Third Quarter Report 2017
Report to Members

Central 1

Central 1 Reports Results for the Third Quarter of 2017

Third quarter highlights compared to the same period last year:

- Profit of $15.7 million, down 27.0 per cent from $21.5 million
- Return on average equity of 5.5 per cent, compared to 8.2 per cent
- Assets of $17.7 billion, up 6.6 per cent from $16.6 billion
- Tier 1 capital ratio of 33.1 per cent, compared to 35.2 per cent
- B.C. network's net operating income of $112.1 million, up 18.1 per cent from $94.9 million
- B.C. network's assets of $75.6 billion, up 4.9 per cent from $72.1 billion
- Ontario network's net operating income of $55.5 million, up 35.0 per cent from $41.1 million
- Ontario network's assets of $48.9 billion, up 12.1 per cent from $43.6 billion

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

- Profit of $40.8 million, down 5.8 per cent from $43.3 million
- Return on average equity of 4.9 per cent, compared to 5.7 per cent
- B.C. network's net operating income of $292.4 million, up 17.8 per cent from $248.2 million
- Ontario network's net operating income of $156.6 million, up 23.8 per cent from $126.5 million

For the quarter ended September 30, 2017, Central 1 reported a profit of $15.7 million, down 27.0 per cent from the same period in 2016. While assets increased, interest margin was flat reflecting an increase in borrowings raised in capital markets relative to credit union deposits. Net realized and unrealized gains declined $1.1 million due to a combination of factors. Interest rate increase resulted in mark-to-market gains on liabilities, while mark-to-market losses on assets were mitigated by narrowing credit spreads. Central 1 reported an operating loss of $2.8 million compared to an operating income of $1.6 million a year ago. The decrease was largely attributable to increased costs incurred to support strategic initiatives including the implementation of the User Experience (UX) Platform Program. The UX Platform Program is a digital banking channel that will deepen customer engagement through powerful, market-leading user experience management tools. The UX Platform Program will allow credit unions self-service capability for a flexible, customizable digital experience to connect with their members across channels. Central 1 also recorded one-time restructuring charges totaling $1.3 million in the third quarter.

For the nine months ended September 30, 2017, Central 1 recorded a profit of $40.8 million, down 5.8 per cent from the same period in 2016. Interest margin increased by $2.0 million reflecting an increase in average assets and net realized and unrealized gains increased by $2.9 million. Narrowing credit spreads mitigated mark-to-market losses on assets attributable to increased interest rates, which also resulted in mark-to-market gains on liabilities. These increases were mostly offset an increased operating loss, mainly attributable to increased costs to support strategic initiatives including the implementation of the UX Platform Program. Central 1 also incurred one-time restructuring charges of $1.8 million.

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

The B.C. network reported net operating income of $112.1 million in the third quarter of 2017, up $17.2 million or 18.1 per cent from the same period in 2016. Growth resulted from increased personal and commercial mortgages together with a higher loan yield contributed to higher net-interest income. This was partially offset by higher non-interest expense from increases in salaries and benefits as well as loan losses. Combined assets of the B.C. network at the end of September 2017 rose 4.9 per cent year-over-year to reach $75.6 billion.

The Ontario network reported net operating income of $55.5 million in the third quarter of 2017, up $14.4 million or 35.0 per cent from the same period in 2016. The increase was mainly driven by growth in residential mortgages and commercial loans, offset by higher salaries and employee benefits expense. Combined assets of the Ontario network at the end of September 2017 rose 12.1 per cent year-over-year to reach $48.9 billion.

In July 2017, Central 1 and Collabria Financial Services Inc. (Collabria), a payments provider focused on solutions for credit unions, signed a Letter of Intent to integrate Collabria's credit card solution with both Central 1's online banking (*MemberDirect*®) and origination platforms (*Borrow Anywhere*™ and *Open Anywhere*™). This will offer credit cardholders increased payment flexibility and a consolidated view of their credit card balances, transactions and spending analysis all within their online banking.

In August 2017, the Financial Institutions Commission of British Columbia (FICOM) amended the Borrowing Multiple limits for Central 1's Mandatory Liquidity Pool (MLP) and Wholesale Financial Services (WFS) business lines. These changes allowed Central 1 to return $50.0 million in capital to its Class A members which was announced on September 8, 2017. Central 1 redeemed $30.0 million Class A shares and paid $5.0 million dividends on September 29, 2017 and reacquired $15.0 million Class E shares on October 27, 2017.

In September 2017, Central 1 announced its national digital and payments solutions strategy, which is designed to meet the long-term needs of the credit unions and other clients across Canada. To achieve this, Central 1 created a Transformation Office, whose work during the fall will drive the change to build a client-centred, integrated organization that brings innovative solutions for customers, and support the sustainability of Canadian credit unions.

On November 1, 2017, Everlink Payment Services Inc. and Central 1 announced that, through a multi-year agreement between the two companies, B.C. and Ontario credit unions and other financial institutions will have access to sophisticated, enhanced, and real-time fraud monitoring measures to detect and combat debit card fraud. By compiling and integrating transaction and demographic data and consumer profiling, this service allows credit unions to lower fraud losses, improve brand reputation, and increase member trust and security by reducing the frequency of compromised cards. This agreement creates the largest in-market fraud management services bureau delivery in Canada.

On November 1, 2017, Central 1 issued $500.0 million principal amount of Series 15 medium-term fixed rate notes due November 7, 2022. The notes bear interest at a fixed rate of 2.60 per cent, payable semi-annually on May 7 and November 7 of each year, commencing May 7, 2018. Central 1 was able to leverage our credit rating to access funding and provide substantial investment to help credit unions drive their future success.

Management's Discussion & Analysis

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

This portion of the report updates Central 1 Credit Union's (Central 1) Management's Discussion and Analysis (MD&A) for the year ended December 31, 2016, and reviews and analyzes the financial condition and results of operations of Central 1 for the nine-month period ended September 30, 2017, compared to the corresponding period in the prior fiscal year. The financial information included in this MD&A should be read in conjunction with Central 1's unaudited Interim Consolidated Financial Statements for the nine-month period ended September 30, 2017 as well as Central 1's 2016 Annual Report for the year ended December 31, 2016. This MD&A, covering the nine-month period ended September 30, 2017, is as at November 24, 2017.

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

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

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

Legislative reviews that have been ongoing in both B.C. and Ontario continued in the third quarter. Central 1 continued to correspond with Ministry of Finance officials 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 throughout the third quarter. The Ministry of Finance, under the previous government, had indicated that it would release a White Paper with initial policy positions sometime in 2017. However, with the recent change in the B.C. government, the release date of the White Paper is expected to be in early 2018.

The Ontario government has taken the next steps in moving forward with a number of positive changes for credit unions that will come into force on January 1, 2018. These changes include increasing deposit insurance coverage for non-registered accounts from $100 thousand to $250 thousand, and increased subsidiary ownership and the operation of extra-provincial credit unions. The government has also committed to a comprehensive re-write of the *Credit Unions and Caisses Populaires Act* (CUCPA). Central 1's Government Relations has assembled a working group of credit union representatives that will work with the government to provide input for the re-write of the CUCPA.

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

In July 2017, Central 1 and Collabria Financial Services Inc. (Collabria), a payments provider focused on solutions for credit unions, signed a Letter of Intent to integrate Collabria's credit card solution with both Central 1's online banking (*MemberDirect®*) and origination platforms (*Borrow Anywhere™* and *Open Anywhere™*). This will offer credit cardholders increased payment flexibility and a consolidated view of their credit card balances, transactions and spending analysis all within their online banking.

In September 2017, Central 1 announced its national digital and payments solutions strategy, which is designed to meet the long-term needs of the credit unions and other clients across Canada. This is a significant opportunity both for our members and partners in the credit union network to build a digital and payments program that will strongly support the sustainability of Canadian credit unions. Central 1 created a Transformation Office, whose work during the fall will drive the change to build a client-centred, integrated organization that brings innovative solutions for customers.

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 the performance by both provincial networks in the third quarter of 2017 offer a context for interpreting Central 1's quarterly results and provide insight into its future performance.

The Economic Environment

The International Monetary Fund's (IMF) World Economic Outlook, issued in October 2017, stated that the global upswing that began in mid-2016 continues to gather strength with economic growth accelerating in Europe, Japan, China and the U.S. The IMF's latest World Economic Outlook forecasts economic growth and indicates that Japan's economy is expected to grow by 1.5 per cent in 2017, up from 1.0 per cent in 2016 and the United States economy is expected to grow 2.2 per cent in 2017, which is a significant improvement over the 1.5 per cent growth realized in 2016.

Canada's economy is expected to grow at a rate of 3.0 per cent in 2017, which is up from the IMF's estimate of 2.5 per cent published in July 2017. Robust consumption and residential investment led growth in the first half of 2017. In the second half of 2017, growth is expected to be supported by rising foreign demand, firming commodity prices, still-expansionary financial conditions and public infrastructure spending. The contribution to growth from consumption and housing investment is projected to decline, in part because of recent interest rate increases, while the contribution from exports is projected to improve while that from business investment to remain steady.

Financial Markets

The Bank of Canada (the Bank) raised its target for the overnight rate by 50 basis points (bps) in the third quarter and a further 25 bps is highly likely in the next several months. It removed the 50 bps of "insurance" it had taken out in 2016 in response to plummeting oil prices. The five-year Government of Canada yields have risen over 35 bps over the quarter due to the Bank's recent hikes and expectations of future hikes.

The Federal Reserve is expected to raise its target rate at its December meeting, which would be its fourth hike over twelve months.

The Bank's deposit note spreads have continued to narrow to the tightest levels of the year as the global reflation trend gathers firmer footing which has increased investor's risk tolerance and increased flows into investment grade and high yield debt markets. Domestic deposit note issuance has underwhelmed expectations as Canadian Banks have found more attractive funding alternatives in U.S. Dollar, Euro and GBP markets. Multiple large-cap U.S. corporations, including Disney, Apple and McDonald's, issued Canadian Dollar debt in the second half of the year, capitalizing on a light domestic issuance program and investors looking to put cash to work.

Network Performance

British Columbia

Net operating income for the third quarter of 2017 was $112.1 million, compared to $94.9 million in the third quarter of 2016. Net interest income increased $38.3 million over the same period last year, mainly driven by growth in personal and commercial mortgages and by a higher loan yield. The Bank's bank rate increased 25 bps in each of July and September with corresponding hikes in the commercial prime lending rate. Non-interest income decreased $2.8 million year-over-year due to lower member service fees. Non-interest expenses increased $18.4 million year-over-year, led by increases in salaries and benefits and loan losses.

Total assets increased 4.9 per cent year-over-year to reach $75.6 billion at the end of the third quarter in 2017. Liability growth was led by increases in non-registered demand deposits of 7.7 per cent, borrowings of 23.8 per cent, and non-registered term deposits of 1.9 per cent. Asset growth was led by increases in personal mortgages of 8.0 per cent and commercial mortgages of 9.3 per cent. Strong economic growth and low interest rates drove loan growth.

The network's rate of loan delinquencies over 90 days was 0.18 per cent of total loans at the end of September 2017, down eight bps year-over-year. Provision for credit losses as a percentage of loans was 0.28 per cent, unchanged from a year earlier. The B.C. network's loan loss expense ratio was 0.07 per cent annualized in the third quarter of 2017, up three bps year-over-year.

The B.C. network's regulatory capital as a percentage of risk-weighted assets was 14.4 per cent at the end of September 2017, down 19 bps from a year ago. The aggregate liquidity ratio of B.C. network, including that held by Central 1, was 14.7 per cent of deposit and debt liabilities, down from 16.7 per cent a year ago. Deposits growth has slowed considerably in 2017.

Ontario

Net operating income for the third quarter of 2017 was $55.5 million, compared to $41.1 million in the third quarter of 2016. Net interest income increased $30.2 million over the same period last year, mainly driven by growth in residential mortgages and commercial loans. The Bank's bank rate increased 25 bps in each of July and September with corresponding hikes in the commercial prime lending rate. Non-interest income increased $2.7 million year-over-year due to growth in member service and agency fees. Non-interest expenses increased $18.6 million year-over-year, led by increases in salaries and benefits.

Total assets increased 12.1 per cent year-over-year to reach $48.9 billion at the end of the third quarter in 2017. Liability growth was led by increases in non-registered demand deposits of 13.1 per cent and non-registered term deposits of 13.9 per cent. Asset growth was led by increases in residential mortgages of 12.8 per cent and commercial loans of 13.1 per cent. Growth in employment and residential construction drove loan growth.

The network's rate of loan delinquencies over 90 days was 0.24 per cent of total loans at the end of September 2017, down 14 bps year-over-year. Provision for credit losses as a percentage of loans was 0.23 per cent, down four bps from a year earlier. The network's loan loss expense ratio was 0.04 per cent annualized in the third quarter of 2017, down three bps year-over-year.

The Ontario network's regulatory capital as a percentage of risk-weighted assets was 13.3 per cent at the end of September 2017, virtually unchanged from a year ago. The aggregate liquidity ratio of Ontario network, including that held by Central 1, was 11.4 per cent of deposit and debt liabilities, down slightly from 11.6 per cent a year ago.

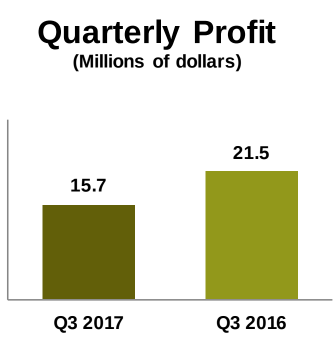
Overall Performance

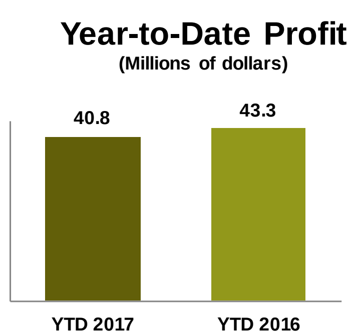
The following table summarizes Central 1's Financial Overview as at September 30, 2017 with comparatives.

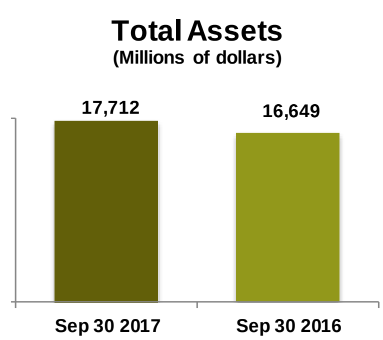
Figure 1 – Financial Overview

	For the three months ended		For the nine months ended	
	Sep 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Operating results *(milions of dollars, unless otherwise indicated)*				
Net financial income	**21.7**	22.7	**54.8**	49.9
Net financial and other income	**59.3**	57.2	**166.2**	154.9
Operating income (loss)	**(2.8)**	1.6	**(6.3)**	(0.1)
Profit for the period	**15.7**	21.5	**40.8**	43.3
Productivity ratio	**68.2%**	57.4%	**70.7%**	67.9%
Productivity ratio - non-financial	**107.4%**	95.4%	**105.7%**	100.1%
Return on average assets	**0.3%**	0.5%	**0.3%**	0.4%
Return on average equity	**5.5%**	8.2%	**4.9%**	5.7%
Earnings per share *(cents)*				
Basic	**3.6**	5.6	**9.5**	11.5
Diluted	**3.6**	5.6	**9.5**	11.5
Dividends per share *(cents)*				
Class A	**2.30**	1.64	**3.94**	2.75
Class B & C	**0.55**	0.26	**1.13**	0.75
Weighted average shares outstanding	**440.3**	385.0	**427.6**	377.3
Average assets	**17,934.0**	16,050.1	**17,784.9**	15,264.3

	As at Sep 30 2017	As at Sep 30 2016
Balance sheet *(millions of dollars)*		
Total assets	**17,712.3**	16,649.0
Long-term financial liabilities	**8,654.8**	6,773.0
Regulatory ratios		
Tier 1 capital ratio	**33.1%**	35.2%
Provincial capital ratio	**49.6%**	45.3%
Borrowing multiple (times)	**12.1**	14.3
Share Information *(thousands of dollars, unless otherwise indicated)*		
Outstanding $1 par value shares		
Class A - credit unions	**410,951**	384,952
Class B - cooperatives	**5**	5
Class C - other	**7**	7
Outstanding $0.01 par value shares with redemption value of $100		
Class E - credit unions	**32**	32







Statement of Financial Position

Cash and Liquid Assets

The following tables summarize Central 1's Cash and Liquid Assets for MLP and WFS as at September 30, 2017 with comparatives.

Figure 2 – Cash and Liquid Assets

(Millions of dollars)	MLP Liquid Assets	WFS Liquid Assets	Securities Received as Collateral	Total Liquid Assets	Encumbered Liquid Assets	Sep 30 2017 Unencumbered Liquid Assets
Cash	$ 73.5	$ 8.1	$ -	8.1	$ -	$ 8.1
Federal and provincial government issued and guaranteed securities	7,249.3	3,014.6	238.6	3,253.2	1,805.0	1,448.2
Corporate and financial institutions AA or greater	1,034.8	1,963.9	-	1,963.9	14.0	1,949.9
U.S. dollar denominated corporate and financial institution securities AA or greater	18.6	384.8	-	384.8	-	384.8
Insured mortgages securitized as National Housing Act Mortgage-Backed Securities	-	194.0	-	194.0	-	194.0
Other assets	-	643.5	-	643.5	86.2	557.3
Total	**$ 8,376.2**	**$ 6,208.9**	**$ 238.6**	**$ 6,447.5**	**$ 1,905.2**	**$ 4,542.3**

(Millions of dollars)	MLP Liquid Assets	WFS Liquid Assets	Securities Received as Collateral	Total Liquid Assets	Encumbered Liquid Assets	Sep 30 2016 Unencumbered Liquid Assets
Cash	$ -	$ -	$ -	$ -	$ -	$ -
Federal and provincial government issued and guaranteed securities	6,930.1	3,511.6	456.4	3,968.0	1,424.6	2,543.4
Corporate and financial institutions AA or greater	894.8	1,827.3	-	1,827.3	141.8	1,685.5
U.S. dollar denominated corporate and financial institution securities AA or greater	121.2	408.7	-	408.7	-	408.7
Insured mortgages securitized as National Housing Act Mortgage-Backed Securities	-	244.3	-	244.3	-	244.3
Other assets	-	425.0	-	425.0	99.7	325.3
Total	$ 7,946.1	$ 6,416.9	$ 456.4	$ 6,873.3	$ 1,666.1	$ 5,207.2

(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 $0.4 billion in MLP and decreased $0.2 billion in WFS year-over-year, driven by higher deposits in MLP and greater growth in credit union loans in WFS. Cash and liquid assets in MLP and WFS represented 47.3 per cent and 35.1 per cent, respectively, of Central 1's total assets. Compared to the prior year, the weighting of cash and liquid assets relative to Central 1's total assets decreased 0.4 per cent in MLP and 3.5 per cent in WFS, respectively.

Loans

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

Figure 3 – Loans

(Millions of dollars)	Sep 30 2017	Sep 30 2016	Dec 31 2016
Loans to credit unions	**$ 1,139.1**	$ 344.3	$ 329.5
Syndicated commercial loans	**607.8**	572.4	611.2
Non syndicated commercial loans	**16.7**	13.7	13.4
Other loans	**7.8**	8.9	8.8
Residential mortgages	**148.3**	162.9	161.6
	780.6	757.9	795.0
Securities acquired under reverse repurchase agreements	**318.3**	423.9	316.4
	$ 2,238.0	$ 1,526.1	$ 1,440.9

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

Total loans increased $711.9 million compared to a year ago, primarily driven by higher loans to credit unions and syndicated commercial loans, partially offset by lower securities acquired under reverse repurchase agreements and residential mortgages. Loans to credit unions increased $794.8 million, which is reflective of the level of liquidity in the credit union network. Syndicated commercial loans increased $35.4 million. Commercial loans represented 27.9 per cent of Central 1's total loan portfolio, down from 38.4 per cent a year ago. Securities acquired under reverse repurchase agreements decreased $105.6 million attributable to lower volumes.

Funding

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

Figure 4 – Funding

(Billions of dollars)	Sep 30 2017	Sep 30 2016	Dec 31 2016
Deposits and trading liabilities by type			
Mandatory deposits	**$ 7.8**	$ 7.4	$ 7.6
Non-mandatory deposits	**3.3**	4.0	3.5
Deposits from member credit unions	**11.1**	11.4	11.1
Deposits from non-credit unions	**0.8**	0.6	0.8
	11.9	12.0	11.9
Debt securities issued			
Commercial paper issued	**0.8**	0.6	0.7
Medium-term notes issued	**0.8**	0.6	0.8
Subordinated liabilities	**0.4**	0.2	0.4
	2.0	1.4	1.9
Obligations under the CMB Program	**1.2**	1.2	1.2
Securities under repurchase agreements	**0.6**	0.3	0.3
	$ 15.7	$ 14.9	$ 15.3

Deposits from Central 1's member credit unions decreased $0.3 billion or 2.6 per cent compared to the prior year. Mandatory deposits from credit unions increased $0.4 billion, reflective of the growth within the credit union network. Non-mandatory deposits from credit unions vary over time and is correlated with the level of liquidity in the credit union network. Liquidity levels in the B.C. and Ontario regions have declined year-over-year which has resulted in a decrease in non-mandatory deposits of $0.7 billion over the past year. Deposits from member credit unions represented 70.7 per cent of Central 1's total borrowing portfolio at the end of the third quarter, down from 76.5 per cent a year ago.

Total debt securities outstanding increased $0.6 billion compared to the prior year. Debt securities represented 12.7 per cent of Central 1's total funding at the end of the third quarter, up from 9.4 per cent a year ago. Of the total amount outstanding, $0.8 billion was borrowed under Central 1's medium-term note facility, $0.4 billion was borrowed through subordinated debt issuance and the remainder was borrowed through Central 1's commercial paper facility. The increase in debt securities was in line with the overall growth on 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, which were in line with the prior year.

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 $61.7 million from a year ago to $1,108.1 million largely driven by the annual share call and the earnings retained year-over-year. Central 1 periodically requires its Class A members to contribute additional Class A shares to support the growth of MLP and distributes the net earnings of MLP to its Class A members as dividends. The recent FICOM amendment of Central 1's regulatory requirements for borrowing multiples allowed Central 1 to return its capital to Class A members in a form of a share redemption and dividend payment. On September 29, 2017, Central 1 redeemed $30.0 million Class A shares and paid $5.0 million dividends to Class A members, which reduced total equity by $35.0 million in aggregate.

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

Statement of Profit

Net Financial Income

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

Figure 5 – Net Financial Income

	For the three months ended		For the nine months ended	
(Millions of dollars)	Sep 30 2017	Sep 30 2016	Sep 30 2017	Sep 30 2016
Interest margin	**$ 12.4**	$ 12.3	**$ 37.2**	$ 35.2
Gain (loss) on disposal of financial instruments	**(5.4)**	14.6	**(2.7)**	12.5
Change in fair value of financial instruments	**14.7**	(4.2)	**20.3**	2.2
Net financial income	**$ 21.7**	$ 22.7	**$ 54.8**	$ 49.9

Q3 2017 vs Q3 2016

Net financial income for the third quarter of 2017 decreased $1.0 million compared to the third quarter of 2016.

Interest margin for the third quarter of 2017 was in line with the prior year. In aggregate, net realized and unrealized gains decreased $1.1 million from a year ago due to a combination of factors. Interest rate increased which resulted in mark-to-market gains on liabilities, while mark-to-market losses on assets were mitigated by narrowing credit spreads.

YTD 2017 vs YTD 2016

Net financial income for the first nine months of 2017 increased $4.9 million compared to the first nine months of 2016.

Interest margin increased $2.0 million primarily reflecting an increase in average assets. In aggregate, net realized and unrealized gains increased $2.9 million. Rising interest rates resulted in mark-to-market gains on liabilities and mark-to-market losses on assets, which was partially offset by narrowing of credit spreads.

Operating Income (Loss)

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

Figure 6 – Operating Income (Loss)

(Millions of dollars)	For the three months ended Sep 30 2017	For the three months ended Sep 30 2016	For the nine months ended Sep 30 2017	For the nine months ended Sep 30 2016
Other income				
Mandatory Liquidity Pool	**$ (0.2)**	$ 0.1	**$ (0.4)**	$ (0.1)
Wholesale Financial Services				
Lending fees	**1.6**	1.5	**4.5**	3.9
Securitization fees	**1.8**	1.9	**5.5**	5.0
Foreign exchange income	**1.3**	1.4	**4.1**	4.3
Other	**0.7**	0.7	**1.9**	1.9
Digital & Payment Services				
Payment processing and other fees	**13.2**	13.7	**40.3**	39.6
Direct banking fees	**8.6**	7.8	**23.0**	22.4
Trade Services	**3.9**	4.0	**12.6**	12.5
Other				
Equity interest in affiliates	**4.9**	2.5	**10.1**	6.2
Income from investees	**0.3**	0.3	**3.7**	4.3
Litigation settlement	**-**	-	**1.1**	-
Other	**1.6**	0.6	**4.9**	5.1
Total other income	**37.7**	34.5	**111.3**	105.1
Operating expenses				
Salaries and employee benefits	**19.6**	16.9	**57.7**	55.7
Premises and equipment	**2.3**	1.7	**6.2**	5.1
Other administrative expenses				
Management information systems	**3.7**	2.2	**10.6**	7.0
Flow through membership dues	**1.7**	1.4	**4.6**	4.2
Professional fees	**4.9**	2.6	**11.4**	6.7
Other	**8.3**	8.1	**27.1**	26.5
Total operating expenses	**40.5**	32.9	**117.6**	105.2
Operating income (loss)	**$ (2.8)**	$ 1.6	**$ (6.3)**	$ (0.1)

Q3 2017 vs Q3 2016

For the quarter ended September 30, 2017, Central 1 reported an operating loss of $2.8 million compared to an operating income of $1.6 million a year ago.

Income from Central 1's investees increased $2.4 million over the same period last year due to an increase in the related investment in affiliate balances accounted for under the equity method of accounting.

Income from continuing operations declined $6.8 million. Operating expenses increased $7.6 million due to a combination of factors. During the third quarter, Central 1 incurred costs to develop strategic products and services, most notably its external IFRS 9 Loan Loss model and its User Experience (UX) Platform Program, a digital banking channel that will deepen customer engagement through powerful, market-leading user experience management tools. It will allow credit unions self-service capability for a flexible, customizable digital experience to connect with their members across channels. These costs totaled $3.7 million, compared to $0.5 million in 2016. Central 1's investments in these projects is essential to ensuring that Central 1 can provide its members with the products and services that will enable them to remain competitive in the future. Central 1 also incurred one-time restructuring charges of $1.3 million due to the departure of two members of the Executive Leadership Team.

YTD 2017 vs YTD 2016

For the nine months ended September 30, 2017, Central 1 reported an operating loss of $6.3 million, compared to an operating loss of $0.1 million during the same period last year.

Income from Central 1's investees increased $3.3 million over the same period last year. The increase is due to an increase of $3.9 million in income related to Central 1's equity interests in affiliates, which are accounted for under the equity method of accounting, partially offset by a decrease of $0.6 million in dividend income from other investees. Central 1 also recorded income of $1.1 million for a long standing litigation settlement. In aggregate, these items contributed to a positive variance of $4.4 million compared to the same period last year.

Income from continuing operations declined $10.5 million. Operating income improved by $1.9 million primarily due to increased electronic payments *Interac® e-Transfer* volumes and network access *Interac®* volumes. Operating expenses increased $12.4 million due to a combination of factors. In aggregate, Central 1 incurred costs of $8.7 million for its external IFRS 9 Loan Loss Project and UX Platform Program in 2017, compared to $1.8 million in 2016. One-time restructuring charges of $1.8 million were also recorded during the first nine months of 2017.

Results by Segment

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

Central 1 is in the process of creating our next three-year strategy that will be in alignment with our transformation work. As we develop more clarity on our strategic direction, we will determine the best organizational structure for the trade services functions within that structure to support credit unions and clients.

Periodically, certain business lines and units are transferred among business segments to better align Central 1's organizational structure with its strategic priorities. Results for prior periods are restated to conform to the current period presentation.

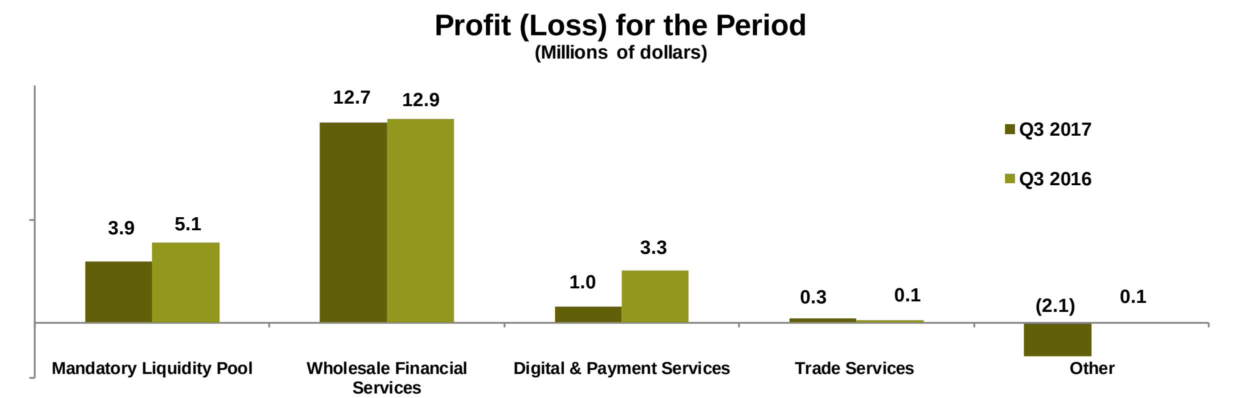
Q3 2017 vs Q3 2016

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

Figure 7 – Results by Segment

For the three months ended September 30, 2017 (Thousands of dollars)	Mandatory Liquidity Pool	Wholesale Financial Services	Digital & Payment Services	Trade Services	Other	Total
Net financial income (expense), including provision for credit losses	$ 7,182	$ 15,582	$ (65)	$ 55	$ (1,076)	$ 21,678
Other income	(224)	5,415	21,758	3,938	6,769	37,656
Net financial and other income	6,958	20,997	21,693	3,993	5,693	59,334
Operating expenses	2,006	5,344	20,456	3,645	9,003	40,454
Profit (loss) before income taxes	4,952	15,653	1,237	348	(3,310)	18,880
Income taxes (recoveries)	1,098	3,002	208	63	(1,189)	3,182
Profit (loss) for the period	$ 3,854	$ 12,651	$ 1,029	$ 285	$ (2,121)	$ 15,698

For the three months ended September 30, 2016 (Thousands of dollars)	Mandatory Liquidity Pool	Wholesale Financial Services	Digital & Payment Services	Trade Services	Other	Total
Net financial income (expense), including provision for credit losses	$ 8,095	$ 15,727	$ (76)	$ 68	$ (1,059)	$ 22,755
Other income	50	5,481	21,471	4,031	3,428	34,461
Net financial and other income	8,145	21,208	21,395	4,099	2,369	57,216
Operating expenses	1,932	5,380	17,360	3,929	4,267	32,868
Profit (loss) before income taxes	6,213	15,828	4,035	170	(1,898)	24,348
Income taxes (recoveries)	1,147	2,923	739	31	(1,951)	2,889
Profit for the period	$ 5,066	$ 12,905	$ 3,296	$ 139	$ 53	$ 21,459



Mandatory Liquidity Pool

MLP's profit decreased $1.2 million from the same period last year, primarily driven by a $0.9 million decrease in net financial income. Central 1 benefited from a narrowing of credit spreads during the third quarters of 2016 and 2017. The credit spreads narrowed less in 2017 than 2016, which resulted in a decrease in unrealized gains. The increase in interest rates during the quarter contributed to further decreases in net financial income. This decline was partially offset by higher trading gains. Operating expenses were largely in line with the third quarter of 2016.

Wholesale Financial Services

WFS' profit decreased $0.2 million from the same period last year, primarily driven by a decrease in net financial income. Net realized and unrealized gains decreased $0.3 million primarily due to the increase in interest rates. This decrease was offset by an increase in interest margin as the positive effect from increased lending activities was largely offset by higher weighted average cost of funds. Operating losses were largely in line with the third quarter of 2016.

Digital & Payment Services

Digital & Payment Services' profit decreased $2.3 million from the same period last year. Direct Banking reported a higher loss over the same period last year attributed to increased costs incurred to supporting strategic initiatives including expenses of $2.3 million for the implementation of the UX Platform Program.

Trade Services

Trade Services' profit increased $0.2 million from the same period last year, with most of the improvement attributed to lower salaries and employee benefits expense due to the departure of a director and a member of the Executive Leadership Team.

Other

The Other operating segment reported a loss of $2.1 million compared to a profit of $0.1 million a year ago. Operating expenses increased $4.7 million largely due to a combination of higher costs incurred to support strategic initiatives, including $1.4 million incurred to support the development of the external IFRS 9 Loan Loss model. These negative variances were primarily offset by higher income from investees and affiliates during the third quarter of 2017. One-time restructuring charges totaling $1.3 million were also recorded in the third quarter of the year.

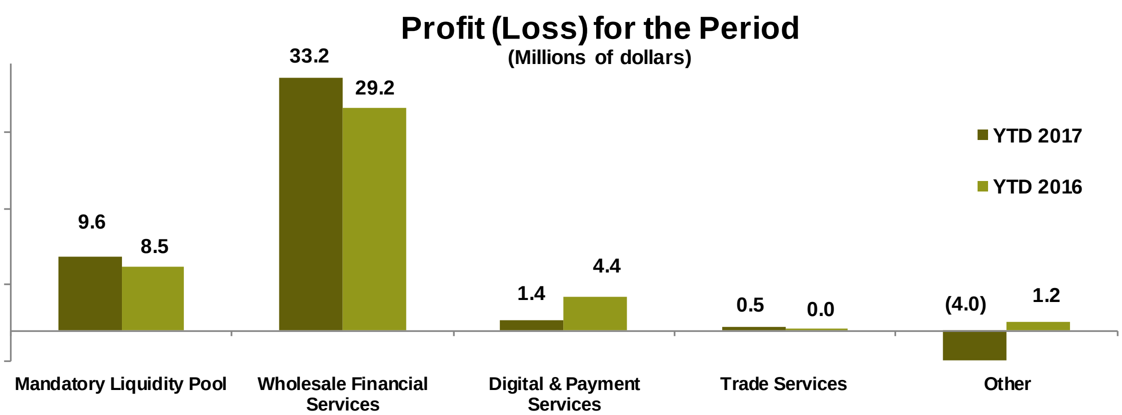
YTD 2017 vs YTD 2016

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

Figure 8 – Results by Segment

(Thousands of dollars)	Mandatory Liquidity Pool	Wholesale Financial Services	Digital & Payment Services	Trade Services	Other	Total
						For the nine months ended September 30, 2017
Net financial income (expense), including provision for credit losses	$ 18,320	$ 39,855	$ (205)	$ 156	$ (3,176)	$ 54,950
Other income	(425)	16,002	63,313	12,566	19,813	111,269
Net financial and other income	17,895	55,857	63,108	12,722	16,637	166,219
Operating expenses	6,031	16,175	61,391	12,127	21,873	117,597
Profit (loss) before income taxes	11,864	39,682	1,717	595	(5,236)	48,622
Income taxes (recoveries)	2,256	6,485	288	104	(1,275)	7,858
Profit (loss) for the period	$ 9,608	$ 33,197	$ 1,429	$ 491	$ (3,961)	$ 40,764

(Thousands of dollars)	Mandatory Liquidity Pool	Wholesale Financial Services	Digital & Payment Services	Trade Services	Other	Total
						For the nine months ended September 30, 2016
Net financial income (expense), including provision for credit losses	$ 16,234	$ 36,677	$ (184)	$ 220	$ (3,143)	$ 49,804
Other income	(139)	15,083	62,035	12,506	15,583	105,068
Net financial and other income	16,095	51,760	61,851	12,726	12,440	154,872
Operating expenses	5,720	15,896	56,429	12,693	14,451	105,189
Profit (loss) before income taxes	10,375	35,864	5,422	33	(2,011)	49,683
Income taxes (recoveries)	1,915	6,621	1,001	6	(3,180)	6,363
Profit (loss) for the period	$ 8,460	$ 29,243	$ 4,421	$ 27	$ 1,169	$ 43,320



Mandatory Liquidity Pool

MLP's profit increased $1.1 million from the same period last year, mainly driven by an increase in net financial income. Net realized and unrealized gains increased $0.7 million mainly due to the mark-to-market gains on deposits resulting from rising interest rates and were partially offset by the mark-to-market losses on securities mitigated by narrowing of credit spreads. Interest margin increased $1.3 million driven by an increase in securities balance. These increases were partially offset by a $0.6 million increase in operating losses due to increased management information systems expenses and lower foreign exchange income.

Wholesale Financial Services

WFS' profit increased $4.0 million from the same period last year, mainly driven by an increase in net financial income. Interest margin increased $0.6 million driven by a 24.4 per cent increase in average assets. Net realized and unrealized gains increased $2.4 million due primarily to higher net trading gains.

WFS' other income increased $0.9 million driven by higher securitization fees and credit union standby lending fees. Operating expenses increased $0.3 million driven by increased management information systems expenses.

Digital & Payment Services

Digital & Payment Services' profit decreased $3.0 million from the same period last year. Direct Banking's profit decreased $3.6 million primarily attributable to expenses of $6.6 million for the UX Platform Program. This decrease was partially offset by a $2.0 million increase in Paper Payment Processing driven by higher network access *Interac*® volumes, lower node project expenses and higher volume in the *Interac*® *e-Transfers* business within Electronic Payment, partially offset by price reductions.

Trade Services

Trade Services' profit increased $0.5 million from the same period last year, mostly attributed to lower salaries and employee benefits expense attributed to the departure of a director and a member of the Executive Leadership Team.

Other

The Other operating segment reported a loss of $4.0 million compared to a profit of $1.2 million during the same period last year. Operating expenses within this segment increased $7.4 million mainly due to increased costs incurred to support Central 1's strategic initiatives and one-time restructuring charges totaling $1.8 million. The $2.1 million incurred to support the development of the external IFRS 9 Loan Loss model together with the technology staff complement to support corporate and strategic projects contributed to the increase in the operating expenses. These increases were partially offset by the litigation settlement and increased income from investees and affiliates.

Summary of Quarterly Results

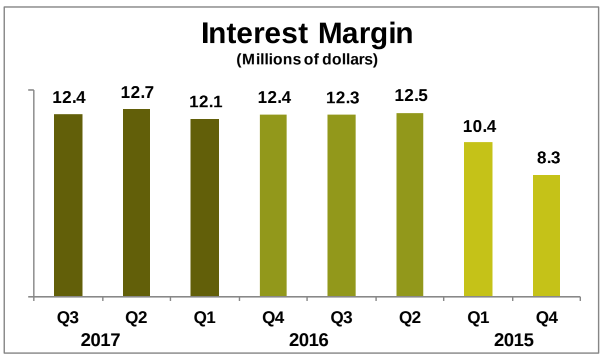
Quarterly Results

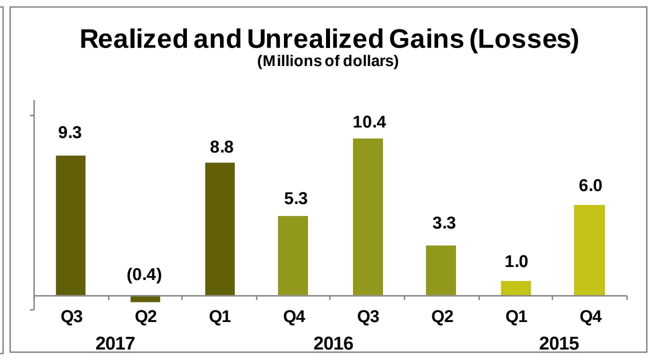
The following table summarizes Central 1's Quarterly Earnings for each of the last eight quarters.

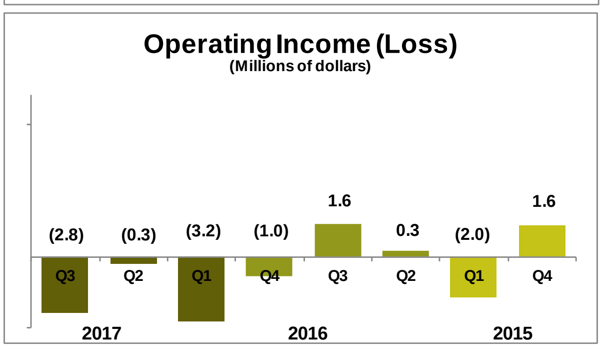
Figure 9 – Quarterly Earnings

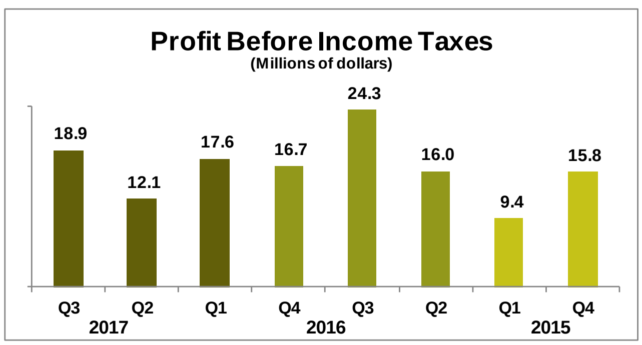
(Thousands of dollars, except as indicated)	2017			2016				2015
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Total interest income	**$ 62,781**	$ 60,513	$ 57,366	$ 56,143	$ 52,296	$ 49,975	$ 48,059	$ 47,355
Total interest expense	**50,407**	47,807	45,294	43,784	39,958	37,477	37,646	39,095
Interest margin	**12,374**	12,706	12,072	12,359	12,338	12,498	10,413	8,260
Realized and unrealized gains (losses)	**9,296**	(434)	8,815	5,286	10,395	3,261	979	5,961
Recovery of (provision for) credit losses	**8**	140	(27)	(6)	22	(70)	(32)	41
	21,678	12,412	20,860	17,639	22,755	15,689	11,360	14,262
Other income	**37,656**	38,575	35,038	35,431	34,461	38,333	32,274	34,832
Operating expenses	**(40,454)**	(38,892)	(38,251)	(36,408)	(32,868)	(38,061)	(34,260)	(33,281)
Operating income (loss)	**(2,798)**	(317)	(3,213)	(977)	1,593	272	(1,986)	1,551
Profit before income taxes	**18,880**	12,095	17,647	16,662	24,348	15,961	9,374	15,813
Income taxes	**(3,182)**	(1,643)	(3,033)	(2,942)	(2,889)	(2,592)	(882)	(2,318)
Profit for the period	**$ 15,698**	$ 10,452	$ 14,614	$ 13,720	$ 21,459	$ 13,369	$ 8,492	$ 13,495
Weighted average shares outstanding *(millions)*	**440.3**	425.2	417.0	396.1	385.0	375.8	371.0	357.3
Earnings per share								
Basic *(cents)*	**3.6**	2.5	3.5	3.5	5.6	3.6	2.3	3.8
Diluted *(cents)*	**3.6**	2.5	3.5	3.5	5.6	3.6	2.3	3.8

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









Central 1's interest margin has generally increased over the past two years. However, the rapid growth that was observed in early 2016 has tapered off considerably over the recent six quarters, ranging from $12.1 million to $12.7 million. The balance sheet growth contributed to a stronger interest margin. However, this trend is partially offset by an increase in Central 1's weighted average cost of funds as borrowing raised in capital markets increased relative to credit union deposits. Most recently the shift in funding has resulted in interest expense increasing more than interest income.

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 September 30, 2017 with comparatives.

Figure 10 – Derivative Financial Instruments

(Millions of dollars)	Sep 30 2017	Sep 30 2016	Notional Amount Dec 31 2016
Interest rate contracts			
Bond forwards	**$ 103.3**	$ 116.4	$ 79.5
Futures contracts	**470.0**	277.5	432.8
Swap contracts	**20,573.1**	28,811.2	29,679.2
Options purchased	**10.0**	-	-
	21,156.4	29,205.1	30,191.5
Foreign exchange contracts			
Foreign exchange forward contracts	**223.5**	201.7	152.4
Other derivative contracts			
Equities index-linked options	**237.6**	259.9	253.7
	$ 21,617.5	$ 29,666.7	$ 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 the Canada Housing Trust and member credit unions and additionally provides derivative capabilities for member credit unions to be used in the asset/liability management of their respective balance sheets. These activities represented $10.1 billion and $16.4 billion, respectively, of the total derivative notional balances as at September 30, 2017, compared to $9.9 billion and $15.0 billion at September 30, 2016, and $9.8 billion and $16.2 billion at December 31, 2016.

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

Guarantees and Commitments

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

Figure 11 – Guarantees and Commitments

(Millions of dollars)	Sep 30 2017	Sep 30 2016	Dec 31 2016
Commitments to extend credit	**$ 3,913.0**	$ 4,539.0	$ 4,447.3
Guarantees	**$ 740.0**	$ 855.0	$ 830.0
Standby letters of credit	**$ 175.1**	$ 161.6	$ 173.5
Mortgage purchase commitment	**$ -**	$ 7.0	$ -

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

Commitments to extend credit decreased $626.0 million from a year ago driven by increased loans to credit unions. Guarantees decreased $115.0 million, due to lower transactional volumes, while standby letters of credit increased $13.5 million due to higher transactional volumes.

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

Assets under Administration

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

Figure 12 – Assets under Administration

(Millions of dollars)		Sep 30 2017		Sep 30 2016		Dec 31 2016
Registered Retirement Savings Plans	**$**	**1,572.0**	$	1,585.2	$	1,558.0
Tax-Free Savings Accounts		**815.7**		711.6		729.2
Registered Retirement Income Funds/Life Income Funds		**381.0**		358.8		369.6
Registered Education Savings Plans		**218.1**		203.8		210.7
Registered Disability Savings Plans		**19.4**		14.6		15.8
	$	**3,006.2**	$	2,874.0	$	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 September 30, 2017, AUA totaled $3.0 billion, up $132.2 million or 4.6 per cent from a year ago. The increase was mainly due to an overall increase in the Tax-Free Savings Accounts business from Ontario credit unions together with an increase in the Registered Education Savings Plans in response to the introduction of the B.C. Training and Education Savings Grant.

Capital Management and Capital Resources

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

Capital Management Framework

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

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

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

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

On April 28, 2017 Central 1's members approved changes to Central 1's capital structure subject to regulatory approval by FICOM. 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 network assets.

On transition, Class A members' investment in Class A shares will be reduced and Class F shares will be issued to Class A members in proportion to their portion of mandatory deposits. The remaining aggregate level of Class A shares of $50.0 million will provide regulatory capital to support strategic and operational initiatives over Central 1's planning cycle. On transition, Central 1 also plans to reacquire up to 750 thousand Class E shares with an aggregate value of $75.0 million, which would reduce Central 1's regulatory capital.

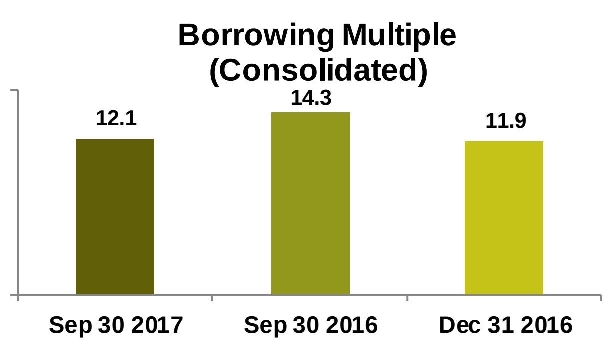
Regulatory Capital

As of September 30, 2017, Central 1's Tier 1 regulatory capital was $1,074.2 million and total capital before statutory capital adjustments was $1,499.9 million. In determining regulatory capital, adjustments are required to amounts presented in Central 1's Interim Consolidated Statements of Financial Position. Statutory capital adjustments are required for certain investments, including Central 1's substantial investments in affiliated cooperative organizations. The computation of the provincial capital base is broadly similar to the federal regulatory capital used for borrowing multiple purposes.

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

Figure 13 – Capital Position

(Millions of dollars)	Sep 30 2017	Sep 30 2016	Dec 31 2016
Share capital	**$ 411.0**	$ 385.0	$ 417.0
Contributed surplus	**87.9**	87.9	87.9
Retained earnings	**580.0**	541.7	552.8
Less: accumulated net after tax gain in investment property	**(4.7)**	(4.7)	(4.7)
Tier 1 capital	**1,074.2**	1,009.9	1,053.0
Subordinated debt	**421.0**	221.0	421.0
Add: accumulated net after tax gain in investment property	**4.7**	4.7	4.7
Tier 2 capital	**425.7**	225.7	425.7
Total capital	**1,499.9**	1,235.6	1,478.7
Statutory capital adjustments	**(172.4)**	(171.4)	(171.2)
Capital base (federal)	**$ 1,327.5**	$ 1,064.2	$ 1,307.5
Borrowing multiple - consolidated	**12.1:1**	14.3:1	11.9:1
Borrowing multiple - Mandatory Liquidity Pool	**15.9:1**	15.8:1	15.3:1
Borrowing multiple - Wholesale Financial Services	**11.4:1**	13.6:1	10.5:1



Central 1 was in compliance with all regulatory capital requirements during this period.

Effective August 16, 2017, FICOM amended the borrowing multiple requirements to no more than 17.0:1 for the MLP segment and no more than 15.0:1 for the WFS segment. Following this amendment, Central 1 amended its capital targets which allowed Central 1 to return $50.0 million in capital to its Class A members. On September 29, 2017, Central 1 redeemed $30.0 million Class A shares and paid $5.0 million dividends to Class A shareholders. On October 27, 2017, Central 1 reacquired $15.0 million Class E shares.

At the end of September 30, 2017, Central 1's consolidated borrowing multiple of 12.1:1 was slightly better compared to 11.9:1 at December 31, 2016. Central 1 manages the MLP's borrowing multiple through semi-annual capital calls from its membership and manages the WFS's borrowing multiple through growth in retained earnings and subordinated debt.

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, and faces uncertainty around Class A member credit unions deciding to federalize. Central 1 incorporates an informed understanding of the future landscape of the credit union network into strategic planning to continue to deliver value for its member credit unions.

Compliance Risk

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

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

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

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

Counterparty Risk

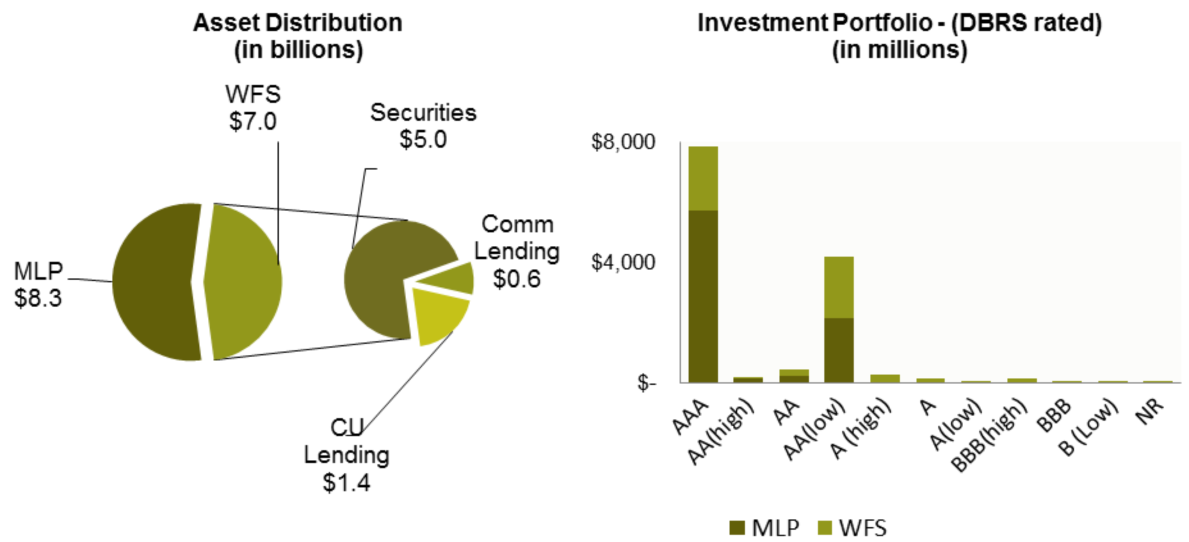
Counterparty risk continues to be assessed by management as low given the quality of counterparties being government entities, banks with external credit ratings AA-Low to AAA (Dominion Bond Rating Service (DBRS)), and its own credit union network where a robust internal risk rating regime is utilized.

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.

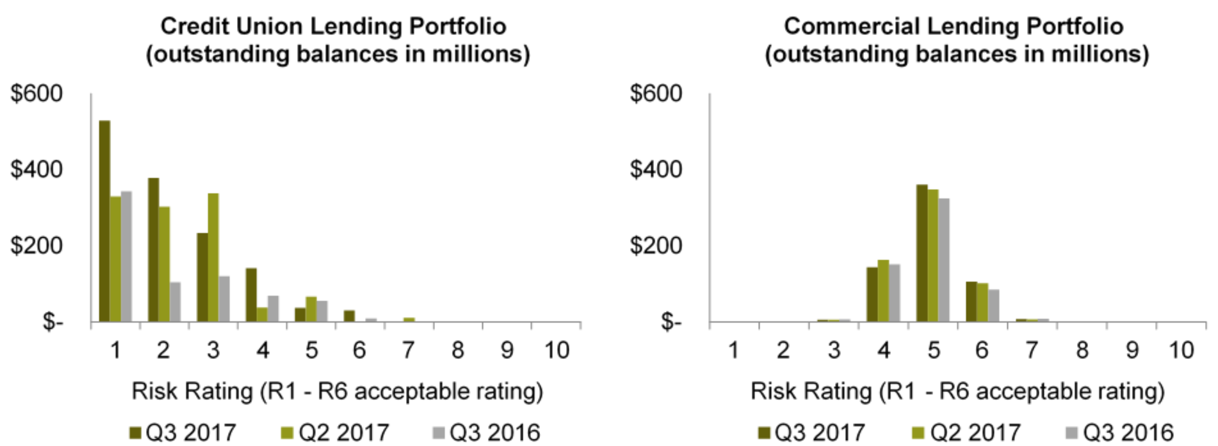
The figure below illustrates Central 1's credit exposure and risk profile based on outstanding balances in the investment portfolios held in MLP and WFS. WFS holds $377.4 million in securities rated A (DBRS) and below, representing 7.5 per cent of the investment portfolio.

Figure 14 – Credit Exposure by Portfolio and Rating



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

Figure 15 – Portfolio Balances by Risk Rating



Credit Quality Performance

Commercial Lending

There was one impaired loan in the Commercial Lending portfolio. It was fully repaid on October 5, 2017 with no financial loss. Watch List (Risk Rating 7) and substandard (Risk Rating 8) accounts as at September 30, 2017 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 six Ontario credit unions classified as Watch List. The authorized balance of Watch List facilities represents 1.2 per cent of the total authorized portfolio balance; the outstanding balance of the Watch List facilities as at September 30, 2017 was $2.0 million representing 0.2 per cent of the total outstanding balance.

Investments

Central 1 continues to receive cash flows on the impaired investment totaling less than 0.5 per cent of total assets as at September 30, 2017.

Liquidity Risk

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

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

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

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

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

Figure 16 – Liquidity Coverage Ratio

	Mandatory Liquidity Pool		Wholesale Financial Services	
	Q3 2017	Q2 2017	Q3 2017	Q2 2017
Liquidity coverage ratio (SLF)	104%	104%	196%	167%
Liquidity coverage ratio (Modified OSFI)	103%	104%	183%	155%

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

Market Risk

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

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

Central 1's Corporate Risk Management Policy currently defines VaR exposure limits in relation to changes in portfolio value.

Central 1 complied with the market risk limit in WFS during the quarter. However, there was a breach on the market risk limit in MLP on July 19, 2017. Specifically, the reported exposure of $9.96 million exceeded the VaR limit of $9.86 million. This was deemed to be a technical breach and modified VaR calculations and limits were introduced on July 20, 2017 to address the issues. The new VaR methodology more accurately represents risk exposure.

The current limits approved by the Board are set at 10 bps (or 0.1 per cent) of MLP asset market value and 11 bps or (0.11 per cent) of WFS asset market value. The dollar equivalent limits associated with 10 bps and 11 bps limits are recalculated on the last business day of each month. As of quarter end, the limits were $8.1 million for MLP and $8.7 million for WFS.

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

Figure 17 – VaR by Risk Type

Mandatory Liquidity Pool						
				2017		
(Millions of dollars)	Q3 2017	Q2 2017	Q3 2016	Average	High	Low
Interest Rate VaR	$ 4.5	$ 9.0	$ 4.5	$ 6.6	$ 10.3	$ 3.7
Credit Spread VaR	5.0	2.1	3.3	3.5	5.0	2.0
Foreign Exchange VaR	0.1	0.1	0.0	0.1	0.8	0.0
Diversification (1)	(3.9)	(2.5)	(3.2)	nm	nm	nm
Total VaR	$ 5.7	$ 8.7	$ 4.6	$ 6.3	$ 10.0	$ 4.7

Wholesale Financial Services						
				2017		
(Millions of dollars)	Q3 2017	Q2 2017	Q3 2016	Average	High	Low
Interest Rate VaR	$ 1.9	$ 4.7	$ 2.5	$ 3.7	$ 5.9	$ 1.6
Credit Spread VaR	1.3	1.5	2.5	1.5	2.1	1.1
Foreign Exchange VaR	2.2	1.9	2.0	2.0	3.4	0.8
Diversification (1)	(2.2)	(2.6)	(3.9)	nm	nm	nm
Total VaR	$ 3.2	$ 5.5	$ 3.1	$ 4.4	$ 7.1	$ 2.7

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

nm -Not meaningful to calculation

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

Operational Risk

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

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

Emerging Risks

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

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

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

- **Cyber-security attacks** - Attacks are frequent and evolving, while methods of protecting against intrusions must be constantly refined and enhanced.
- **AML and de-risking** - Central 1 is focused on building transaction monitoring, sanctions screening and analytics, as its correspondent banks "de-risk" and money flows continue to evolve. Central 1 is undertaking this work to maintain compliance with correspondent banks' risk appetites and support the current level of services offered to members.
- **Housing Policy** - The new B.C. government's housing policy is likely to become clearer early next year while a turnaround from negative momentum in Ontario's housing market will be restrained by the rising mortgage rate environment and new OSFI B-20 measures. Unanticipated housing policies remain a risk to stability in major housing markets.

Accounting and Control Matters

Critical Accounting Policies and Estimates

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

Future Changes in Accounting Policies

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

Controls and Procedures

Disclosure Controls and Procedures

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

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

Internal Controls and Procedures

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

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

Related Party Disclosures

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

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

Credit Ratings

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

Figure 19 – Credit Ratings

	DBRS	S&P
Instrument rating		
Senior debt	A (high)	A-
Subordinated debt	A	A-
Short-term debt	R-1 (middle)	A-2
Issuer rating		
Rating outlook	Stable	Stable

On November 20, 2017, S&P lowered its senior debt issuer credit rating from A to A-, and lowered its short-term debit issuer credit rating from A-1 to A-2 for Central 1. The outlook was changed from Negative to Stable.