557	\$ 59,423	\$ 11,746
Fair value	\$ 11,787	\$ 59,579	\$ 12,125
Total loans	\$ 2,163,990	\$ 1,756,844	\$ 1,453,802

Loans to officers and employees bear interest at rates varying from 2.49% to 2.75%.

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

(Thousands of dollars)	For the three months ended				For the six months ended	
	Jun 30 2017	Jun 30 2016	Specific Allowance	Collective Allowance	Jun 30 2017	Jun 30 2016
Balance at beginning of period	\$ 545	\$ 533	\$ 438	\$ 80	\$ 518	\$ 501
Net write-off (recovery) during the period	129	(47)	(4)	133	129	(47)
Provision for (recovery of) credit losses	(140)	70	-	(113)	(113)	102
Balance at end of period	\$ 534	\$ 556	\$ 434	\$ 100	\$ 534	\$ 556

CENTRAL 1 CREDIT UNION
Notes to the Interim Consolidated Financial Statements (Unaudited)
Period ended June 30, 2017

7. Other assets

(Thousands of dollars)	Jun 30 2017	Jun 30 2016	Dec 31 2016
Investment property	\$ 1,269	\$ 1,310	\$ 1,323
Prepaid expenses	9,821	7,398	6,334
Post-employment benefits	2,545	3,238	2,624
Accounts receivable and other	8,491	6,838	6,545
	\$ 22,126	\$ 18,784	\$ 16,826

8. Deposits

The contractual maturity dates of deposits designated as trading are as follows:

(Thousands of dollars)	Jun 30 2017	Jun 30 2016	Dec 31 2016
Amounts			
Due within three months	\$ 1,615,053	\$ 1,843,147	\$ 2,045,759
Due after three months and within one year	1,720,265	1,625,850	1,224,746
Due after one year and within five years	5,241,139	4,283,005	5,355,907
Due after five years	25,322	3,070	600
	8,601,779	7,755,072	8,627,012
Accrued interest	43,404	34,429	37,386
Amortized cost	\$ 8,645,183	\$ 7,789,501	\$ 8,664,398
Fair value	\$ 8,611,877	\$ 7,844,033	\$ 8,659,505

Deposits held at amortized cost are as follows:

(Thousands of dollars)	Jun 30 2017	Jun 30 2016	Dec 31 2016
Amounts			
Due on demand	\$ 1,548,401	\$ 1,626,171	\$ 1,577,567
Due within three months	80,453	182,777	207,585
Due after three months and within one year	765,531	908,838	612,645
Due after one year and within five years	1,044,559	572,185	845,647
Due after five years	1,876	35,000	-
	3,440,820	3,324,971	3,243,444
Accrued interest	7,469	9,717	7,026
Amortized cost	\$ 3,448,289	\$ 3,334,688	\$ 3,250,470

9. Obligations related to securities sold short

(Thousands of dollars)	Jun 30 2017	Jun 30 2016	Dec 31 2016
Amortized cost	\$ 6,368	\$ -	\$ 74,532
Fair value	\$ 6,290	\$ -	\$ 74,100

CENTRAL 1 CREDIT UNION
Notes to the Interim Consolidated Financial Statements (Unaudited)
Period ended June 30, 2017

10. Funding transactions

Debt securities issued

(Thousands of dollars)	Jun 30 2017	Jun 30 2016	Dec 31 2016
Amounts			
Due within three months	\$ 725,747	\$ 657,630	\$ 725,288
Due after three months and within one year	69,147	599,310	314,674
Due after one year and within five years	846,291	-	449,325
	1,641,185	1,256,940	1,489,287
Accrued interest	2,958	1,093	1,443
Amortized cost	\$ 1,644,143	\$ 1,258,033	\$ 1,490,730

Central 1 has established \$150.0 million of unsecured credit facilities with various financial institutions. The unsecured facilities rank equally with the outstanding notes and deposits. At June 30, 2017, June 30, 2016, and December 31, 2016 the amounts outstanding were \$91.6 million, \$69.6 million, and \$81.9 million, respectively.

Central 1 is authorized to issue up to \$1.0 billion in short-term commercial paper and up to \$1.5 billion in other borrowings which includes Central 1's medium-term notes facility. At June 30, 2017, a par value of \$795.7 million was borrowed under the short-term commercial paper facility (June 30, 2016 - \$658.0 million, December 31, 2016 - \$740.7 million) and a par value of \$850.0 million was borrowed under the medium-term notes facility (June 30, 2016 - \$600.0 million, December 31, 2016 - \$750.0 million).

Obligations under the CMB Program

Central 1 has recognized its obligations to CHT under the CMB Program at fair value in the Interim Consolidated Statements of Financial Position. The contractual maturity dates of these obligations are indicated below.

(Thousands of dollars)	Jun 30 2017	Jun 30 2016	Dec 31 2016
Amounts			
Due within one year	\$ 180,391	\$ 59,952	\$ 182,814
Due after one year and within five years	1,023,602	1,055,494	1,041,201
	1,203,993	1,115,446	1,224,015
Accrued interest	1,021	1,275	1,231
Amortized cost	\$ 1,205,014	\$ 1,116,721	\$ 1,225,246
Fair value	\$ 1,207,576	\$ 1,139,500	\$ 1,236,058

The underlying assets which are designated to offset these obligations are as follows:

(Thousands of dollars)	Jun 30 2017	Jun 30 2016	Dec 31 2016
Fair value			
Total reinvestment assets			
under the CMB Program (see Note 4)	\$ 416,907	\$ 245,211	\$ 360,570
Assets recognized as securities	660,160	780,842	755,787
Fair value	\$ 1,077,067	\$ 1,026,053	\$ 1,116,357
Amortized cost			
Assets recognized in loans	\$ 90,477	\$ 103,608	\$ 95,670
Total underlying assets designated	\$ 1,167,544	\$ 1,129,661	\$ 1,212,027

CENTRAL 1 CREDIT UNION
Notes to the Interim Consolidated Financial Statements (Unaudited)
Period ended June 30, 2017

Securities under repurchase agreements

Securities under repurchase agreements are classified as other financial liabilities and recognized in the Interim Consolidated Statements of Financial Position at amortized cost.

The following table summarizes the amount of securities under repurchase agreements outstanding at each period end:

(Thousands of dollars)	Jun 30 2017	Jun 30 2016	Dec 31 2016
Amounts under the CMB Program	\$ 421,441	\$ 120,687	\$ 298,416

11. Subordinated liabilities

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

(Thousands of dollars)	Jun 30 2017	Jun 30 2016	Dec 31 2016
Series 3	\$ -	\$ 18,000	\$ -
Series 4	200,000	200,000	200,000
Series 5	21,000	-	21,000
Series 6	200,000	-	200,000
Principal amount	421,000	218,000	421,000
Discount	(1,885)	(717)	(1,997)
Accrued interest	2,379	1,072	2,403
Amortized cost	\$ 421,494	\$ 218,355	\$ 421,406

On July 6, 2011, Central 1 issued \$18.0 million principal amount of Series 3 subordinated notes due July 6, 2021. The notes bear interest at a floating rate based on 90-day Bankers' Acceptance plus 10 basis points, payable quarterly until July 6, 2016. Central 1 has the option to redeem the outstanding notes in whole or in part on or after July 6, 2016, subject to regulatory approval. Central 1 received regulatory approval and exercised the option to fully redeem \$18.0 million of Tier 2 qualifying Series 3 subordinated debt on July 6, 2016. This redemption was replaced by \$21.0 million of new Tier 2 qualifying Series 5 subordinated debt.

On April 25, 2014, Central 1 issued \$200.0 million principal amount of Series 4 subordinated notes due April 25, 2024. The notes bear interest at a fixed rate of 2.89%, payable semi-annually, until, but excluding April 25, 2019, and thereafter at a floating rate based on 90-day Bankers' Acceptance plus 81 basis points, payable quarterly. Central 1 has the option to redeem the notes on or after April 25, 2019, subject to regulatory approval.

On July 6, 2016, Central 1 issued \$21.0 million principal amount of Series 5 subordinated notes due July 6, 2026. The notes bear interest at a floating rate based on 90-day Bankers' Acceptance plus 10 basis points, payable quarterly until July 6, 2021. Central 1 has the option to redeem the outstanding notes in whole or in part on or after July 6, 2021, subject to regulatory approval.

On October 14, 2016, Central 1 issued \$200.0 million principal amount of Series 6 subordinated notes due October 14, 2026. The notes bear interest at a fixed rate of 3.06%, payable semi-annually, until, but excluding October 14, 2021, and thereafter at a floating rate based on 90-day Bankers' Acceptance plus 198 basis points, payable quarterly. Central 1 has the option to redeem the notes on or after October 14, 2021, subject to regulatory approval.

The notes are recognized in the Interim Consolidated Statements of Financial Position at amortized cost.

CENTRAL 1 CREDIT UNION
Notes to the Interim Consolidated Financial Statements (Unaudited)
Period ended June 30, 2017

12. Changes in liabilities arising from financing activities

The following table summarizes the changes in liabilities arising from financing activities for the six months ended June 30, 2017:

(Thousands of dollars)	Dec 31 2016	Cash flow changes	Non-cash changes		Jun 30 2017
			Fair value changes	Other	
Debt securities issued	\$ 1,490,730	\$ 151,899	\$ -	\$ 1,514	\$ 1,644,143
Obligations under the CMB Program	1,236,058	(20,140)	(8,250)	(92)	1,207,576
Subordinated liabilities	421,406	-	-	88	421,494
Securities under repurchase agreements	298,416	122,998	-	27	421,441
Dividends payable	13,580	(13,580)	-	6,913	6,913
	\$ 3,460,190	\$ 241,177	\$ (8,250)	\$ 8,450	\$ 3,701,567

13. Other liabilities

(Thousands of dollars)	Jun 30 2017	Jun 30 2016	Dec 31 2016
Post-employment benefits	\$ 23,677	\$ 22,949	\$ 23,625
Short-term employee benefits	5,021	4,321	7,416
Dividends payable	6,913	4,162	13,580
Unearned insurance premiums	289	287	1,325
Accounts payable and other	10,778	11,517	12,417
	\$ 46,678	\$ 43,236	\$ 58,363

14. Share capital

Details of Central 1's share capital were disclosed in Note 20 of the Annual Consolidated Financial Statements as at December 31, 2016.

The numbers of shares issued are as follows:

(Thousands of shares)	For the six months ended Jun 30 2017	For the six months ended Jun 30 2016	For the year ended Dec 31 2016
Class A – credit unions			
Balance at beginning of period	416,952	370,952	370,952
Issued during the period	24,000	14,000	46,000
Balance at end of period	440,952	384,952	416,952
Class B – co-operatives			
Balance at beginning and end of period	5	5	5
Class C – other			
Balance at beginning and end of period	7	7	7
Class E – credit unions			
Balance at beginning and end of period	3,157	3,157	3,157

CENTRAL 1 CREDIT UNION
Notes to the Interim Consolidated Financial Statements (Unaudited)
Period ended June 30, 2017

The amounts outstanding are as follows:

(Thousands of dollars)	Jun 30 2017	Jun 30 2016	Dec 31 2016
Outstanding \$1 par value shares			
Class A – credit unions	\$ 440,952	\$ 384,952	\$ 416,952
Class B – cooperatives	5	5	5
Class C – other	7	7	7
Outstanding \$0.01 par value shares			
Class E – credit unions	32	32	32
	\$ 440,996	\$ 384,996	\$ 416,996

The dividend amounts are as follows:

(Thousands of dollars)	For the six months ended Jun 30 2017	Jun 30 2016	For the year ended Dec 31 2016
Dividend payable, balance at beginning of period	\$ 13,580	\$ 14,428	\$ 14,428
Declared during the period	6,913	4,162	13,580
Paid during the period	(13,580)	(14,428)	(14,428)
Dividend payable, balance at end of period	\$ 6,913	\$ 4,162	\$ 13,580

15. Gain (loss) on disposal of financial instruments

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

(Thousands of dollars)	For the three months ended		For the six months ended	
	Jun 30 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
Net gain on disposal of trading assets	\$ 5,704	\$ 1,647	\$ 2,081	\$ 5,131
Net gain on disposal of investment securities	3,084	1,130	4,029	3,918
Net loss on obligations under the CMB program	-	(954)	-	(988)
Net gain (loss) on disposal of derivative instruments	(383)	78	(648)	(5,942)
Net loss on disposal of deposits designated as trading	(1,551)	(2,254)	(3,624)	(3,872)
Net gain (loss) on disposal of obligations related to securities sold short	(240)	(526)	915	(406)
	\$ 6,614	\$ (879)	\$ 2,753	\$ (2,159)

16. Change in fair value of financial instruments

(Thousands of dollars)	For the three months ended		For the six months ended	
	Jun 30 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
Trading assets	\$ (48,295)	\$ 15,255	\$ (28,986)	\$ 22,031
Loans	(192)	156	(149)	156
Activities under the CMB Program				
Reinvestment assets	(1,672)	433	(1,327)	660
Derivative instruments	(325)	(806)	(45)	1,773
Obligations under the CMB Program	8,621	(2,058)	8,250	(4,231)
Derivative instruments	(598)	1,769	(175)	5,497
Financial liabilities at FVTPL				
Deposits designated as trading	35,301	(10,655)	28,415	(19,552)
Obligations related to securities sold short	112	46	(355)	65
	\$ (7,048)	\$ 4,140	\$ 5,628	\$ 6,399

CENTRAL 1 CREDIT UNION
Notes to the Interim Consolidated Financial Statements (Unaudited)
Period ended June 30, 2017

17. Other income

(Thousands of dollars)	For the three months ended		For the six months ended	
	Jun 30 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
Mandatory Liquidity Pool	\$ (108)	\$ (2)	\$ (201)	\$ (189)
Wholesale Financial Services				
Lending fees	1,500	1,193	2,939	2,445
Securitization fees	1,822	1,614	3,671	3,090
Foreign exchange income	1,165	1,621	2,800	2,848
Other	567	587	1,177	1,219
Digital & Payment Services				
Payment processing and other fees	14,281	13,398	27,211	25,841
Direct banking fees	6,857	7,802	14,344	14,723
Trade Services	4,767	4,675	8,628	8,475
Other				
Equity interest in affiliates	2,881	2,503	5,276	3,615
Income from investees	2,111	3,568	3,393	4,078
Litigation settlement	1,135	-	1,135	-
Other	1,597	1,374	3,240	4,462
	\$ 38,575	\$ 38,333	\$ 73,613	\$ 70,607

18. Other administrative expenses

(Thousands of dollars)	For the three months ended		For the six months ended	
	Jun 30 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
Cost of sales and services	\$ 3,407	\$ 4,701	\$ 8,039	\$ 7,726
Cost of payments processing	3,999	4,415	8,221	8,332
Management information systems	3,581	2,415	6,960	4,750
Professional fees	3,735	2,303	6,488	4,133
Flow through membership dues	1,415	1,376	2,912	2,784
Business development projects	347	343	592	573
Other	1,177	1,032	1,975	1,806
	\$ 17,661	\$ 16,585	\$ 35,187	\$ 30,104

19. Segment information

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

A description of each business segment is as follows:

Mandatory Liquidity Pool

The MLP is responsible for providing extraordinary liquidity to the credit union networks in the event of a liquidity crisis. The MLP is funded by the mandatory deposits of, and associated capital from, member credit unions, either by liquidity lock-in agreement or by statute. Central 1 manages the MLP within the regulatory constraints and leverages its economies of scale to reduce costs associated with the MLP. Assets held in the MLP remain highly liquid in order to ensure immediate access to funds. Members receive interest on their deposits and dividends on Class A shares which in aggregate equals to the return on the liquidity portfolio after expenses.

Wholesale Financial Services

The WFS supports the structural and tactical liquidity needs of member credit unions in pursuit of regular, day-to-day business objectives. The segment is funded by Class A members' non-mandatory deposits augmented by capital market funding and deposits from non-Class A members.

WFS fosters the credit union network's growth through supporting the financial needs of member credit unions. Many of the products and services that this business segment provides, including credit union lending and access to securitization vehicles, allows members to take advantage of Central 1's strong financial ratings, industry expertise and access to the capital markets for short-term and long-term funding. WFS also supports the short-term liquidity requirement for the Digital & Payment Services segment. Central 1 provides foreign exchange services, derivative capabilities and other ancillary treasury services under the WFS segment.

The WFS segment includes the Group Clearer settlement operations function as Central 1 is a Group Clearer under the rules of the Payments Canada, a Large Value Transfer System (LVTS) participant, and acts as the credit union networks' financial institution connection to the Canadian payments system. This portion of the business was previously included under Digital & Payment Services prior to the fourth quarter of 2016. Comparative information has been restated to reflect this change.

Digital & Payment Services

Digital & Payment Services develops and operates innovative direct banking technologies and payment processing transactions for member credit unions, financial institutions and other corporate clients. This segment offers *MemberDirect®* services, a multi-platform solution that allows member credit unions to offer a variety of direct banking services to their individual customers through their online banking platform. The products and services offered through *MemberDirect®* help credit unions attract new members, deepen their relationships with existing members and support them in delivering high quality member services.

Payments operations encompass processing paper items and electronic transactions such as automated funds transfer and bill payments on behalf of member credit unions. The payment processing solutions under the *PaymentStream™* brand are secure and reliable tools that allow financial and corporate-sector clients to complete a variety of digital, paper and remittance transactions. They also provide cash management services, including automated funds transfers, bill payments and wire transfers.

Trade Services

The Trade Services group works to put the needs of credit union first, working as a trusted partner for relevant solutions in areas of expertise. These include marketing, market research and creative services, economics, compliance, risk management, communications, strategic and people solutions tailored to the needs of member credit unions. These value-added services give member credit unions access to a wealth of expertise, while remaining affordable through economies of scale.

Other

Other segment comprises enterprise level activities which are not allocated to these four business segments, including the costs of implementing strategic initiatives and exploring strategic alternatives to enhance the ability to support credit unions in the future. The costs of Corporate Support functions are also included in Other and are attributed to business lines as appropriate. Central 1's investments in equity shares of network-related entities other than the wholly owned subsidiaries as described in Note 23, together with consolidation adjustments, corporate level tax items and other assets and liabilities not allocated to the four business segments, are also included in the Other segment.

Management reporting framework

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

The expenses in each business segment may include cost of services incurred directly as well as attributed corporate costs. For costs not directly attributable to one of the business segments, a management reporting framework that uses assumptions, estimates and methodologies for allocating overhead costs and indirect expenses to each of the business segments is used. The management reporting framework assists in the attribution of capital and the transfer pricing of funds to the business segments in a manner that fairly and consistently measures and aligns the economic costs with the underlying benefits and risks of that specific business segment. Central 1's capital plan allows for tactical capital allocations within all segments. Central 1 does not have any inter-segment revenue between business segments. Income tax provision or recovery is generally applied to each segment based on a statutory tax rate and may be adjusted for items and activities unique to each segment. All other corporate level activities that are not allocated to the four business segments are reported under the Other segment.

Basis of presentation

The accounting policies used to prepare these segments are consistent with those followed in the preparation of Central 1's Interim Consolidated Financial Statements as described in Note 3.

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.

CENTRAL 1 CREDIT UNION
Notes to the Interim Consolidated Financial Statements (Unaudited)
Period ended June 30, 2017

Results by segment

The following table summarizes the segment results 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

The following table summarizes the segment results 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 (loss) 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

The following table summarizes the segment results for the six 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	\$ 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
Total assets at Jun 30 2017	\$8,471,827	\$ 9,000,617	\$ 20,290	\$ 11,844	\$ 240,131	\$17,744,709
Total liabilities at Jun 30 2017	\$7,939,968	\$ 8,568,881	\$ (2,347)	\$ (7,174)	\$ 115,276	\$16,614,604
Total equity at Jun 30 2017	\$ 531,859	\$ 431,736	\$ 22,637	\$ 19,018	\$ 124,855	\$ 1,130,105

CENTRAL 1 CREDIT UNION
Notes to the Interim Consolidated Financial Statements (Unaudited)
Period ended June 30, 2017

The following table summarizes the segment results for the six 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	\$ 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
Total assets at Jun 30 2016	\$7,567,796	\$ 7,872,564	\$ 6,991	\$ 10,156	\$ 237,946	\$15,695,453
Total liabilities at Jun 30 2016	\$7,097,528	\$ 7,394,901	\$ (24,193)	\$ (7,310)	\$ 207,797	\$14,668,723
Total equity at Jun 30 2016	\$ 470,268	\$ 477,663	\$ 31,184	\$ 17,466	\$ 30,149	\$ 1,026,730

20. Guarantees, commitments and contingencies

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

In the normal course of business, Central 1 enters into various off-balance sheet credit 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.

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.

(Thousands of dollars)	Jun 30 2017	Jun 30 2016	Dec 31 2016
Commitments to extend credit	\$ 4,092,527	\$ 4,302,980	\$ 4,447,323
Guarantees	\$ 760,000	\$ 822,000	\$ 830,000
Standby letters of credit	\$ 174,557	\$ 155,358	\$ 173,502
Mortgage purchase commitment	\$ -	\$ 19,861	\$ -

Amounts utilized under these agreements for commitments to extend credit, guarantees, and standby letter of credit, and mortgage purchase commitment respectively, on June 30, 2017 are \$23.8 million, \$272.4 million, \$109.6 million, and \$Nil (June 30, 2016 - \$26.8 million, \$355.0 million, \$96.7 million, and \$Nil; December 31, 2016 - \$13.5 million, \$273.1 million, \$103.0 million, and \$Nil).

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

CENTRAL 1 CREDIT UNION
Notes to the Interim Consolidated Financial Statements (Unaudited)
Period ended June 30, 2017

In September 2016, Central 1 has made a commitment to support the capital call from Credential Financial Inc. (CFI), an affiliate of Central 1 as disclosed in Note 23 of the Interim Consolidated Financial Statements as at June 30, 2017. This commitment requires Central 1 to subscribe for additional Class B shares of CFI, which will require Central 1 to contribute up to \$4.7 million to be funded over the next three years, of which \$1.8 million was contributed in January 2017. Central 1 has also committed to contribute up to \$2.4 million to The CUMIS Group Limited (CUMIS), another affiliate of Central 1 as disclosed in Note 23. This contribution represents Central 1's share of CUMIS subscription in additional Class A shares of CFI over a period of three years. As at June 30, 2017, Central 1 had not received any request from CUMIS to make such contribution.

Pledged assets

In the normal course of business, Central 1 pledges securities and other assets as collateral. A breakdown of encumbered assets pledged as collateral is provided in the following table. These transactions are conducted in accordance with standard terms and conditions for such transactions.

(Thousands of dollars)	Jun 30 2017	Jun 30 2016	Dec 31 2016
Assets pledged to Bank of Canada & Direct Clearing Organizations ⁽¹⁾⁽²⁾	\$ 71,908	\$ 55,678	\$ 54,122
Assets pledged in relation to:			
Derivative financial instrument transactions	9,235	13,802	9,109
Securities lending	4,726	115,245	35,552
Obligations under the CMB Program	753,321	886,850	851,456
Reinvestment assets under the CMB Program	416,907	245,211	360,570
Securities under repurchase agreements	421,441	120,687	298,416
	\$ 1,677,538	\$ 1,437,473	\$ 1,609,225

⁽¹⁾ Includes assets pledged as collateral for LVTS activities.

⁽²⁾ Central 1 also acts as a Group Clearer on behalf of certain other credit union centrals. These centrals are required to pledge securities in respect of their LVTS settlements. Central 1 administers the collateral on their behalf.

21. Financial instruments – Fair value

Certain financial instruments are recognized in the Interim Consolidated Statements of Financial Position at fair value. These include derivative instruments, trading assets, investment securities, deposits designated as trading, a single portfolio of commercial loans designated as fair value through profit or loss, and instruments held under the CMB Program. The fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants which takes place in the principal (or most advantageous) market at the measurement date under current market conditions. The fair value of financial instruments is best evidenced by unadjusted quoted prices in active markets. When there is no quoted price in an active market, valuation techniques which maximize the use of relevant observable inputs and minimize the use of unobservable inputs are used to derive the fair value.

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

Financial instruments whose carrying value approximate fair value

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

Financial instruments for which fair value is determined using valuation techniques

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

CENTRAL 1 CREDIT UNION
Notes to the Interim Consolidated Financial Statements (Unaudited)
Period ended June 30, 2017

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

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

- Level 1: Inputs that are quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instruments' valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect the differences between the instruments.

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

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

(Millions of dollars) Jun 30 2017	Level 1	Level 2	Level 3	Amounts at Fair Value	Amounts at Amortized Cost ⁽¹⁾	Total Carrying Value
Financial assets						
Cash	\$ -	\$ -	\$ -	\$ -	\$ 229.9	\$ 229.9
Deposits with regulated financial institutions	-	-	-	-	5.9	5.9
Trading assets	-	8,815.7	-	8,815.7	-	8,815.7
Reinvestment assets under the CMB Program	-	416.9	-	416.9	-	416.9
Derivative assets	-	73.4	-	73.4	-	73.4
Loans	-	-	11.8	11.8	2,152.2	2,164.0
Investment securities	-	5,179.1	9.9	5,189.0	32.1	5,221.1
Total financial assets	\$ -	\$ 14,485.1	\$ 21.7	\$ 14,506.8	\$ 2,420.1	\$ 16,926.9
Financial liabilities						
Deposits designated as trading	\$ -	\$ 8,611.9	\$ -	\$ 8,611.9	\$ -	\$ 8,611.9
Obligations related to securities sold short	-	6.3	-	6.3	-	6.3
Derivative liabilities	-	77.6	-	77.6	-	77.6
Debt securities issued	-	-	-	-	1,644.1	1,644.1
Deposits	-	-	-	-	3,448.3	3,448.3
Obligations under the CMB Program	-	1,207.6	-	1,207.6	-	1,207.6
Subordinated liabilities	-	-	-	-	421.5	421.5
Securities under repurchase agreements	-	-	-	-	421.4	421.4
Total financial liabilities	\$ -	\$ 9,903.4	\$ -	\$ 9,903.4	\$ 5,935.3	\$ 15,838.7

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

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

CENTRAL 1 CREDIT UNION
Notes to the Interim Consolidated Financial Statements (Unaudited)
Period ended June 30, 2017

(Millions of dollars) Jun 30 2016	Level 1	Level 2	Level 3	Amounts at Fair Value	Amounts at Amortized Cost ⁽¹⁾	Total Carrying Value
Financial assets	\$ -	\$ 13,104.7	\$ 71.2	\$ 13,175.9	\$ 2,519.6	\$ 15,695.5
Financial liabilities	\$ -	\$ 9,107.1	\$ -	\$ 9,107.1	\$ 5,561.6	\$ 14,668.7

(Millions of dollars) Dec 31 2016	Level 1	Level 2	Level 3	Amounts at Fair Value	Amounts at Amortized Cost ⁽¹⁾	Total Carrying Value
Financial assets	\$ -	\$ 14,794.2	\$ 22.0	\$ 14,816.2	\$ 1,966.8	\$ 16,783.0
Financial liabilities	\$ -	\$ 10,055.4	\$ -	\$ 10,055.4	\$ 5,461.0	\$ 15,516.4

The following tables present the change in fair value for financial instruments included in Level 3 of the fair value hierarchy:

(Millions of dollars)	Fair Value at Dec 31 2016	Purchases	Disposals	Transfers	Changes in fair value of assets in profit or loss	Fair Value at Jun 30 2017
Equity shares	\$ 9.9	\$ -	\$ -	\$ -	\$ -	\$ 9.9
Loans	12.1	-	-	-	(0.3)	11.8
Total financial assets	\$ 22.0	\$ -	\$ -	\$ -	\$ (0.3)	\$ 21.7

(Millions of dollars)	Fair Value at Dec 31 2015	Purchases	Disposals	Transfers	Changes in fair value of assets in profit or loss	Fair Value at Jun 30 2016
Equity shares	\$ 9.3	\$ -	\$ -	\$ 2.3	\$ -	\$ 11.6
Loans	-	59.6	-	-	-	59.6
Total financial assets	\$ 9.3	\$ 59.6	\$ -	\$ 2.3	\$ -	\$ 71.2

CENTRAL 1 CREDIT UNION
Notes to the Interim Consolidated Financial Statements (Unaudited)
Period ended June 30, 2017

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

(Millions of dollars)	Fair Value			Carrying Value			Unrecognized Gain (Loss)		
	Jun 30 2017	Jun 30 2016	Dec 31 2016	Jun 30 2017	Jun 30 2016	Dec 31 2016	Jun 30 2017	Jun 30 2016	Dec 31 2016
Assets									
Cash	\$ 229.9	\$ 135.2	\$ 487.1	\$ 229.9	\$ 135.2	\$ 487.1	\$ -	\$ -	\$ -
Deposits with regulated financial institutions ⁽¹⁾	5.9	80.8	5.9	5.9	80.8	5.9	-	-	-
Trading assets and investment securities	14,036.8	12,789.4	14,393.9	14,036.8	12,789.4	14,393.9	-	-	-
Reinvestment assets under the CMB Program	416.9	245.2	360.6	416.9	245.2	360.6	-	-	-
Derivative assets	73.4	113.7	81.8	73.4	113.7	81.8	-	-	-
Loans ⁽²⁾	2,167.1	1,760.4	1,455.8	2,164.0	1,756.8	1,453.8	3.1	3.6	2.0
Liabilities									
Deposits designated as trading	8,611.9	7,884.0	8,659.5	8,611.9	7,844.0	8,659.5	-	-	-
Obligations related to securities sold short	6.3	-	74.1	6.3	-	74.1	-	-	-
Derivative liabilities	77.6	123.6	85.7	77.6	123.6	85.7	-	-	-
Debt securities issued ⁽¹⁾	1,648.2	1,259.2	1,492.6	1,644.1	1,258.0	1,490.7	(4.1)	(1.2)	(1.9)
Deposits ⁽¹⁾	3,452.9	3,342.1	3,256.0	3,448.3	3,334.7	3,250.5	(4.6)	(7.4)	(5.5)
Obligations under the CMB Program	1,207.6	1,139.5	1,236.1	1,207.6	1,139.5	1,236.1	-	-	-
Subordinated liabilities ⁽¹⁾	425.5	225.6	421.8	421.5	218.4	421.4	(4.0)	(7.2)	(0.4)
Securities under repurchase agreements	421.4	120.7	298.4	421.4	120.7	298.4	-	-	-
Total							\$ (9.6)	\$ (12.2)	\$ (5.8)

⁽¹⁾ Where the carrying values are at cost, the fair value calculations for these instruments are based on Level 2 inputs.

⁽²⁾ Where the carrying values are at cost, the fair value calculations for these instruments are based on Level 3 inputs.

22. Capital management

Central 1's Capital Policy ensures that each business segment has sufficient capital to support its business activities. The objective of managing capital is to optimize various pressures, including but not limited to the following:

- ensuring that regulatory capital adequacy requirements are met at all times;
- ensuring internal capital targets are met; and
- earning an appropriate risk adjusted rate of return on members' equity.

Capital management framework

The capital management framework provides the policies and processes for defining, measuring, and allocating all types of capital across Central 1. The process of attributing capital to business segments is linked to the budgeting process and to the Internal Capital Adequacy Assessment Process (ICAAP). The budget process establishes expected business activities over the course of the following fiscal year and the ICAAP establishes the required amount of capital based on an internal risk assessment. Central 1's capital plan allows for tactical capital allocations within all segments. Capital, other than that which is attributed to business segments, is held in the Other segment.

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 segment. Credit unions will be required to subscribe to Class F Shares based on the deposits they place in the MLP segment 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

Central 1's capital levels are regulated under provincial regulations administered by the Financial Institutions Commission of British Columbia (FICOM). Pursuant to federal regulations, Central 1 is required to maintain a borrowing multiple, the ratio of deposit liabilities and other loans payable to total regulatory capital, of 20.0:1 or less.

FICOM's requirements are for Central 1 to maintain a federal borrowing multiple of no more than 16.0:1 for the MLP segment and no more than 14.0:1 for the WFS segment. 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.

In order to ensure that Central 1 maintains regulatory capital sufficient to absorb sudden increases in borrowings or a reduction in capital due to mark-to-market fluctuations, Central 1 targets operating borrowing multiples with upper limits no greater than 15.8:1 for the MLP segment and 13.0:1 for the WFS segment.

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

CENTRAL 1 CREDIT UNION
Notes to the Interim Consolidated Financial Statements (Unaudited)
Period ended June 30, 2017

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

Central 1 was in compliance with all regulatory capital requirements throughout the periods ended June 30, 2017, June 30, 2016, and December 31, 2016.

OSFI ceased its supervision of provincial credit union centrals on January 15, 2017. As a result, OSFI ceased the duplicate regulation and supervision of centrals whose members are not predominantly federal credit unions.

23. Related party disclosures

Related parties of Central 1 include:

- key management personnel and their close family members;
- Board of Directors and their close family members;
- entities over which Central 1 has control or significant influence;
- Central 1's post-employment plans as described in Note 26 of the Annual Consolidated Financial Statements as at December 31, 2016.

Transactions with key management personnel

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.

Transactions between Central 1 and key management personnel and their close family members are as follows:

(Thousands of dollars)	For the three months ended		For the six months ended	
	Jun 30 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
Mortgage loans outstanding at end of period	\$ 371	\$ 383	\$ 371	\$ 383
Maximum mortgage loans outstanding during the period	\$ 374	\$ 386	\$ 377	\$ 389

The mortgage loans to key members of management personnel bear interest at the rate of 2.50% and are secured over properties of the borrowers. No impairment losses have been recorded against this balance during the periods.

The following table presents the compensation to key management personnel:

(Thousands of dollars)	For the three months ended		For the six months ended	
	Jun 30 2017	Jun 30 2016	Jun 30 2017	Jun 30 2016
Salaries and short-term employee benefits	\$ 744	\$ 793	\$ 1,433	\$ 1,531
Incentive	1,217	746	1,217	746
Post-employment benefits	55	59	101	107
Termination benefits	-	37	-	152
	\$ 2,016	\$ 1,635	\$ 2,751	\$ 2,536

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

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

Other cash-based compensation includes relocation costs payable per contractual terms for certain executive officers.

CENTRAL 1 CREDIT UNION
Notes to the Interim Consolidated Financial Statements (Unaudited)
Period ended June 30, 2017

Transactions with Board of Directors

During the three months ended June 30, 2017, the members of Central 1's Board of Directors received aggregate remuneration of \$178 thousand (June 30, 2016 - \$174 thousand) and for the six months ended June 30, 2017 of \$342 thousand (June 30, 2016 - \$303 thousand).

Significant subsidiaries

(% of ownership of common shares outstanding)	Jun 30 2017	Jun 30 2016	Dec 31 2016
Central 1 Trust Company	100%	100%	100%
CUPP Services Ltd.	100%	100%	100%

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

Transactions with subsidiaries are eliminated on consolidation, and are not disclosed as related party transactions.

Investments in affiliates

Central 1 uses the equity method of accounting to record its interests in the following entities over which Central 1 has significant influence:

(% of direct ownership of common shares outstanding)	June 30 2017	Jun 30 2016	Dec 31 2016
Credential Financial Inc.	26%	26%	26%
The CUMIS Group Limited	27%	27%	27%
189286 Canada Inc.	52%	52%	52%

Central 1 has indirect ownership of shares of certain affiliates through investments in other companies.

Substantial investments

Central 1 also has substantial investments in the following entities over which Central 1 does not have significant influence:

(% of direct ownership outstanding)	Jun 30 2017	Jun 30 2016	Dec 31 2016
The Co-operators Group Limited	21%	21%	21%
Northwest & Ethical Investments L.P.	26%	26%	26%
Canadian Credit Union Association	59%	57%	59%