First Quarter Report 2017

Report to Members

Central 1

Central 1 Reports Results for the First Quarter of 2017

First quarter highlights compared to the same period last year:

- Profit of $14.6 million, up 71.8 per cent from $8.5 million.
- Return on average equity of 5.4 per cent, compared to 3.5 per cent.
- Assets of $18.0 billion, up 23.3 per cent from $14.6 billion.
- Tier 1 capital ratio of 34.6 per cent, compared to 33.3 per cent.
- B.C. network's net operating income of $91.4 million, up 26.9 per cent from $72.0 million.
- B.C. network's assets are $72.9 billion, up 8.6 per cent from $67.1 billion.
- Ontario network's net operating income of $53.5 million, up 40.1 per cent from $38.2 million.
- Ontario network's assets are $45.9 billion, up 12.5 per cent from $40.8 billion.

For the quarter ended March 31, 2017, Central 1 reported a profit of $14.6 million, up $6.1 million or 71.8 per cent from same period in 2016. Net financial income increased $9.5 million year-over-year, due to a $1.7 million increase in interest margin resulting from increased average interest earnings assets, and a $7.8 million increase in net realized and unrealized gains driven by the narrowing of credit spreads. While other income increased $2.8 million, operating expenses also increased $4.0 million from the first quarter of 2016 to support strategic and future state activities.

The B.C. network reported a net operating income of $91.4 million in the first quarter of 2017, up $19.4 million or 26.9 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 March 2017 rose 8.6 per cent year-over-year to reach $72.9 billion.

The Ontario network reported a net operating income of $53.5 million in the first quarter of 2017, up $15.3 million from the same period in 2016. The increase was mainly driven by growth in liquid assets and loan portfolio, partially offset by higher salary and employee benefit expense and loan costs. Combined assets of the Ontario network at the end of March 2017 rose 12.4 per cent year-over-year to reach $45.9 billion.

In the first quarter of 2016, Central 1 put out a discussion paper on the future state of the credit union support system – centrals and other second tier cooperatives – to provide a framework for a robust conversation around a vision of the future. A focus of the future state discussion for Central 1 in 2016 and into the first quarter of 2017 has been the creation of a national payments strategy, specifically a payments association.

In the first quarter of 2017, Central 1 presented to its members an alternative proposal to the PayCo proposal developed by the CEO Payments Strategy Committee in 2016. Given Central 1's significant role in payments processing today, and the interdependencies with other functions across the organization and network, it is critical that Central 1 and its Board of Directors take the necessary time to ensure that a recommendation on PayCo be in the best interests of our members. Discussions with the CEO Payments Strategy Committee are continuing.

Subsequent to the end of the first quarter in 2017, Central 1's members approved the creation of a new class of shares, Class F Shares, to be used as the primary form of capital to support the Mandatory Liquidity Pool (MLP). Credit unions will be required to subscribe to Class F Shares in proportion to their deposits in the MLP. Class A Shares will be part of the capital structure of Central 1's non-MLP business lines and the balance will be reduced. 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. These changes will be implemented during the fourth quarter of 2017, and in connection with this transition, Central 1 will redeem approximately 750 thousand Class E Shares with an aggregate redemption value of $75.0 million.

Central 1 was in compliance with all regulatory capital requirements for the quarter ended March 31, 2017.

For the quarter ended March 31, 2017, Central 1 was in compliance with, or had plans to rectify exposure to, all Risk Appetite Statements.

Management’s Discussion & Analysis

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Management's Discussion and Analysis for the period ended March 31, 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 three-month period ended March 31, 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 three-month period ended March 31, 2017 as well as Central 1's 2016 Annual Report for the year ended December 31, 2016. This MD&A, covering the three-month period ended March 31, 2017, is as at May 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 in both B.C. and Ontario continued in the first 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 was corresponding with the Minister of Finance officials throughout the first quarter. It is expected that the Ministry of Finance will be releasing its White Paper with initial policy positions in 2017.

In the Fall 2016 Economic Statement, the Ontario Minister of Finance announced 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, 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.

In the first quarter of 2017, Central 1 continued moving forward on key areas affecting the organization's strategy and future state of the second tier of the credit union network, including analysis on restructuring the Mandatory Liquidity Pool (MLP), the impact of federally regulated credit unions, a national payments strategy, and a review of Central 1's Group Clearer function. All of these, some of which are driven by or will be significantly affected by a changing regulatory environment, require Central 1 to be strategic and open to change while providing support for successful future changes.

Throughout the first quarter of 2017, Central 1 and its Board of Directors continued discussion with the CEO Payments Strategy Committee on an alternative proposal to the PayCo proposal put forward in November 2016. Discussions with the CEO Payments Strategy Committee are continuing.

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 first quarter of 2017 offer a context for interpreting Central 1's quarterly results and provide insight into its future performance.

The Economic Environment

The global economy continued to expand in the first quarter of 2017. The JP Morgan Global PMI increased for the third consecutive quarter and Moody's forecasts GDP growth of 2.4 per cent annualized. Oil prices increased, as did other major commodities and equity market price indexes in major developed markets. The International Monetary Fund forecasts global GDP growth of 3.5 per cent this year, up from 3.1 per cent in 2016 but below average annual growth of 3.8 per cent observed since 2000.

U.S. economic growth in the first quarter looked to be following a familiar pattern, with GDP growth sagging to around 1.5 per cent annualized from 2.1 per cent in the fourth quarter of 2016. A bounce back to 2.8 per cent in the second quarter is foreseen. A residual seasonal adjustment problem is partly to blame for first quarter weakness in the past few years. The economic outlook is mostly positive and lifted by the new administration's fiscal and deregulation plans. Economists are forecasting growth at 2.3 per cent in 2017 in a rising interest rate and low unemployment environment.

China's GDP growth rose 6.9 per cent on a year-over-year basis in the first quarter, up from 6.7 per cent in 2016 and the fastest growth since the third quarter of 2015. Growth was broadly based with gains in construction, industrial production, investment, exports, and retail spending.

In Canada, the Bank of Canada's (the Bank) latest Monetary Policy Report projected stronger GDP growth of 2.6 per cent in 2017 and revised down its estimate of potential growth. This combination has the Bank anticipating the output gap will close in the first half of 2018, prompting forecasters to move up the first bank rate hike to late 2017 or early 2018. Central 1's economists think potential output growth is higher than the Bank's mid-point estimate and see the output gap closing in the second half of 2018 and the first bank rate increase in July 2018. The futures market is pricing in a 25 basis points (bps) bank rate increase in May 2018.

The Ontario government has introduced a suite of measures to address deteriorating housing affordability, especially in the Greater Golden Horseshoe region. The main measures include a 15.0 per cent non-resident speculation tax (NRST), expanding rent controls for rental properties, allowing municipalities to introduce a tax on vacant housing, curbing assignment sales and enhancing reporting of taxes on real estate. The NRST is likely to lower sales and prices of high end detached houses temporarily. Expanded rent controls will dampen investment demand for rental properties.

The latest Softwood Lumber Agreement between Canada and the U.S. expired last October and the U.S. Commerce Department has imposed preliminary duties from three to 24.0 per cent on imports from Canadian producers. The new tariffs will lower profits, production and employment of Canada's softwood lumber industry. Canada produced 67.0 million cubic meters of softwood lumber in 2016 and exported $7.5 billion to the U.S. with no tariffs. B.C. accounted for 48.0 per cent of Canada's production and 61.0 per cent of U.S. exports. Ontario accounted for seven per cent of Canada's production and seven per cent of U.S. exports.

Financial Markets

Government bond yields ended the quarter surprisingly unchanged despite oscillations since the beginning of the year. Corporate credit spreads continued their strong performance as five year bank deposit note spreads narrowed 18 bps over the quarter. Canadian Banks underwhelmed the domestic market with deposit note supply, finding cheaper options in overseas markets. NHA MBS spreads outperformed both Canada Mortgage Bond (CMB) and Provincial bond spreads, narrowing 14 bps, due to a reduction in supply from the Federal Government's changes to mortgage insurance.

Network Performance

British Columbia

Net operating income for the first quarter of 2017 was $91.4 million, compared to $72.0 million in the first quarter of 2016. Net interest income increased $20.8 million over the same period last year, mainly driven by growth in securitizations and commercial mortgages. Non-interest income increased $19.5 million year-over-year, and non-interest expenses increased $20.9 million year-over-year led by increases in salaries, benefits, dues, assessments or fees paid to Central 1, Credit Union Deposit Insurance Corporation, Stabilization Central of Credit Union in B.C. and FICOM for insurance, banking, travel, training, director and committee remuneration, office supplies and other items.

Total assets increased 8.6 per cent year-over-year to reach $72.9 billion at the end of the first quarter in 2017. Asset growth was led by personal mortgages, up 5.5 per cent, commercial mortgages, up 8.4 per cent, deposits at Central 1, up 15.9 per cent, and securitized assets, up 24.1 per cent. Liability growth was led by non-registered demand deposits, up 11.7 per cent, non-registered term deposits, up 8.7 per cent, and borrowings against securitized assets, up 34.8 per cent.

The network's rate of loan delinquencies over 90 days was 0.23 per cent of total loans at the end of March 2017, down seven bps year-over-year. Provision for credit losses as a percentage of loans was 0.29 per cent, down one bps. The network's loan loss expense ratio was 0.06 per cent annualized in the first quarter of 2017, unchanged from the first quarter of last year.

The B.C. network's regulatory capital as a percentage of risk-weighted assets was 14.8 per cent at the end of March 2017, a slight decrease of two bps from a year ago. Aggregate liquidity ratio of B.C. credit unions, including that held by Central 1, was 15.9 per cent of deposit and debt liabilities, up from 14.2 per cent a year ago.

Ontario

Net operating income for the first quarter was $53.5 million, compared to $38.2 million in the first quarter of 2016. Net interest income increased $22.3 million over the same period last year driven by growth in liquid assets and loan portfolio. Non-interest income increased $5.8 million, offset by $12.7 million year-over-year increase in non-interest expenses led by salary and employee benefit expense and loan costs.

Total assets increased 12.5 per cent year-over-year to reach $45.9 billion at the end of the first quarter. Asset growth was led by increases in residential mortgages and commercial mortgages and loans. Liability growth was led by non-registered demand deposits, up 15.2 per cent, non-registered term deposits, up 12.2 per cent, and borrowings, up 22.2 per cent.

The network's rate of loan delinquencies over 90 days was 0.35 per cent of total loans at the end of March 2017, down 17 bps year-over-year. Provision for credit losses as a percentage of loans was 0.28 per cent, down one bps. The network's loan loss expense ratio was 0.09 per cent annualized in the first quarter, up four bps from the first quarter last year.

The Ontario network's regulatory capital as a percentage of risk-weighted assets was 12.9 per cent at the end of March, down from 13.6 per cent a year ago (Class 2 credit unions only). Aggregate liquidity of Ontario/Central 1 credit unions, including that held by Central 1, was 12.1 per cent of deposit and debt liabilities, up from 11.5 per cent a year ago.

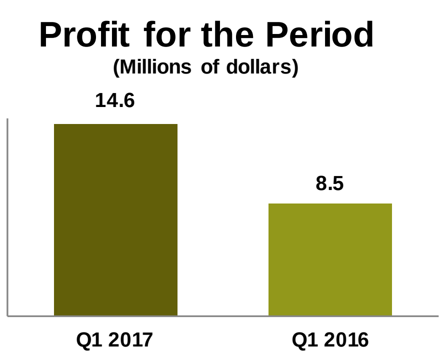
Overall Performance

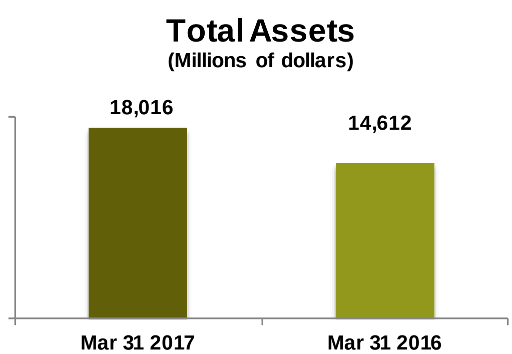
The following table summarizes Central 1's Financial Overview as at March 31, 2017 with comparatives.

Figure 1 – Financial Overview

		For the quarter ended	
	Mar 31 2017	**Mar 31 2016**	**Change**
Operating results *(milions of dollars, unless otherwise indicated)*			
Net financial income	**20.9**	11.4	9.5
Net financial and other income	**55.9**	43.6	12.3
Operating loss	**(3.2)**	(2.0)	(1.2)
Profit for the period	**14.6**	8.5	6.1
Return on average assets	**0.3%**	0.2%	0.1%
Return on average equity	**5.4%**	3.5%	1.9%
Productivity ratio	**68.4%**	78.5%	(10.1%)
Productivity ratio - non-financial	**109.2%**	106.1%	3.1%
Earnings per share *(cents)*			
Basic	**3.5**	2.3	1.2
Diluted	**3.5**	2.3	1.2

	As at Mar 31 2017	As at Mar 31 2016	Change
Balance sheet *(millions of dollars)*			
Total assets	**18,015.7**	14,611.6	3,404.1
Average assets	**17,432.4**	14,734.2	2,698.2
Long-term financial liabilities	**8,130.2**	5,794.5	2,335.7
Weighted average shares outstanding	**417.0**	371.0	46.0
Regulatory ratios			
Tier 1 capital ratio	**34.6%**	33.3%	1.3%
Provincial capital ratio	**52.0%**	42.7%	9.3%
Borrowing multiple (times)	**12.4**	13.0	(0.6)
Share Information *(thousands of dollars, unless otherwise indicated)*			
Outstanding $1 par value shares			
Class A - credit unions	**416,952**	370,952	46,000
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	-
Dividends per share *(cents)*			
Class A	**1.48**	0.62	0.86
Class B & C	**0.26**	0.25	0.01





Statement of Financial Position

Cash and Liquid Assets

The following tables summarize Central 1's Cash and Liquid Assets for the MLP and Wholesale Financial Services (WFS) as at March 31, 2017 with comparatives.

Figure 2 – Cash and Liquid Assets

(Millions of dollars)	MLP Liquid Assets	WFS Liquid Assets	Securities Received as Collateral	Total Liquid Assets	Encumbered Liquid Assets	Mar 31 2017 Unencumbered Liquid Assets
Cash	$ 132.5	$ 10.0	$ -	10.0	$ -	$ 10.0
Federal and provincial government issued and guaranteed securities	7,018.4	3,425.4	610.1	4,035.5	1,768.4	2,267.1
Corporate and financial institutions AA or greater	998.2	2,805.0	-	2,805.0	24.0	2,781.0
U.S. dollar denominated corporate and financial institution securities AA or greater	47.1	437.6	-	437.6	-	437.6
Insured mortgages securitized as National Housing Act Mortgage-Backed Securities	-	244.7	-	244.7	-	244.7
Other assets	-	523.8	-	523.8	93.7	430.1
Total	**$ 8,196.2**	**$ 7,446.5**	**$ 610.1**	**$ 8,056.6**	**$ 1,886.1**	**$ 6,170.5**

(Millions of dollars)	MLP Liquid Assets	WFS Liquid Assets	Securities Received as Collateral	Total Liquid Assets	Encumbered Liquid Assets	Mar 31 2016 Unencumbered Liquid Assets
Cash	$ 57.1	$ -	$ -	$ -	$ -	$ -
Federal and provincial government issued and guaranteed securities	6,451.0	2,294.1	81.1	2,375.2	1,234.2	1,141.0
Corporate and financial institutions AA or greater	776.8	2,148.8	-	2,148.8	194.1	1,954.7
U.S. dollar denominated corporate and financial institution securities AA or greater	98.4	283.5	-	283.5	-	283.5
Insured mortgages securitized as National Housing Act Mortgage-Backed Securities	-	198.9	-	198.9	-	198.9
Other assets	-	547.6	-	547.6	65.5	482.1
Total	$ 7,383.3	$ 5,472.9	$ 81.1	$ 5,554.0	$ 1,493.8	$ 4,060.2

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

Cash and liquid assets increased $0.8 billion and $2.0 billion year-over-year in MLP and WFS, respectively, funded by higher deposits and obligations under the CMB Program. Cash and liquid assets in MLP and WFS represent 45.5 per cent and 41.3 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 5.0 per cent due to the impact of higher growth in WFS, partially offset by a 3.8 per cent increase in WFS.

Loans

The following table summarizes Central 1's Loans as at March 31, 2017 with comparatives.

Figure 3 – Loans

(Millions of dollars)	Mar 31 2017	Mar 31 2016	Dec 31 2016
Loans to credit unions	**$ 320.0**	$ 447.8	$ 329.5
Syndicated commercial loans	**613.6**	551.1	611.2
Non syndicated commercial loans	**11.7**	21.5	13.4
Other loans	**8.5**	9.6	8.8
Residential mortgages	**159.8**	128.2	161.6
	793.6	710.4	795.0
Securities acquired under reverse repurchase agreements	**620.2**	64.1	316.4
	$ 1,733.8	$ 1,222.3	$ 1,440.9

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

Total loans increased $511.5 million compared to a year ago, driven by higher commercial lending, residential mortgages and securities acquired under reverse repurchase agreements, partially offset by lower loans to credit union. Syndicated commercial loans increased $62.5 million. Commercial loans represented 36.1 per cent of Central 1's total loan portfolio, a decrease of 10.8 per cent from a year ago. Securities acquired under reverse repurchase agreements increased $556.1 million due to the use for short-term investments.

Funding

The following table summarizes Central 1's Funding as at March 31, 2017 with comparatives.

Figure 4 – Funding

(Billions of dollars)	Mar 31 2017	Mar 31 2016	Dec 31 2016
Deposits and trading liabilities by type			
Mandatory deposits	**$ 7.7**	$ 6.9	$ 7.6
Non-mandatory deposits	**4.3**	2.8	3.5
Deposits from member credit unions	**12.0**	9.7	11.1
Deposits from non-credit unions	**0.1**	0.7	0.8
	12.1	10.4	11.9
Debt securities issued			
Commercial paper issued	**0.7**	0.6	0.7
Medium-term notes issued	**1.2**	0.6	0.8
Subordinated liabilities	**0.4**	0.2	0.4
	2.3	1.4	1.9
Obligations under the CMB Program	**1.2**	1.1	1.2
Securities under repurchase agreements	**0.6**	0.2	0.3
	$ 16.2	$ 13.1	$ 15.3

Deposits from Central 1's member credit unions increased $2.3 billion or 23.7 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 $1.5 billion, reflective of the increased liquidity reported within the B.C. and Ontario credit union networks. Deposits from member credit unions represented 74.1 per cent of Central 1's total funding portfolio at March 31, 2017, up slightly from a year ago.

Total debt securities represented 14.2 per cent of Central 1's total funding portfolio at March 31, 2017, an increase of 3.5 per cent compared to the prior year. The increase was due to issuing additional subordinated debt during the fourth quarter of 2016 and medium-term notes during the first quarter of 2017 in anticipation of a note maturing in May 2017. Of the total amount outstanding, $1.2 billion was funded under Central 1's medium-term note facility, $0.4 billion was funded through subordinated liabilities and the remainder was funded 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. The increase in obligations is due to 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 $108.7 million from a year ago to $1,101.3 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 months ended March 31, 2017 with comparative.

Figure 5 – Net Financial Income

(Thousands of dollars)	Mar 31 2017	Mar 31 2016
Interest margin	**$ 12,072**	$ 10,413
Net realized and unrealized gains	**8,815**	979
Net financial income	**$ 20,887**	$ 11,392

Q1 2017 vs Q1 2016

Net financial income for the quarter increased $9.5 million compared to the first quarter of 2016, primarily due to a $7.8 million increase in net realized and unrealized gains together with higher interest margin.

Interest margin increased $1.7 million due to balance sheet growth together with higher credit union and commercial lending volumes driving higher interest income. These were 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 $7.8 million primarily driven by the narrowing of credit spreads resulting in higher unrealized gains. This was partially offset by a lower gain on disposal of available-for-sale assets, of which changes in fair value in prior periods were recognized in AOCI.

Operating Loss

The following table summarizes Central 1's Operating Loss for the three months ended March 31, 2017 with comparative.

Figure 6 – Operating Loss

(Millions of dollars)	Mar 31 2017	Mar 31 2016
Other income		
Mandatory Liquidity Pool	**$ -**	$ (0.2)
Wholesale Financial Services		
Lending fees	**1.4**	1.3
Securitization fees	**1.9**	1.5
Foreign exchange income	**1.6**	1.2
Other	**0.6**	0.6
Digital & Payment Services		
Payment processing and other fees	**12.9**	12.5
Direct banking fees	**7.5**	6.9
Trade Services	**3.9**	3.8
Other		
Equity interest in affiliates	**2.4**	1.1
Income from investees	**1.3**	0.5
Other	**1.6**	3.1
Total other income	**35.1**	32.3
Operating expenses		
Salaries and employee benefits	**18.8**	19.0
Premises and equipment	**2.0**	1.8
Other administrative expenses		
Management information systems	**3.4**	2.3
Flow through membership dues	**1.5**	1.4
Professional fees	**2.7**	1.8
Other	**9.9**	8.0
Total operating expenses	**38.3**	34.3
Operating loss	**$ (3.2)**	$ (2.0)

Q1 2017 vs Q1 2016

Central 1 reported an operating loss of $3.2 million, compared with an operating loss of $2.0 million in 2016, primarily driven by an increase in operating expenses, partially offset by higher other income.

Other income increased by $2.8 million primarily driven by increases in Digital & Payment Services and WFS. Other income within WFS increased $0.9 million primarily due to increased securitization and foreign exchange income. Digital & Payment Services' revenues increased $1.0 million driven by increases in direct banking fees and electronic payment volumes.

Operating expenses increased $4.0 million over the same period in 2016. Professional fees increased $0.9 million in support of strategic and future state activities. Investment in management information systems increased $1.1 million primarily as a result of acquiring the Backbase platform to accelerate the *MemberDirect*® product development roadmap.

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 the 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.

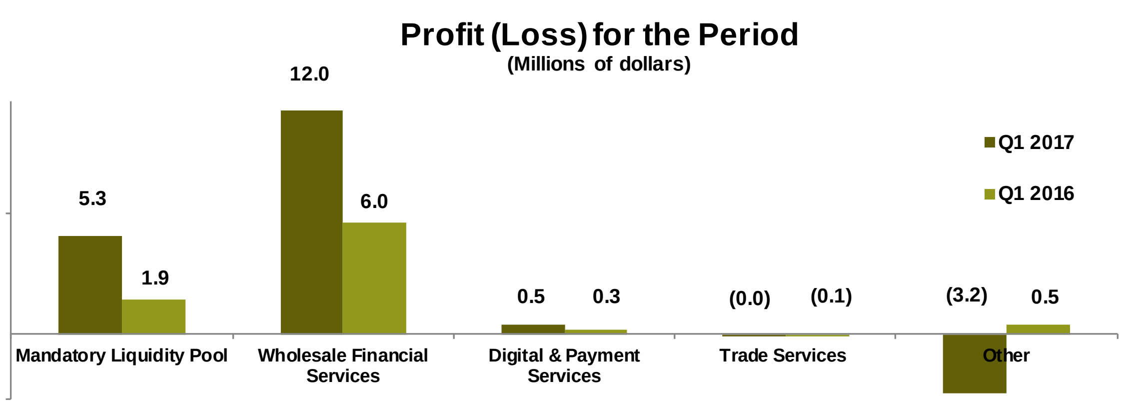
Q1 2017 vs Q1 2016

The following tables summarize Central 1's Results by Segment for the three months ended March 31, 2017 with comparative.

Figure 7 – Results by Segment

					For the three months ended March 31, 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	$ 8,222	$ 13,680	$ (72)	$ 84	$ (1,054)	$ 20,860
Other income	(93)	5,533	20,417	3,861	5,320	35,038
Net financial and other income	8,129	19,213	20,345	3,945	4,266	55,898
Operating expenses	1,972	5,388	19,753	4,004	7,134	38,251
Profit (loss) before income taxes	6,157	13,825	592	(59)	(2,868)	17,647
Income taxes (recoveries)	862	1,799	83	(13)	302	3,033
Profit (loss) for the period	$ 5,295	$ 12,026	$ 509	$ (46)	$ (3,170)	$ 14,614

					For the three months ended March 31, 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	$ 4,354	$ 8,054	$ (53)	$ 68	$ (1,063)	$ 11,360
Other income	(187)	4,587	19,364	3,800	4,710	32,274
Net financial and other income	4,167	12,641	19,311	3,868	3,647	43,634
Operating expenses	1,869	5,282	19,033	4,029	4,047	34,260
Profit (loss) before income taxes	2,298	7,359	278	(161)	(400)	9,374
Income taxes (recoveries)	424	1,361	13	(30)	(886)	882
Profit (loss) for the period	$ 1,874	$ 5,998	$ 265	$ (131)	$ 486	$ 8,492



Mandatory Liquidity Pool

MLP reported a profit of $5.3 million, an increase of $3.4 million compared to the first quarter of 2016. Net financial income increased by $3.9 million. Net realized and unrealized gains increased $3.0 million due to the narrowing of credit spreads, partially offset by lower net gains on disposal of available-for-sale assets. Interest margin increased $0.8 million, impacted by a 10.4 per cent increase in average interest earning assets. Operating expenses were largely in line with the first quarter of the prior year.

Wholesale Financial Services

WFS reported a profit of $12.0 million, an increase of $6.0 million compared to the first quarter of 2016. Net realized and unrealized gains increased $4.8 million primarily due to the narrowing of credit spreads in the first quarter of 2017, as well as decreases in Canada Housing Trust (CHT) yields during the first quarter of 2016. Interest margin increased $0.8 million, impacted by a 28.5 per cent increase in average interest earnings assets. WFS' other income increased $0.9 million due to higher fee revenue from securitization, standby lending facilities, and foreign exchange income. Operating expenses increased $0.1 million compared to the first quarter of 2016.

Digital & Payment Services

Digital & Payment Services reported a profit of $0.5 million, an increase of $0.2 million from the first quarter of 2016. Increases in electronic payment transactions driven by volume increases in the Interac *e-Transfers®* business, partially offset by price reductions, resulted in a $0.5 million increase in revenue. Direct banking revenues increased $0.6 million, offset by an $0.8 million increased expense for the Backbase platform which is expected to drive increased revenues in future periods.

Trade Services

Trade Services reported breakeven operating results compared to a $0.1 million loss in the first quarter of 2016. Revenues from Marketing contracts increased by $0.2 million. Insurance claims increased during the first quarter which offset some of the increase in Marketing revenues.

Other

The Other operating segment reported a loss of $3.2 million compared to a profit of $0.5 million in the first quarter of 2016. Other operating segment expenses increased due to higher professional fees and salaries and employee benefits to support both strategic and future state initiatives in order to enhance Central 1's ability to support its members in the future. Income from investees increased by $0.8 million, offset by a $1.4 million one-time credit to income on the restructuring of Credit Union Central of Canada during the first quarter of 2016.

Summary of Quarterly Results

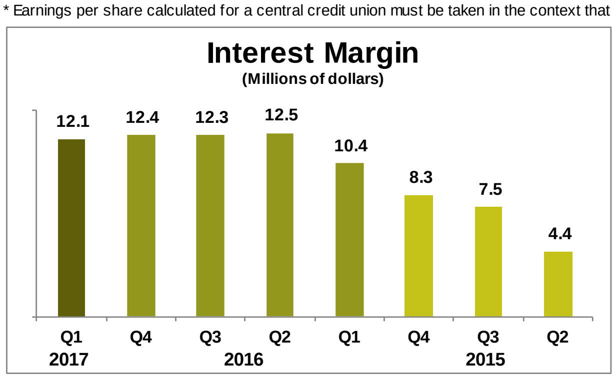
Quarterly Results

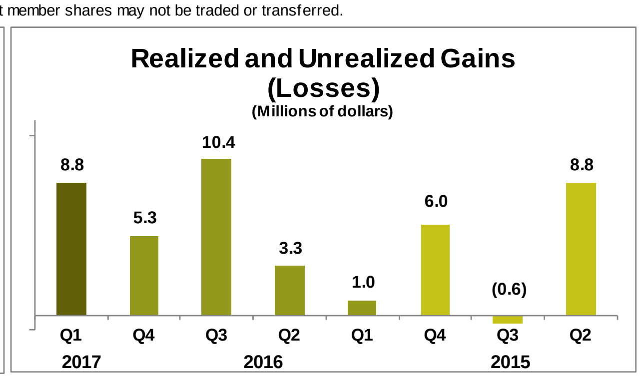
The following table summarizes Central 1's Quarterly Earnings for each of the last eight quarters.

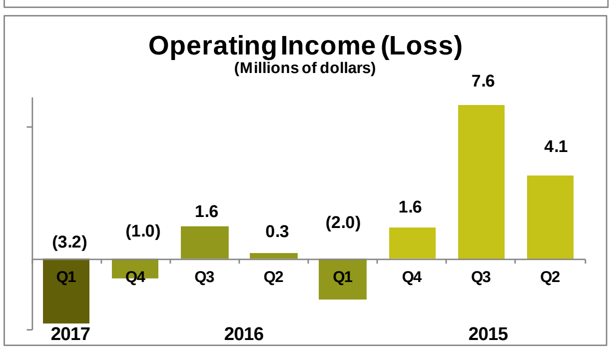
Figure 8 – Quarterly Earnings

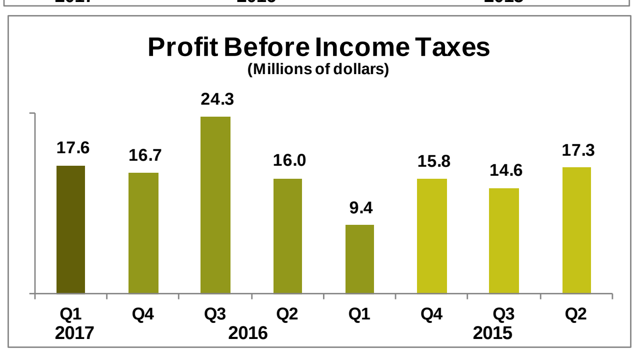
	2017	2016				2015		
(Thousands of dollars, except as indicated)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total interest income	**$ 57,366**	$ 56,143	$ 52,296	$ 49,975	$ 48,059	$ 47,355	$ 45,580	$ 41,559
Total interest expense	**45,294**	43,784	39,958	37,477	37,646	39,095	38,116	37,130
Interest margin	**12,072**	12,359	12,338	12,498	10,413	8,260	7,464	4,429
Realized and unrealized gains (losses)	**8,815**	5,286	10,395	3,261	979	5,961	(565)	8,816
Recovery of (provision for) credit losses	**(27)**	(6)	22	(70)	(32)	41	79	(23)
	20,860	17,639	22,755	15,689	11,360	14,262	6,978	13,222
Other income	**35,038**	35,431	34,461	38,333	32,274	34,832	40,160	37,099
Operating expenses	**(38,251)**	(36,408)	(32,868)	(38,061)	(34,260)	(33,281)	(32,567)	(32,973)
Operating income (loss)	**(3,213)**	(977)	1,593	272	(1,986)	1,551	7,593	4,126
Profit before income taxes	**17,647**	16,662	24,348	15,961	9,374	15,813	14,571	17,348
Income taxes	**(3,033)**	(2,942)	(2,889)	(2,592)	(882)	(2,318)	(1,845)	(2,597)
Profit for the period	**$ 14,614**	$ 13,720	$ 21,459	$ 13,369	$ 8,492	$ 13,495	$ 12,726	$ 14,751
Weighted average shares outstanding *(millions)*	**417.0**	396.1	385.0	375.8	371.0	357.3	350.0	339.2
Earnings per share								
Basic *(cents)*	**3.5**	3.5	5.6	3.6	2.3	3.8	3.6	4.3
Diluted *(cents)*	**3.5**	3.5	5.6	3.6	2.3	3.8	3.6	4.3

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









Interest margin has generally increased over the past two years, but growth tapered off in the second half of 2016 to a more consistent level. The positive trend was largely due to higher asset levels driven by increased demand from members for mandatory and non-mandatory deposits. Interest margin has also been aided by increased securitization and lending activities. Central 1 increased its external borrowings by issuing additional subordinated notes in the second half of 2016 and medium-term notes in the first quarter of 2017, which offset some of the positive impact on interest margin realized.

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

Off-Balance Sheet Arrangements

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

Derivative Financial Instruments

The following table summarizes the notional off-balance sheet derivative financial instruments as at March 31, 2017 with comparatives.

Figure 9 – Derivative Financial Instruments

(Millions of dollars)	Mar 31 2017	Mar 31 2016	Notional Amount Dec 31 2016
Interest rate contracts			
Bond forwards	**$ 53.0**	$ 81.0	$ 79.5
Futures contracts	**690.0**	112.8	432.8
Swap contracts	**21,101.2**	25,333.0	29,679.2
Options purchased	**20.0**	-	-
	21,864.2	25,526.8	30,191.5
Foreign exchange contracts			
Foreign exchange forward contracts	**126.3**	231.5	152.4
Other derivative contracts			
Equities index-linked options	**244.3**	249.3	253.7
	$ 22,234.8	$ 26,007.6	$ 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 CHT and member credit unions and additionally provides derivative capabilities to member credit unions to be used in the asset/liability management of their respective balance sheets. These activities represented $10.3 billion and $17.4 billion, respectively, of the total derivative notional balances as at March 31, 2017, compared to $8.0 billion and $13.9 billion at March 31, 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 10 – Guarantees and Commitments

(Millions of dollars)	Mar 31 2017	Mar 31 2016	Dec 31 2016
Commitments to extend credit	**$ 4,411.9**	$ 4,212.3	$ 4,447.3
Guarantees	**$ 800.0**	$ 727.0	$ 830.0
Standby letters of credit	**$ 174.7**	$ 158.5	$ 173.5

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, standby commitments, and performance guarantees.

Commitments to extend credit increased $199.6 million from a year ago driven by increased authorized lines to member credit unions. Guarantees and standby letters of credit increased $73.0 million and $16.2 million, respectively, due to growth in demand from the B.C. and Ontario credit union networks.

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

Assets under Administration

The following table summarizes assets under administration (AUA) as at March 31, 2017 with comparatives.

Figure 11 – Assets under Administration

(Millions of dollars)	Mar 31 2017	Mar 31 2016	Dec 31 2016
Registered Retirement Savings Plans	**$ 1,606.7**	$ 1,602.8	$ 1,558.0
Tax-Free Savings Accounts	**786.7**	685.8	729.2
Registered Retirement Income Funds/Life Income Funds	**375.1**	359.1	369.6
Registered Education Savings Plans	**216.8**	194.3	210.7
Registered Disability Savings Plans	**17.7**	13.2	15.8
	$ 3,003.0	$ 2,855.2	$ 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 March 31, 2017, AUA totaled $3.0 billion, up $147.8 million or 5.2 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 deposits to the Registered Education Savings Plans in response to the introduction of 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.

The Office of the Superintendent of Financial Institutions (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 member are not predominantly federal credit unions.

On April 28, 2017 Central 1's members approved changes to Central 1's capital structure that 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 be recorded as a dividend in Central 1's Consolidated Financial Statements.

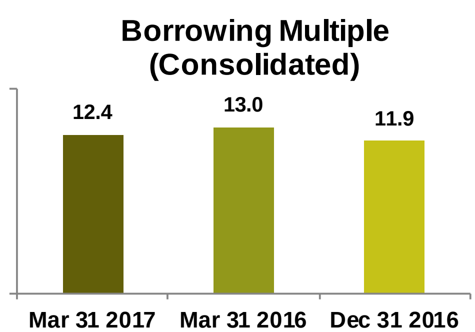
Regulatory Capital

As of March 31, 2017, Central 1's Tier 1 regulatory capital was $1,062.5 million and total capital before statutory capital adjustments was $1,488.2 million. In determining regulatory capital, adjustments are required to the amounts presented in Central 1's Interim Consolidated Statements of Financial Position. Statutory capital adjustments are required for certain investments, including Central 1's substantial investments in affiliated cooperative organizations. The computation of the provincial capital base is broadly similar to the federal regulatory capital used for borrowing multiple purposes.

The following table summarizes Central 1's Capital Position as at March 31, 2017 with comparatives.

Figure 12 – Capital Position

(Millions of dollars)	Mar 31 2017	Mar 31 2016	Dec 31 2016
Share capital	**$ 417.0**	$ 371.0	$ 417.0
Contributed surplus	**87.9**	87.9	87.9
Retained earnings	**562.3**	513.6	552.8
Less: accumulated net after tax gain in investment property	**(4.7)**	(4.7)	(4.7)
Tier 1 capital	**1,062.5**	967.8	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	**1,488.2**	1,190.5	1,478.7
Statutory capital adjustments	**(173.3)**	(165.7)	(171.2)
Capital base (federal)	**$ 1,314.9**	$ 1,024.8	$ 1,307.5
Borrowing multiple - consolidated	**12.4:1**	13.0:1	11.9:1
Borrowing multiple - Mandatory Liquidity Pool	**15.4:1**	15.3:1	15.3:1
Borrowing multiple - Wholesale Financial Services	**12.6:1**	12.2:1	10.5:1



A quarter-over-quarter comparison and previous year end 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 March 31, 2017, Central 1's consolidated borrowing multiple of 12.4:1, compared to 11.9:1 at December 31, 2016. Central 1's capital plan objective manages the MLP's borrowing multiple through semi-annual share calls from its membership and manages the WFS' borrowing multiple through growth in retained earnings. Central 1's Capital Policy also allows for tactical capital allocations within Central 1's business segments.

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

Risk Discussion

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

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

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

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

Strategic Risk

Central 1 believes that pressures on all financial institutions, including credit unions, from among other things, tight margins and financial technology disruption, characterize the current environment. In addition, as Central 1 moves toward creating an improved long-term structure for the second tier to better support the credit union network, Central 1 needs to be prepared to respond to the resulting changes and opportunities. 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.

Central 1 improved its Anti-Money Laundering & Counter-Terrorist Financing capabilities in March 2017 by implementing enhanced automated sanctions screening and transaction monitoring processes for wire transfers. These enhanced capabilities will assist in ensuring that Central 1 is able to manage increasing expectations from its correspondent banking partners in a changing financial institution landscape.

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

Counterparty Risk

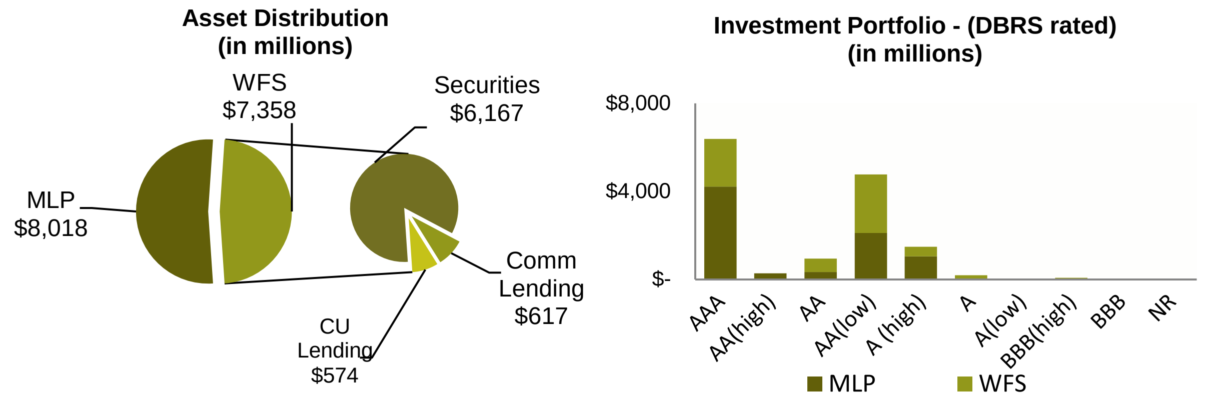
Counterparty risk continues to be assessed by management as low given the quality of counterparties being government entities, banks with external credit ratings AA-Low to AAA (Dominion Bond Rating Service (DBRS)), and its own credit union network where a robust internal risk rating regime is utilized.

Credit Risk

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

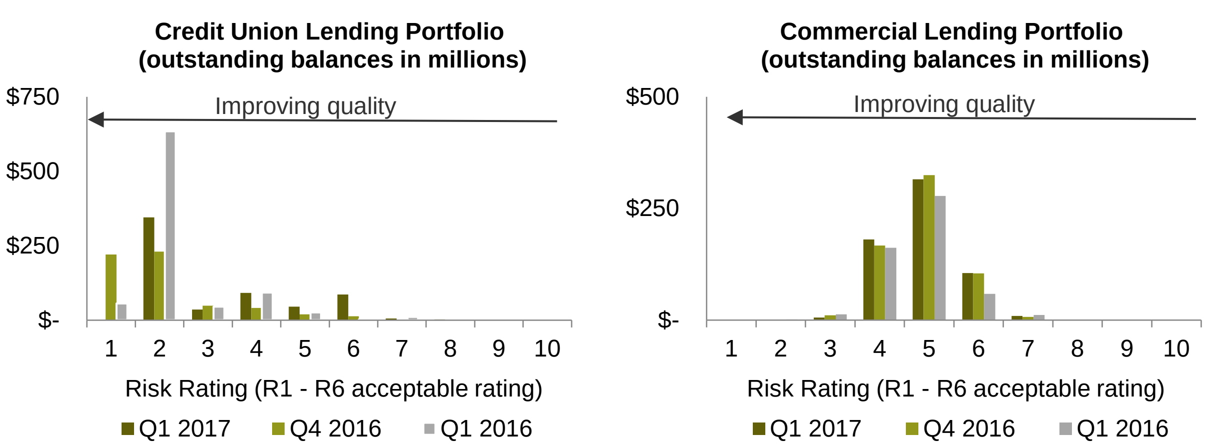
The figure below illustrates Central 1's credit exposure and risk profile based on outstanding balances in the investment portfolios held in MLP and WFS. WFS holds $305.0 million in securities rated A (DBRS) and below, representing 4.9 per cent of the investment portfolio.

Figure 13 – 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 14 – Portfolio Balances by Risk Rating



Credit Quality Performance

Commercial Lending

One impaired loan with an outstanding balance of $22.0 thousand was paid in full in March 2017. Currently, there are no impaired loans in the Commercial Lending portfolio. Watch List accounts represent 1.5 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 one B.C. classified as Watch List. The authorized balance of Watch List facilities represents 0.5 per cent of the total authorized portfolio balance; the outstanding balance of the Watch List facilities as at March 31, 2017 was $13.2 million.

Investments

Central 1 continues to receive cash flows on the impaired investment related to Asset-Backed Commercial Paper. Specific allowances as at March 31, 2017 were $0.4 million.

Liquidity Risk

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

The Liquidity Coverage Ratio 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 Standing Liquidity Facility-eligible assets, which include a slightly broader range of issuers than is defined by Basel III guidance, can be sold to raise cash subject to a haircut of their market value.

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 15 – Liquidity Coverage Ratio

	Mandatory Liquidity Pool		Wholesale Financial Services	
	Q1 2017	Q4 2016	Q1 2017	Q4 2016
Liquidity coverage ratio	**103.4%**	**102.6%**	**194.5%**	**151.1%**

WFS liquidity has strengthened over the quarter as a result of WFS investment in high 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 $9.2 million for WFS. Central 1 remained within all its market risk limits during the quarter.

The following tables summarize Central 1's VaR for the quarter ended March 31, 2017 with comparatives.

Figure 16 – VaR by Risk Type

	Mandatory Liquidity Pool Q1 2017				Q4 2016			
(Millions of Dollars)	31-Mar	Average	High	Low	31-Dec	Average	High	Low
Interest Rate VaR	**$ 7.1**	**$ 7.2**	**$ 8.5**	**$ 6.5**	$ 7.0	$ 5.9	$ 7.7	$ 4.4
Credit Spread VaR	**3.2**	**3.3**	**4.1**	**2.9**	3.1	3.1	3.6	2.6
Foreign Exchange VaR	**0.1**	**0.2**	**0.8**	**0.0**	0.8	0.1	0.1	0.0
Diversification (1)	**(4.4)**	**nm**	**nm**	**nm**	(4.6)	nm	nm	nm
Total VaR	**$ 6.0**	**$ 6.5**	**$ 7.9**	**$ 5.6**	$ 6.3	$ 5.4	$ 7.0	$ 4.5

	Wholesale Financial Services Q1 2017				Q4 2016			
(Millions of Dollars)	31-Mar	Average	High	Low	31-Dec	Average	High	Low
Interest Rate VaR	**$ 3.9**	**$ 4.6**	**$ 5.7**	**$ 3.9**	$ 5.5	$ 4.0	$ 5.9	$ 2.6
Credit Spread VaR	**1.7**	**1.7**	**2.1**	**1.4**	1.8	2.0	2.6	1.7
Foreign Exchange VaR	**2.6**	**2.0**	**3.4**	**1.4**	2.9	1.8	3.0	1.1
Diversification (1)	**(3.5)**	**nm**	**nm**	**nm**	(4.5)	nm	nm	nm
Total VaR	**$ 4.8**	**$ 5.2**	**$ 6.3**	**$ 4.6**	$ 5.6	$ 4.4	$ 5.8	$ 3.2

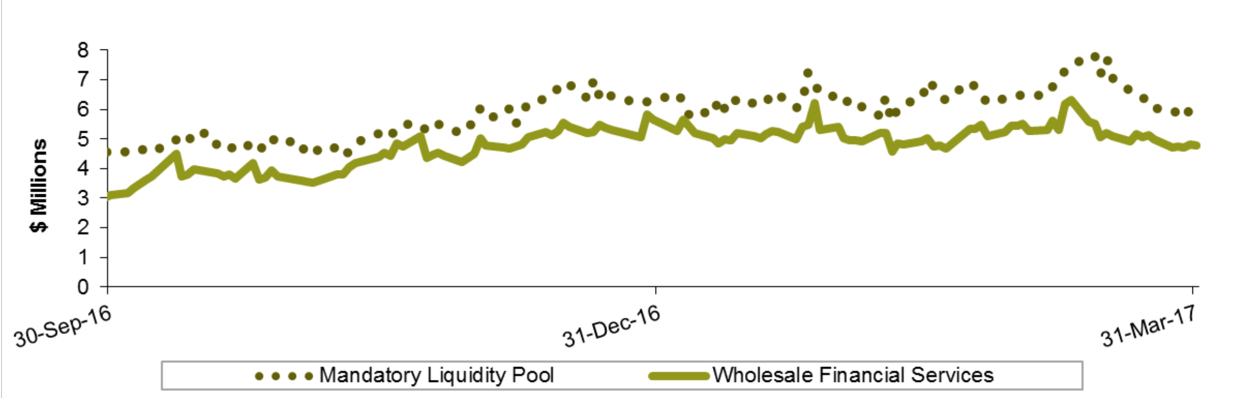
(1) Total VaR is less than the sum of Risk Factors' VaR as a result of diversification and offsetting risk factors.

nm - Not meaningful to calculate

Central 1 will not incur market risk for speculative purposes or in pursuit of returns beyond those required to reasonably safeguarding network liquidity. At quarter end, VaR on MLP was higher than the VaR on WFS. This was driven by larger securities and fixed rate deposit balances within MLP.

Using a 99 per cent confidence level, the one-day change in portfolio value is expected to be less than the exposure limit 99 per cent of the time. While there is day-to-day volatility in VaR measures, see figure below, Central 1 currently manages its market risk at levels well below approved policy limits.

Figure 17 – Daily 99% VaR by Business Line



Operational Risk

During the first 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 technological 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 strategic risk, cyber-security attacks, anti-money laundering (AML) and de-risking, and membership risk 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 ensuring its AML capabilities and monitoring continue to advance as its correspondent banks "de-risk" and money movements continue to evolve.

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 can be found in Note 3 to the audited 2016 Annual Consolidated Financial Statements. There are no significant updates to these future accounting standards for the quarter ended March 31, 2017.

Controls and Procedures

Disclosure Controls and Procedures

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

Based on that evaluation, management has concluded that the disclosure controls and procedures were effective to provide 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 March 31, 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 and DBRS.

Figure 18 – 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 March 31, 2017

Central 1

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

(Thousands of dollars)	Notes	Mar 31 2017	Mar 31 2016	Dec 31 2016
Assets				
Cash		**$ 142,512**	$ 79,273	$ 487,128
Deposits with regulated financial institutions		**5,926**	5,822	5,885
Trading assets	4	**9,421,828**	7,618,309	8,772,130
Reinvestment assets under the Canada Mortgage Bond Program	4	**413,167**	203,588	360,570
Derivative assets	5	**79,332**	118,668	81,807
Loans	6	**1,745,947**	1,241,058	1,453,802
Investment securities	4	**5,666,318**	4,977,242	5,621,749
Current tax assets		**3,212**	3,566	8,020
Property and equipment		**18,569**	18,755	18,022
Intangible assets		**32,864**	21,691	25,147
Deferred tax assets		**6,413**	14,571	5,171
Investment in affiliates		**133,390**	124,030	130,700
Settlements in-transit		**321,310**	163,341	327,062
Other assets	7	**24,931**	21,661	16,826
		$ 18,015,719	$ 14,611,575	$ 17,314,019
Liabilities				
Deposits designated as trading	8	**$ 8,589,244**	$ 7,317,249	$ 8,659,505
Obligations related to securities sold short	9	**82,285**	30,005	74,100
Derivative liabilities	5	**83,013**	131,428	85,660
Debt securities issued	10	**1,895,879**	1,150,408	1,490,730
Deposits	8	**3,426,790**	3,117,560	3,250,470
Obligations under the Canada Mortgage Bond Program	10	**1,257,510**	1,066,864	1,236,058
Subordinated liabilities	11	**424,438**	219,748	421,406
Provisions		**2,042**	1,881	1,688
Securities under repurchase agreements	10	**574,549**	159,727	298,416
Deferred tax liabilities		**9,279**	7,883	9,146
Settlements in-transit		**504,685**	370,481	643,602
Other liabilities	13	**64,697**	45,771	58,363
		16,914,411	13,619,005	16,229,144
Equity				
Share capital	14	**416,996**	370,996	416,996
Contributed surplus		**87,901**	87,901	87,901
Retained earnings		**562,311**	513,571	552,782
Accumulated other comprehensive income		**20,233**	6,163	13,119
Reserves		**4,033**	3,980	4,034
Total equity attributable to members of Central 1		**1,091,474**	982,611	1,074,832
Non-controlling interest		**9,834**	9,959	10,043
		1,101,308	992,570	1,084,875
		$ 18,015,719	$ 14,611,575	$ 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

See accompanying notes to the Interim Consolidated Financial Statements

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

		For the three months ended	
(Thousands of dollars)	Notes	Mar 31 2017	Mar 31 2016
Interest income			
Securities		**$ 48,201**	$ 40,004
Deposits with regulated financial institutions		**26**	25
Loans		**7,379**	7,176
Reinvestment assets		**1,760**	854
		57,366	48,059
Interest expense			
Debt securities issued		**5,654**	3,506
Deposits		**31,814**	28,370
Obligations under the Canada Mortgage Bond Program		**4,759**	4,248
Subordinated liabilities		**3,067**	1,522
		45,294	37,646
Interest margin		**12,072**	10,413
Loss on disposal of financial instruments	15	**(3,861)**	(1,280)
Change in fair value of financial instruments	16	**12,676**	2,259
Net financial income		**20,887**	11,392
Provision for credit losses	6	**27**	32
		20,860	11,360
Other income	17	**35,038**	32,274
Net financial and other income		**55,898**	43,634
Operating expenses			
Salaries and employee benefits		**18,751**	18,943
Premises and equipment		**1,974**	1,798
Other administrative expenses	18	**17,526**	13,519
		38,251	34,260
Profit before income taxes		**17,647**	9,374
Income taxes		**3,033**	882
Profit for the period		**$ 14,614**	$ 8,492

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 Mar 31 2017	Mar 31 2016
Profit for the period	**$ 14,614**	$ 8,492
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]	**7,425**	(1,139)
Reclassification of realized gains on available-for-sale assets to profit or loss[2]	**(771)**	(2,273)
Share of the other comprehensive income of affiliates accounted for using the equity method[3]	**460**	313
	7,114	(3,099)
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	**7,114**	(3,068)
Comprehensive income, net of tax	**$ 21,728**	$ 5,424

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	**$ 1,681**	$ (258)
[2] Reclassification of realized gains on available-for-sale assets to profit or loss	**$ (175)**	$ (515)
[3] Share of the other comprehensive income of affiliates accounted for using the equity method	**$ 41**	$ 13
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)	Share Capital	Contributed Surplus	Retained Earnings	Fair Value and Affiliates Reserves	Employee Benefits Reserve	Other Reserves	Equity Attributable to Members	Non-Controlling Interest	Total Equity
	Attributable to equity 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			14,823				14,823	(209)	14,614
Other comprehensive income, net of tax									
Fair value reserve (available-for-sale financial assets, net of tax)				6,654			6,654		6,654
Share of the other comprehensive income of affiliates accounted for using the equity method				460			460		460
Total comprehensive income	-	-	14,823	7,114	-	-	21,937	(209)	21,728
Transactions with owners, recorded directly in equity									
Dividends to members			(6,157)				(6,157)		(6,157)
Related tax savings			862				862		862
Transfer from reserves			1			(1)	-		-
Total contributions from and distributions to owners	-	-	(5,294)	-	-	(1)	(5,295)	-	(5,295)
Balance at March 31, 2017	**$ 416,996**	**$ 87,901**	**$ 562,311**	**$ 23,394**	**$ (3,161)**	**$ 4,033**	**$ 1,091,474**	**$ 9,834**	**$ 1,101,308**

Profit attributable to:	**2017**	2016
Members of Central 1	**$ 14,823**	$ 8,492
Non-controlling interest	**(209)**	-
	$ 14,614	$ 8,492

Total comprehensive income attributable to:		
Members of Central 1	**$ 21,937**	$ 5,424
Non-controlling interest	**(209)**	-
	$ 21,728	$ 5,424

See accompanying notes to the Interim Consolidated Financial Statements

CENTRAL 1 CREDIT UNION

Interim Consolidated Statements of Changes in Equity (Unaudited)

	Attributable to equity members								
(Thousands of dollars)	Share Capital	Contributed Surplus	Retained Earnings	Fair Value and Affiliates Reserves	Employee Benefits Reserve	Other Reserves	Equity Attributable to Members	Non-Controlling Interest	Total Equity
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			8,492				8,492	-	8,492
Other comprehensive loss, net of tax									
Fair value reserve (available-for-sale financial assets, net of tax)				(3,412)			(3,412)		(3,412)
Share of the other comprehensive income of affiliates accounted for using the equity method				313			313		313
Net actuarial gain on employee benefits plans					31		31		31
Total comprehensive income	-	-	8,492	(3,099)	31	-	5,424	-	5,424
Transactions with owners, recorded directly in equity									
Dividends to members			(2,298)				(2,298)		(2,298)
Related tax savings			424				424		424
Transfer from reserves			(26)			26	-		-
Total contributions from and distributions to owners	-	-	(1,900)	-	-	26	(1,874)	-	(1,874)
Balance at March 31, 2016	$ 370,996	$ 87,901	$ 513,571	$ 8,468	$ (2,305)	$ 3,980	$ 982,611	$ 9,959	$ 992,570

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 Mar 31 2017	Mar 31 2016
Cash flows from operating activities			
Profit for the period		**$ 14,614**	$ 8,492
Adjustments for:			
Depreciation and amortization		**1,745**	1,196
Interest margin		**(12,072)**	(10,413)
Loss on disposal of financial instruments		**3,861**	1,280
Change in fair value of financial instruments		**(12,676)**	(2,259)
Income tax expense		**3,033**	882
Provision for credit losses		**27**	32
Other items, net		**3,868**	(4,274)
		2,400	(5,064)
Change in trading assets		**(625,682)**	(835,667)
Change in settlements in-transit		**(133,165)**	201,394
Change in loans		**(292,135)**	252,510
Change in deposits designated as trading		**(83,314)**	(241,694)
Change in obligations related to securities sold short		**8,859**	832
Change in deposits		**176,229**	(130,665)
Change in derivative assets and liabilities		**(1,421)**	(5,935)
		(948,229)	(764,289)
Interest received		**48,475**	41,713
Interest paid		**(31,607)**	(29,779)
Income tax paid		**(23)**	(5,000)
Net cash used in operating activities		**(931,384)**	(757,355)
Cash flows from investing activities			
Change in deposits with regulated financial institutions		**(14)**	300
Change in reinvestment assets under the CMB Program		**(52,385)**	(38,229)
Change in investment securities		**(34,668)**	700,591
Change in property and equipment		**(1,145)**	(553)
Change in intangible assets		**(8,837)**	(2,324)
Net cash from (used in) investing activities		**(97,049)**	659,785
Cash flows from financing activities			
Change in debt securities issued	12	**404,783**	75,053
Change in obligations under the CMB Program	12	**16,556**	70,864
Change in securities under repurchase agreements	12	**276,058**	(61,480)
Dividends paid		**(13,580)**	(14,428)
Net cash from financing activities		**683,817**	70,009
Decrease in cash		**(344,616)**	(27,561)
Cash - beginning of period		**487,128**	106,834
Cash - end of period		**$ 142,512**	$ 79,273

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 May 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. For details of the future accounting standards, refer to Note 3 to Central 1's 2016 Annual Consolidated Financial Statements. There are no significant updates to the future accounting standards for the quarter ended March 31, 2017.

4. Securities

Trading assets

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

(Thousands of dollars)	Mar 31 2017	Mar 31 2016	Dec 31 2016
Government and government guaranteed securities	**$ 6,164,017**	$ 5,395,356	$ 6,182,090
Corporate and major financial institutions AA[(1)] or greater	**2,788,619**	1,888,296	2,203,441
Other	**469,192**	334,657	386,599
Fair value	**$ 9,421,828**	$ 7,618,309	$ 8,772,130
Amortized cost	**$ 9,396,653**	$ 7,559,785	$ 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)	Mar 31 2017	Mar 31 2016	Dec 31 2016
Fair value			
Government and government guaranteed securities	**$ 3,867,642**	$ 3,146,136	$ 3,917,866
Corporate and major financial institutions AA[1] or greater	**1,593,441**	1,419,182	1,457,717
Other	**173,115**	379,804	214,046
Fair value	**$ 5,634,198**	$ 4,945,122	$ 5,589,629
Cost			
Other	**$ 32,120**	$ 32,120	$ 32,120
Total investment securities	**$ 5,666,318**	$ 4,977,242	$ 5,621,749

(1) The credit ratings are provided by DBRS.

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

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)	Mar 31 2017	Mar 31 2016	Dec 31 2016
Classified as FVTPL			
Government and government guaranteed securities	**$ 316,565**	$ 128,510	$ 284,856
Amortized cost	**$ 314,500**	$ 127,854	$ 283,135
Classified as available-for-sale			
Government and government guaranteed securities	**$ 94,633**	$ 74,588	$ 75,714
Amortized cost	**$ 94,381**	$ 73,950	$ 75,344
Classified as loans and receivables			
Assets acquired under reverse repurchase agreements	**$ 1,969**	$ 490	$ -
Total reinvestment assets under the CMB program	**$ 413,167**	$ 203,588	$ 360,570

5. Derivative instruments

The following table summarizes the fair values of derivative assets and liabilities:

(Thousands of dollars)	Mar 31 2017 Asset	Mar 31 2017 Liability	Mar 31 2016 Asset	Mar 31 2016 Liability	Dec 31 2016 Asset	Dec 31 2016 Liability
Interest rate contracts						
Bond forwards	**$ 256**	**$ 29**	$ 133	$ 132	$ 427	$ 455
Futures contracts	**83**	**-**	263	21	52	44
Swap contracts	**153,914**	**157,937**	244,421	257,288	161,698	165,727
Options purchased	**31**	**28**	-	-	-	-
	154,284	**157,994**	244,817	257,441	162,177	166,226
Foreign exchange contracts						
Forward contracts	**924**	**901**	4,690	4,826	1,205	1,009
Other						
Equity index-linked options	**12,305**	**12,299**	9,329	9,329	13,560	13,560
Total fair value before adjustment	**167,513**	**171,194**	258,836	271,596	176,942	180,795
Adjustment for master netting agreements	**(88,181)**	**(88,181)**	(140,168)	(140,168)	(95,135)	(95,135)
Fair value	**$ 79,332**	**$ 83,013**	$ 118,668	$ 131,428	$ 81,807	$ 85,660

The amounts that have been pledged and received as collateral are $7.1 million and $25.5 million, respectively, as at March 31, 2017 (March 31, 2016 - $20.3 million and $35.8 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.

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 note, 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 note. 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)	Mar 31 2017 Asset	Mar 31 2017 Liability	Mar 31 2016 Asset	Mar 31 2016 Liability	Dec 31 2016 Asset	Dec 31 2016 Liability
Interest rate contracts	**$ 2,850**	**$ -**	$ -	$ (2,188)	$ 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)	Mar 31 2017	Mar 31 2016
Change in fair value on hedging derivatives	**$ 1,236**	$ (2,609)
Fair value hedge adjustment on loans and medium term notes	**(1,204)**	2,625
Hedge ineffectiveness recorded in profit	**$ 32**	$ 16

6. Loans

(Thousands of dollars)	Mar 31 2017	Mar 31 2016	Dec 31 2016
Amortized cost			
Due on demand			
Credit unions	**$ 28,536**	$ 96,492	$ 31,544
Commercial and others	**3,137**	9,050	3,716
	31,673	105,542	35,260
Term			
Credit unions	**291,510**	351,358	297,984
Commercial and others	**610,677**	563,560	609,357
Reverse repurchase agreements	**620,171**	64,127	316,362
Officers and employees	**8,469**	9,533	8,771
Residential mortgages	**159,766**	128,208	161,557
	1,690,593	1,116,786	1,394,031
	1,722,266	1,222,328	1,429,291
Accrued interest	**2,020**	4,046	2,146
Premium	**10,136**	15,217	10,758
	1,734,422	1,241,591	1,442,195
Allowance for credit losses	**(545)**	(533)	(518)
Amortized cost	**$ 1,733,877**	$ 1,241,058	$ 1,441,677
Fair value through profit or loss			
Term			
Commercial and others	**$ 11,492**	$ -	$ 11,582
Accrued interest	**34**	-	36
Premium	**122**	-	128
Amortized cost	**$ 11,648**	$ -	$ 11,746
Fair value	**$ 12,070**	$ -	$ 12,125
Total loans	**$ 1,745,947**	$ 1,241,058	$ 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)	Specific Allowance	Collective Allowance	Mar 31 2017	Mar 31 2016	Dec 31 2016
Balance at beginning of period	**$ 438**	**$ 80**	**$ 518**	$ 501	$ 501
Net recovery during the period	**-**	**-**	**-**	-	(69)
Provision for credit losses	**-**	**27**	**27**	32	86
Balance at end of period	**$ 438**	**$ 107**	**$ 545**	$ 533	$ 518

7. Other assets

(Thousands of dollars)	Mar 31 2017	Mar 31 2016	Dec 31 2016
Investment property	**$ 1,296**	$ 1,370	$ 1,323
Prepaid expenses	**11,403**	7,294	6,334
Post-employment benefits	**2,584**	3,272	2,624
Accounts receivable and other	**9,648**	9,725	6,545
	$ 24,931	$ 21,661	$ 16,826

8. Deposits

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

(Thousands of dollars)	Mar 31 2017	Mar 31 2016	Dec 31 2016
Amounts			
Due within three months	**$ 1,245,915**	$ 1,453,066	$ 2,045,759
Due after three months and within one year	**1,874,900**	1,840,401	1,224,746
Due after one year and within five years	**5,414,829**	3,943,260	5,355,907
Due after five years	**10,126**	1,320	600
	8,545,770	7,238,047	8,627,012
Accrued interest	**41,479**	35,323	37,386
Amortized cost	**$ 8,587,249**	$ 7,273,370	$ 8,664,398
Fair value	**$ 8,589,244**	$ 7,317,249	$ 8,659,505

Deposits held at amortized cost are as follows:

(Thousands of dollars)	Mar 31 2017	Mar 31 2016	Dec 31 2016
Amounts			
Due on demand	**$ 1,668,463**	$ 1,372,942	$ 1,577,567
Due within three months	**60,953**	237,489	207,585
Due after three months and within one year	**834,537**	987,982	612,645
Due after one year and within five years	**855,718**	508,099	845,647
Due after five years	**-**	367	-
	3,419,671	3,106,879	3,243,444
Accrued interest	**7,119**	10,681	7,026
Amortized cost	**$ 3,426,790**	$ 3,117,560	$ 3,250,470

9. Obligations related to securities sold short

(Thousands of dollars)	Mar 31 2017	Mar 31 2016	Dec 31 2016
Amortized cost	**$ 82,250**	$ 29,959	$ 74,532
Fair value	**$ 82,285**	$ 30,005	$ 74,100

10. Funding transactions

Debt securities issued

(Thousands of dollars)	Mar 31 2017	Mar 31 2016	Dec 31 2016
Amounts			
Due within three months	**$ 929,120**	$ 500,368	$ 725,288
Due after three months and within one year	**115,714**	349,481	314,674
Due after one year and within five years	**849,236**	299,532	449,325
	1,894,070	1,149,381	1,489,287
Accrued interest	**1,809**	1,027	1,443
Amortized cost	**$ 1,895,879**	$ 1,150,408	$ 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 March 31, 2017, March 31, 2016, and December 31, 2016, the amounts outstanding were $78.3 million, $62.7 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 note facility. At March 31, 2017, a par value of $745.7 million was borrowed under the short-term commercial paper facility (March 31, 2016 - $550.7 million, December 31, 2016 - $740.7 million) and a par value of $1.2 billion was borrowed under the medium-term note facility (March 31, 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)	Mar 31 2017	Mar 31 2016	Dec 31 2016
Amounts			
Due within one year	**$ 240,344**	$ -	$ 182,814
Due after one year and within five years	**1,000,293**	1,041,898	1,041,201
	1,240,637	1,041,898	1,224,015
Accrued interest	**5,689**	4,193	1,231
Amortized cost	**$ 1,246,326**	$ 1,046,091	$ 1,225,246
Fair value	**$ 1,257,510**	$ 1,066,864	$ 1,236,058

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

(Thousands of dollars)	Mar 31 2017	Mar 31 2016	Dec 31 2016
Fair value			
Total reinvestment assets under the CMB Program (see Note 4)	**$ 413,167**	$ 203,588	$ 360,570
Assets recognized as securities	**719,872**	791,145	755,787
Fair value	**$ 1,133,039**	$ 994,733	$ 1,116,357
Amortized cost			
Assets recognized in loans	**$ 93,724**	$ 65,430	$ 95,670
Total underlying assets designated	**$ 1,226,763**	$ 1,060,163	$ 1,212,027

Securities under repurchase agreements

Securities under repurchase agreements are classified as loans and receivables 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)	Mar 31 2017	Mar 31 2016	Dec 31 2016
Amounts under the CMB Program	**$ 574,549**	$ 159,727	$ 298,416

11. Subordinated liabilities

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

(Thousands of dollars)	Mar 31 2017	Mar 31 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	**(1,923)**	(768)	(1,997)
Accrued interest	**5,361**	2,516	2,403
Amortized cost	**$ 424,438**	$ 219,748	$ 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, and 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 further discussed below.

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, and 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.

12. Changes in liabilities arising from financing activities

The following table summarizes the changes in liabilities arising from financing activities for the three months ended March 31, 2017:

			Non-cash changes		
(Thousands of dollars)	Dec 31 2016	Cash flow changes	Fair value changes	Other	Mar 31 2017
Debt securities issued	$ 1,490,730	$ 404,783	$ -	$ 366	**$ 1,895,879**
Obligations under the CMB Program	1,236,058	16,556	371	4,525	**1,257,510**
Subordinated liabilities	421,406	-	-	3,032	**424,438**
Securities under repurchase agreements	298,416	276,058	-	75	**574,549**
Dividends payable	13,580	(13,580)	-	6,157	**6,157**
	$ 3,460,190	$ 683,817	$ 371	$ 14,155	**$ 4,158,533**

13. Other liabilities

(Thousands of dollars)	Mar 31 2017	Mar 31 2016	Dec 31 2016
Post-employment benefits	**$ 23,621**	$ 22,868	$ 23,625
Short-term employee benefits	**10,297**	8,304	7,416
Dividends payable	**6,157**	2,298	13,580
Unearned insurance premiums	**806**	815	1,325
Accounts payable and other	**23,816**	11,486	12,417
	$ 64,697	$ 45,771	$ 58,363

14. Share capital

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

The number of shares issued is as follows:

	For the three months ended		For the year ended
	Mar 31 2017	Mar 31 2016	Dec 31 2016
Class A – credit unions			
Balance at beginning of period	**416,952**	370,952	370,952
Issued during the period	**-**	-	46,000
Balance at end of period	**416,952**	370,952	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

The amounts outstanding are as follows:

(Thousands of dollars)		Mar 31 2017		Mar 31 2016		Dec 31 2016
Outstanding $1 par value shares						
Class A – credit unions	**$**	**416,952**	$	370,952	$	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
	$	**416,996**	$	370,996	$	416,996

The dividend amounts are as follows:

(Thousands of dollars)		For the three months ended Mar 31 2017		Mar 31 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		**6,157**		2,298		13,580
Paid during the period		**(13,580)**		(14,428)		(14,428)
Dividend payable, balance at end of period	**$**	**6,157**	$	2,298	$	13,580

15. Loss on disposal of financial instruments

(Thousands of dollars)		Mar 31 2017		Mar 31 2016
Net gain (loss) on disposal of trading assets	**$**	**(3,623)**	$	3,484
Net gain on disposal of investment securities		**945**		2,788
Net loss on obligations under the CMB program		**-**		(34)
Net loss on disposal of derivative instruments		**(265)**		(6,020)
Net loss on disposal of deposits designated as trading		**(2,073)**		(1,618)
Net gain on disposal of obligations related to securities sold short		**1,155**		120
	$	**(3,861)**	$	(1,280)

16. Change in fair value of financial instruments

(Thousands of dollars)		Mar 31 2017		Mar 31 2016
Trading assets	**$**	**19,309**	$	6,776
Loans		**43**		-
Activities under the CMB Program				
Reinvestment assets		**345**		227
Derivative instruments		**280**		2,579
Obligations under the CMB Program		**(371)**		(2,173)
Derivative instruments		**423**		3,728
Financial liabilities at FVTPL				
Deposits designated as trading		**(6,886)**		(8,897)
Obligations related to securities sold short		**(467)**		19
	$	**12,676**	$	2,259

17. Other income

(Thousands of dollars)		Mar 31 2017		Mar 31 2016
Mandatory Liquidity Pool	**$**	**(93)**	$	(187)
Wholesale Financial Services				
Lending fees		**1,439**		1,253
Securitization fees		**1,849**		1,475
Foreign exchange income		**1,635**		1,227
Other		**610**		632
Digital & Payment Services				
Payment processing and other fees		**12,930**		12,443
Direct banking fees		**7,487**		6,921
Trade Services		**3,861**		3,800
Other				
Equity interest in affiliates		**2,395**		1,112
Income from investees		**1,283**		510
Other		**1,642**		3,088
	$	**35,038**	$	32,274

18. Other administrative expenses

(Thousands of dollars)		Mar 31 2017		Mar 31 2016
Cost of sales and services	**$**	**4,632**	$	3,025
Cost of payments processing		**4,222**		3,917
Management information systems		**3,379**		2,335
Professional fees		**2,753**		1,830
Flow through membership dues		**1,497**		1,408
Business development projects		**245**		230
Other		**798**		774
	$	**17,526**	$	13,519

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 pool 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 pool within the regulatory constraints and leverages its economies of scale to reduce costs associated with the pool. Assets held in the pool 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 segment 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 unions lending and access to securitization vehicles, allowing 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 also provides foreign exchange services, derivative capabilities and other ancillary treasury services under the WFS segment.

The WFS segment also 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, such as consolidation adjustments and corporate support functions, 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 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.

Results by segment

The following table summarizes the segment results for the three months ended March 31, 2017:

(Thousands of dollars)	Mandatory Liquidity Pool	Wholesale Financial Services	Digital & Payment Services	Trade Services	Other	Total
Net financial income (expense), including recovery for credit losses	$ 8,222	$ 13,680	$ (72)	$ 84	$ (1,054)	$ 20,860
Other income	(93)	5,533	20,417	3,861	5,320	35,038
Net financial and other income	8,129	19,213	20,345	3,945	4,266	55,898
Operating expenses	1,972	5,388	19,753	4,004	7,134	38,251
Profit (loss) before income taxes	6,157	13,825	592	(59)	(2,868)	17,647
Income taxes (recoveries)	862	1,799	83	(13)	302	3,033
Profit (loss) for the period	$ 5,295	$ 12,026	$ 509	$ (46)	$ (3,170)	$ 14,614
Total assets at Mar 31 2017	$8,204,067	$ 9,540,214	$ 18,761	$ 11,937	$ 240,740	$18,015,719
Total liabilities at Mar 31 2017	$7,695,608	$ 9,112,629	$ (3,986)	$ (6,829)	$ 116,989	$16,914,411
Total equity at Mar 31 2017	$ 508,459	$ 427,585	$ 22,747	$ 18,766	$ 123,751	$ 1,101,308

The following table summarizes the segment results for the three months ended March 31, 2016:

(Thousands of dollars)	Mandatory Liquidity Pool	Wholesale Financial Services	Digital & Payment Services	Trade Services	Other	Total
Net financial income (expense), including recovery for credit losses	$ 4,354	$ 8,054	$ (53)	$ 68	$ (1,066)	$ 11,360
Other income	(187)	4,587	19,364	3,800	4,710	32,274
Net financial and other income	4,167	12,641	19,311	3,868	3,647	43,634
Operating expenses	1,869	5,282	19,033	4,029	4,047	34,260
Profit (loss) before income taxes	2,298	7,359	278	(161)	(400)	9,374
Income taxes (recoveries)	424	1,361	13	(30)	(886)	882
Profit (loss) for the period	$ 1,874	$ 5,998	$ 265	$ (131)	$ 486	$ 8,492
Total assets at Mar 31 2016	$7,392,704	$ 6,965,199	$ 4,342	$ 10,082	$ 239,248	$14,611,575
Total liabilities at Mar 31 2016	$6,940,832	$ 6,535,798	$ (25,980)	$ (8,365)	$ 176,720	$13,619,005
Total equity at Mar 31 2016	$ 451,872	$ 429,401	$ 30,322	$ 18,447	$ 62,528	$ 992,570

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 payment items drawn on or payable by the Prairie Centrals and their member credit unions. Each of the Prairie Centrals in return provides Central 1 with a guarantee for those payments.

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, and standby letters of credit.

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)	Mar 31 2017	Mar 31 2016	Dec 31 2016
Commitments to extend credit	**$ 4,411,933**	$ 4,212,276	$ 4,447,323
Guarantees	**$ 800,000**	$ 727,000	$ 830,000
Standby letters of credit	**$ 174,748**	$ 158,544	$ 173,502

Amounts utilized under these agreements for commitments to extend credit, guarantees, and standby letters of credit, respectively, on March 31, 2017 are $10.8 million, $219.4 million and $101.4 million (March 31, 2016 - $34.9 million, $315.0 million and $89.1 million; December 31, 2016 - $13.5 million, $273.1 million and $103.0 million).

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.

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 March 31, 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. Central 1 has also committed to contribute up to $2.4 million to The CUMIS Group Limited (CUMIS). 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 March 31, 2017, Central 1 had not received any request from CUMIS to make such contribution. CUMIS is also an affiliate as disclosed in Note 23.

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)	Mar 31 2017	Mar 31 2016	Dec 31 2016
Assets pledged to Bank of Canada & Direct Clearing Organizations[(1)(2)]	**$ 55,289**	$ 56,119	$ 54,122
Assets pledged in relation to:			
Derivative financial instrument transactions	**7,111**	20,266	9,109
Securities lending	**18,749**	194,638	35,552
Obligations under the CMB Program	**815,922**	859,474	851,456
Reinvestment assets under the CMB Program	**413,167**	203,588	360,570
Securities under repurchase agreements	**574,549**	159,727	298,416
	$ 1,884,787	$ 1,493,812	$ 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, deposits with regulated financial institutions, loans, obligations related to securities sold short, deposits, subordinated liabilities, and securities under repurchase agreements.

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 liabilities are determined by discounting remaining cash flows by reference to current market yields on similar instruments.

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

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

Level 1: 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 financial assets and financial liabilities classified in accordance with the fair value hierarchy:

(Millions of dollars) Mar 31 2017	Level 1	Level 2	Level 3	Amounts at Fair Value	Amounts at Amortized Cost[1]	Total Carrying Value
Financial assets						
Cash	$ -	$ -	$ -	$ -	$ 142.5	$ 142.5
Deposits with regulated financial institutions	-	-	-	-	5.9	5.9
Trading assets	-	9,421.8	-	9,421.8	-	9,421.8
Reinvestment assets under the CMB Program	-	411.2	-	411.2	2.0	413.2
Derivative assets	-	79.3	-	79.3	-	79.3
Loans	-	-	12.0	12.0	1,733.9	1,745.9
Investment securities	-	5,624.3	9.9	5,634.2	32.1	5,666.3
Total financial assets	$ -	$ 15,536.6	$ 21.9	$ 15,558.5	$ 1,916.4	$ 17,474.9
Financial liabilities						
Deposits designated as trading	$ -	$ 8,589.2	$ -	$ 8,589.2	$ -	$ 8,589.2
Obligations related to securities sold short		82.3	-	82.3	-	82.3
Derivative liabilities	-	83.0	-	83.0	-	83.0
Debt securities issued	-	-	-	-	1,895.9	1,895.9
Deposits	-	-	-	-	3,426.8	3,426.8
Obligations under the CMB Program	-	1,257.5	-	1,257.5	-	1,257.5
Subordinated liabilities	-	-	-	-	424.4	424.4
Securities under repurchase agreements	-	-	-	-	574.5	574.5
Total financial liabilities	$ -	$ 10,012.0	$ -	$ 10,012.0	$ 6,321.6	$ 16,333.6

(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.

(Millions of dollars) Mar 31 2016		Level 1		Level 2		Level 3		Amounts at Fair Value		Amounts at Amortized Cost(1)		Total Carrying Value
Financial assets	$	-	$	12,876.4	$	9.3	$	12,885.7	$	1,725.9	$	14,611.6
Financial liabilities	$	-	$	8,545.5	$	-	$	8,545.5	$	5,073.5	$	13,619.0

(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 Mar 31 2017
Equity shares	$	9.9	$	-	$	-	$	-	$	-	$	9.9
Loans		12.1								(0.1)		12.0
Total financial assets	$	22.0	$	-	$	-	$	-	$	(0.1)	$	21.9

(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 Mar 31 2016
Equity shares	$	9.3	$	-	$	-	$	-	$	-	$	9.3
Total financial assets	$	9.3	$	-	$	-	$	-	$	-	$	9.3

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.

			Fair Value			Carrying Value			Unrecognized Gain (Loss)
(Millions of dollars)	Mar 31 2017	Mar 31 2016	Dec 31 2016	Mar 31 2017	Mar 31 2016	Dec 31 2016	Mar 31 2017	Mar 31 2016	Dec 31 2016
Assets									
Cash	**$ 142.5**	$ 79.3	$ 487.1	**$ 142.5**	$ 79.3	$ 487.1	**$ -**	$ -	$ -
Deposits with regulated financial institutions[1]	**5.9**	5.8	5.9	**5.9**	5.8	5.9	**-**	-	-
Trading assets and investment securities	**15,088.1**	12,595.6	14,393.9	**15,088.1**	12,595.6	14,393.9	**-**	-	-
Reinvestment assets under the CMB Program	**413.2**	203.6	360.6	**413.2**	203.6	360.6	**-**	-	-
Derivative assets	**79.3**	118.7	81.8	**79.3**	118.7	81.8	**-**	-	-
Loans[2]	**1,749.5**	1,241.1	1,455.8	**1,745.9**	1,241.1	1,453.8	**3.6**	-	2.0
Liabilities									
Deposits designated as trading	**8,589.2**	7,317.2	8,659.5	**8,589.2**	7,317.2	8,659.5	**-**	-	-
Obligations related to securities sold short	**82.3**	30.0	74.1	**82.3**	30.0	74.1	**-**	-	-
Derivative liabilities	**83.0**	131.4	85.7	**83.0**	131.4	85.7	**-**	-	-
Debt securities issued[1]	**1,901.4**	1,151.6	1,492.6	**1,895.9**	1,150.4	1,490.7	**(5.5)**	(1.2)	(1.9)
Deposits[1]	**3,432.5**	3,124.3	3,256.0	**3,426.8**	3,117.6	3,250.5	**(5.7)**	(6.7)	(5.5)
Obligations under the CMB Program	**1,257.5**	1,066.9	1,236.1	**1,257.5**	1,066.9	1,236.1	**-**	-	-
Subordinated liabilities[1]	**431.3**	221.2	421.8	**424.4**	219.7	421.4	**(6.9)**	(1.5)	(0.4)
Securities under repurchase agreements	**574.5**	159.7	298.4	**574.5**	159.7	298.4	**-**	-	-
Total							**$ (14.5)**	$ (9.4)	$ (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 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 be recorded as a dividend in Central 1's Consolidated Financial Statements.

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.

In order to ensure that Central 1 maintains regulatory capital sufficient to absorb sudden increases in borrowings or a reduction in capital due to mark-to-market fluctuations, Central 1 targets an operating borrowing multiple with upper limit no greater than 15.8:1 for the MLP segment and 12.6:1 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 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'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 March 31, 2017 and March 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; and
- 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)	Mar 31 2017	Mar 31 2016
Mortgage loans outstanding at the end of the period	**$ 374**	$ 386
Maximum mortgage loans outstanding during the period	**$ 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:

		For three months ended
(Thousands of dollars)	Mar 31 2017	Mar 31 2016
Salaries and short-term employee benefits	**$ 689**	$ 738
Post-employment benefits	**46**	48
Termination benefits	**-**	115
	$ 735	$ 901

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

Transactions with Board of Directors

During the period ended March 31, 2017, the members of Central 1's Board of Directors received aggregate remuneration of $164 thousand (March 31, 2016 - $129 thousand).

Significant subsidiaries

(% of ownership of common shares outstanding)	Mar 31 2017	Mar 31 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)	Mar 31 2017	Mar 31 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)	Mar 31 2017	Mar 31 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%