First Quarter Report 2018

Report to Members

central 1

Central 1 Reports Results for the First Quarter of 2018

First quarter highlights compared to the same period last year:

- Profit of $41.0 million, up 180.8 per cent from $14.6 million.
- Return on average equity of 14.8 per cent, compared to 5.4 per cent.
- Assets of $19.5 billion, up 8.3 per cent from $18.0 billion.
- Tier 1 capital ratio of 32.3 per cent, compared to 34.6 per cent.
- B.C. system's net operating income of $119.7 million, up 39.0 per cent from $86.1 million.
- B.C. system's assets are $79.1 billion, up 8.8 per cent from $72.7 billion.
- Ontario system's net operating income of $67.7 million, up 26.5 per cent from $53.5 million.
- Ontario system's assets are $50.7 billion, up 10.5 per cent from $45.9 billion.

Effective January 1, 2018, Central 1 adopted IFRS 9, *Financial Instruments*. Results from periods prior to January 1, 2018 are reported in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*.

Central 1's first quarter profit was buoyed by a gain of $23.7 million on the disposal of the insurance operations of The CUMIS Group Limited (CUMIS) and a gain of $19.3 million resulting from the restructuring of Interac's operations. This was partially offset by net investments of $7.5 million in strategic initiatives including the User Experience (UX) Platform.

During the first quarter, Central 1 reported a profit before tax from continuing operations of $10.3 million, down $11.4 million from the same period last year, mainly due to decreased net financial income. The widening of credit spreads contributed to a lower net realized and unrealized gain, which outweighed a higher interest margin driven by higher yield return from investing in securities with longer maturities within the Mandatory Liquidity Pool.

The B.C. system reported net operating income of $119.7 million in the first quarter of 2018, up $33.6 million or 39.0 per cent from the same period in 2017. Growth resulted from higher net interest income was partially offset by non-interest expense which outweighed higher non-interest income. Net interest income was up $48.6 million largely due to wider interest rate spreads as a result of rising interest rates and a flattening yield curve. Combined assets of the B.C. system at the end of March 2018 rose 8.8 per cent year-over-year to reach $79.1 billion.

The Ontario system reported net operating income of $67.7 million in the first quarter of 2018, up $14.2 million or 26.5 per cent from the same period in 2017. Growth in residential mortgages and commercial loans combined with wider net interest rate spreads led to $28.2 million increase in net interest income. This was partially offset by higher non-interest expense primarily due to increased salaries and benefits. Combined assets of the Ontario system at the end of March 2018 rose 10.5 per cent year-over-year to reach $50.7 billion.

In the first quarter of 2018, Central 1 launched its new three-year strategic plan - A Bold Way Forward - with an emphasis on its goal of being the national partner of choice for financial, digital banking and payment solutions. Central 1's scale and expertise remain the source of our competitive advantage, and the success of Canadian credit unions and the financial well-being of their members.

This strategic plan focuses on Central 1's opportunities to strengthen delivery to members and clients. We consulted with stakeholders to understand their expectations, and how we can best evolve to provide the leadership needed to support their success, including the approach to delivering our financial services solutions to clients, and supporting our members. This current three-year strategic plan is built on three key pillars that will inform our operational activities: client centricity, operational excellence and system leadership.

In March 2018, the credit union National Credit Card Program and Collabria announced the official execution of a Master Services Agreement for credit card services and the official launch of an important new partnership, creating an enhanced credit card offering and an improved credit union member experience. The Master Services Agreement for the program will be administered by Central 1, and an Executive oversight committee made of credit unions participating in the national program. Over 210 Canadian credit unions will be able to offer this new credit card program and the Universal PayCard (Global Payment Card Replacement) to their members through 2018.

In March 2018, Central 1 and The Co-operators Group Limited (The Co-operators) announced a change in their partnership to strengthen the core businesses of both organizations, to create a stronger focus on key strategic priorities. The Co-operators acquired the insurance operations of CUMIS resulting in Central 1 recognizing a gain of $23.7 million in the first quarter.

In April 2018, Aviso Wealth Inc. (Aviso) was formed through an agreement to merge the businesses of Credential Financial Inc., Qtrade Canada Inc. and Northwest & Ethical Investments LP. Serving more than 300 credit unions across Canada, Aviso provides a comprehensive and fully integrated range of high-quality wealth solutions from insurance and do-it-yourself investing to full-service, fee-based and responsible investing options.

On March 29, 2018, Central 1 issued 425.9 million Class F shares with a price of $1 per share and redeemed 378.1 million Class A shares with a redemption value of $1 per share, following members' approval of changes to Central 1's Constitution & Rules. As a part of the capital restructuring, Central 1 also redeemed or reacquired 750 thousand Class E shares with an aggregate value of $75.0 million. The remaining aggregate Class A shares of $50.0 million will provide regulatory capital to support strategic and operational initiatives over Central 1's planning cycle.

For the quarter ended March 31, 2018, Central 1 was in compliance with all regulatory capital requirements and all Risk Appetite Statements.

Management's Discussion & Analysis

central 1

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Management's Discussion and Analysis for the period ended March 31, 2018

This portion of the report updates Central 1 Credit Union's (Central 1) Management's Discussion and Analysis (MD&A) for the year ended and as at December 31, 2017, and reviews and analyzes the financial condition and results of operations of Central 1 for the three-month period ended and as at March 31, 2018, 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, 2018 as well as Central 1's 2017 Annual Report for the year ended December 31, 2017. This MD&A, covering the three-month period ended March 31, 2018, is as at May 25, 2018.

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 systems in British Columbia and Ontario. The British Columbia credit union system is made up of all credit unions in British Columbia while the Ontario credit union system 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 systems are individually referred to as the "British Columbia (B.C.) credit union system" or "B.C. system" and the "Ontario credit union system" or "Ontario system". Where the term "system" appears without regional designation, it refers to Central 1's total membership, encompassing credit unions in both provinces.

Financial information for the B.C. system has been provided by the Financial Institutions Commission of British Columbia (FICOM), the provincial credit union regulator. Financial information for the Ontario system 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 systems. 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 systems reported herein is not equivalent to income from continuing operations as would be reported under IFRS.

Effective January 1, 2018, Central 1 adopted IFRS 9, *Financial Instruments*. Results from periods prior to January 1, 2018 are reported in accordance with IAS 39, *Financial Instruments: Recognition and Measurement* in this report. For further details on the impacts of the adoption of IFRS 9 including the description of accounting policies selected, refer to Notes 3 and 4 of Central 1's Interim Consolidated Financial Statements.

Legislative reviews that have been ongoing in both B.C. and Ontario will continue into 2018.

In B.C., the *Financial Institutions Act (FIA)* and the *Credit Union Incorporation Act (CUIA)* review is in progress with a due date of June 19, 2018. FIA/CUIA working groups began organizing themselves in early 2018 and have been actively meeting since March to discuss the B.C. Ministry of Finance's Preliminary Recommendation paper, issued in March, as the final phase of the FIA/CUIA review. The B.C. Ministry of Finance's second consultation paper accepted many of the system's 2015 recommendations and noted that Basel III will be modified to accommodate the credit union cooperative structure.

In Ontario, the Capital Adequacy Consult paper was released in early 2018 as part of the *Credit Unions and Caisses Populaires Act* (CUCPA) review. The Central 1 Capital Adequacy Working Group worked closely with government to provide guidance throughout the Capital Adequacy consultation process. The Capital Adequacy Working Group submitted a final recommendation paper to the Ontario Ministry of Finance on February 28 and will continue to engage with government, as necessary.

The next phase of the CUCPA review is consumer protection and is expected to occur later in 2018. Central 1 will be establishing another working group to review the Ontario Ministry of Finance's recommendations and provide a consultation response.

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 2017 Annual Report.

Economic Developments and Outlook

The following summaries of the economic environment, the state of financial markets and performance by both provincial systems in the first quarter of 2018 offer a context for interpreting Central 1's quarterly results and provide insight into its future performance.

The Economic Environment

The Bank of Canada's (BOC) Monetary Policy Report, issued in April 2018, states that global economic growth is solid and broad-based, although the outlook is subject to considerable risk from escalating trade tensions. In the United States, new government spending plans and previously announced tax cuts are expected to boost growth over the next few years. The growth outlook for most other regions has also become modestly stronger over the last three months. Global economic growth is forecast at 3.8 per cent in 2018, up from 3.6 per cent in 2017.

Canada's economy is operating close to capacity according to the BOC and economic growth is forecast at two per cent in 2018, down from 3.3 per cent in 2017. Temporary factors including volatile trade shipments, transport bottlenecks and the dynamic response of housing markets to regulatory change are causing sizeable fluctuations in growth. The composition of growth is forecast to shift this year, with less contribution from household spending and more contribution from business investment and exports. Higher interest rates will contribute to this outlook and monetary and fiscal policies will help to mitigate the drag associated with trade policy uncertainty and competitive challenges.

Financial Markets

After an increase of 50 basis points (bps) in the overnight rate in 2017, the BOC raised another 25 bps to 1.25 per cent in the first quarter of 2018, the highest level in the post-recession period. With the anticipation of strong GDP growth and an expected inflation rate to reach the BOC's target of two per cent for 2018, it is expected the BOC will impose further rate increases in the remainder of 2018. However, the BOC will likely act in a very cautious manner to counteract the impacts from other uncertainties including NAFTA negotiations and high household debt.

System Performance

British Columbia

Net operating income for the first quarter of 2018 was $119.7 million, compared to $86.1 million in the first quarter of 2017. Net interest income increased $48.6 million over the same period last year, mainly driven by growth in personal and commercial mortgages and by a wider net interest rate spreads. Net interest spreads widened as interest rates increased and the yield curve flattened. Non-interest income increased $3.4 million year-over-year, largely due to higher member service fees. Non-interest expenses increased $18.4 million year-over-year, led by increases in salaries and benefits and data processing.

Total assets increased 8.8 per cent year-over-year to reach $79.1 billion at the end of the first quarter in 2018. Asset growth was led by increases in personal mortgages of 9.3 per cent and commercial mortgages of 12.5 per cent. Strong economic growth and low interest rates drove loan growth. Liability growth was led by increases in non-registered term deposits of 11.3 per cent, non-registered demand deposits of 5.1 per cent, and borrowings of 23.9 per cent.

The system's rate of loan delinquencies over 90 days was 0.15 per cent of total loans at the end of March 2018, down eight bps year-over-year. Provision for credit losses as a percentage of loans was 0.27 per cent, down two bps from a year earlier. The B.C. system's loan loss expense ratio was 0.05 per cent annualized in the first quarter of 2018, unchanged year-over-year.

The B.C. system's regulatory capital as a percentage of risk-weighted assets was 14.7 per cent at the end of March 2018, down 13 bps from a year ago. The aggregate liquidity ratio of the B.C. system, including that held by Central 1, was 15.4 per cent of deposit and debt liabilities, down from 15.7 per cent a year ago. The system's return on assets was 0.62 per cent annualized in the first quarter, up 14 bps year-over-year.

Ontario

Net operating income for the first quarter of 2018 was $67.7 million, compared to $53.5 million in the first quarter of 2017. Net interest income increased $28.2 million over the same period last year, driven by growth in residential mortgages and commercial loans and by wider net interest rate spreads. Non-interest income increased $3.9 million year-over-year. Non-interest expenses increased $17.9 million year-over-year, led by increases in salaries and benefits.

Total assets increased 10.5 per cent year-over-year to reach $50.7 billion at the end of the first quarter in 2018. Asset growth was led by increases in residential mortgages of 15.2 per cent and commercial loans and mortgages of 12.1 per cent. Economic growth and low interest rates drove loan growth. Liability growth was led by increases in non-registered demand deposits of 10.9 per cent, non-registered term deposits of 12.8 per cent, and borrowings of 25.1 per cent.

The system's rate of loan delinquencies over 90 days was 0.26 per cent of total loans at the end of March 2018, down nine bps year-over-year. Provision for credit losses as a percentage of loans was 0.24 per cent, down three bps from a year earlier. The system's loan loss expense ratio was 0.07 per cent annualized in the first quarter, down two bps year-over-year.

The Ontario system's regulatory capital as a percentage of risk-weighted assets was 13.3 per cent at the end of March 2018, up from 12.8 per cent a year earlier. The aggregate liquidity ratio of Ontario system, including that held by Central 1, was 12.0 per cent of deposit and debt liabilities, little changed from a year earlier. The system's return on assets was 0.54 per cent annualized in the first quarter, up seven bps year-over-year.

Overall Performance

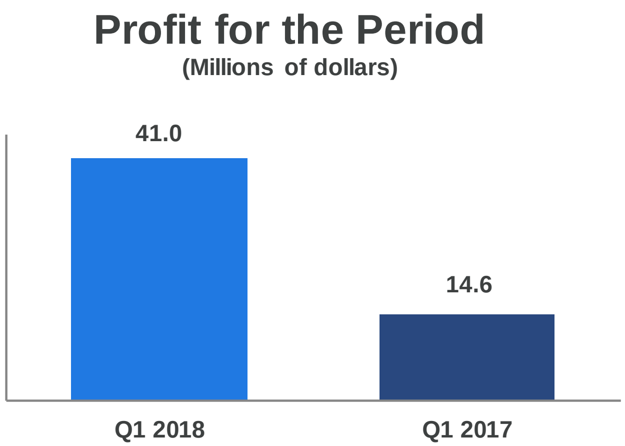
The following table summarizes Central 1's Financial Overview as at March 31, 2018 with comparatives.

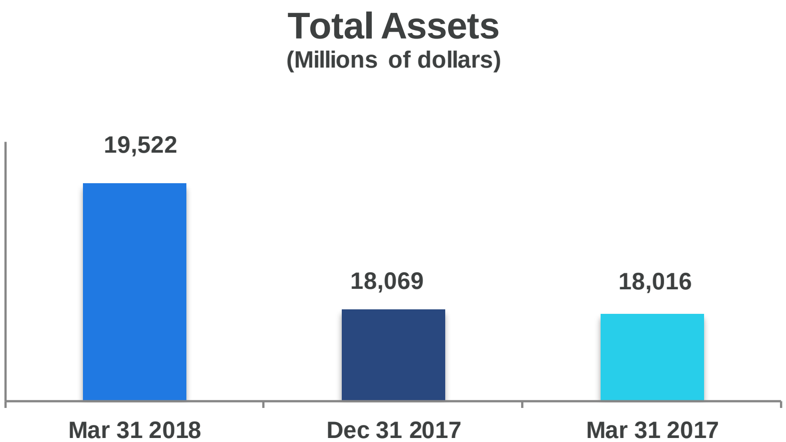
Figure 1 – Financial Overview

	For the quarter ended Mar 31 2018	Mar 31 2017	Change
Income statement *(millions of dollars)*			
Continuing operations			
Net financial income	$ **12.9**	$ 20.9	$ (8.0)
Non-financial income	**32.4**	34.9	(2.5)
Non-financial expense	**35.0**	34.1	0.9
Profit for the period from continuing operations	**10.3**	21.7	(11.4)
Strategic investments			
Gains from system affiliates	**43.0**	-	43.0
Strategic initiatives	**(7.5)**	(4.0)	(3.5)
Profit (loss) for the period from strategic investments	$ **35.5**	$ (4.0)	$ 39.5
Profit for the period before income taxes	$ **45.8**	$ 17.7	$ 28.1
Profit for the period	$ **41.0**	$ 14.6	$ 26.4
Selected information			
Productivity ratio - Central 1 total	**49.6%**	68.4%	-18.8%
Productivity ratio - non-financial	**57.8%**	109.2%	-51.4%
Return on average assets	**0.9%**	0.3%	0.6%
Return on average equity	**14.8%**	5.4%	9.4%
Earnings per share *(cents)*			
Basic	**9.5**	3.5	6.0
Diluted	**9.5**	3.5	6.0
Dividends per share *(cents)* [(1)]			
Class A	**-**	1.5	(1.5)
Class B & C	**-**	0.3	(0.3)
Weighted average shares outstanding *(millions of dollars)*	$ **429.7**	$ 417.0	$ 12.7
Average assets *(millions of dollars)*	$ **18,592.8**	$ 17,432.4	$ 1,160.4

[(1)] Starting 2018, dividends for all Classes of shares will be accrued on an annual basis subject to the approval of Central 1's Board of Directors.

		Mar 31 2018		Dec 31 2017		As at Mar 31 2017
Balance sheet *(millions of dollars)*						
Total assets	**$**	**19,522.2**	$	18,068.9	$	18,015.7
Long-term financial liabilities	**$**	**8,950.4**	$	8,458.4	$	8,130.2
Regulatory ratios						
Tier 1 capital ratio		**32.3%**		35.7%		34.6%
Provincial capital ratio		**47.8%**		53.6%		52.0%
Borrowing multiple (times)		**13.1**		12.4		12.4
Share Information *(thousands of dollars, unless otherwise indicated)*						
Outstanding $1 par value shares						
Class A - credit unions	**$**	**50,000**	$	428,101	$	416,952
Class B - cooperatives	**$**	**5**	$	5	$	5
Class C - other	**$**	**7**	$	7	$	7
Class F - credit unions	**$**	**425,949**	$	-	$	-
Outstanding $0.01 par value shares with redemption value of $100						
Class E - credit unions	**$**	**25**	$	31	$	32
Treasury shares	**$**	**(2)**	$	(1)	$	-





Statement of Financial Position

Cash and Liquid Assets

The following tables summarize Central 1's Cash and Liquid Assets for the Mandatory Liquidity Pool (MLP) and Wholesale Financial Services (WFS) as at March 31, 2018 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	Unencumbered Liquid Assets
						Mar 31 2018
Cash	$ 16.6	$ 47.5	$ -	$ 47.5	$ -	$ 47.5
Federal and provincial government issued and guaranteed securities	7,481.3	3,820.9	1,351.9	5,172.8	1,911.5	3,261.3
Corporate and financial institutions securities	1,102.9	2,721.9	-	2,721.9	20.3	2,701.6
Asset backed securities	40.9	285.0	-	285.0	-	285.0
Insured mortgages	-	300.8	-	300.8	-	300.8
Other assets	-	46.1	-	46.1	-	46.1
Total	**$ 8,641.7**	**$ 7,222.2**	**$ 1,351.9**	**$ 8,574.1**	**$ 1,931.8**	**$ 6,642.3**

(Millions of dollars)	MLP Liquid Assets	WFS Liquid Assets	Securities Received as Collateral	Total Liquid Assets	Encumbered Liquid Assets	Unencumbered Liquid Assets
						Dec 31 2017
Cash	$ 19.3	$ 537.2	$ -	$ 537.2	$ -	$ 537.2
Federal and provincial government issued and guaranteed securities	7,625.2	3,396.9	603.2	4,000.1	1,634.1	2,366.0
Corporate and financial institutions securities	923.3	2,508.0	-	2,508.0	21.1	2,486.9
Asset backed securities	27.0	253.8	-	253.8	-	253.8
Insured mortgages	-	176.8	-	176.8	82	94.5
Other assets	-	42.1	-	42.1	-	42.1
Total	$ 8,594.8	$ 6,914.8	$ 603.2	$ 7,518.0	$ 1,737.5	$ 5,780.5

(Millions of dollars)	MLP Liquid Assets	WFS Liquid Assets	Securities Received as Collateral	Total Liquid Assets	Encumbered Liquid Assets	Unencumbered Liquid Assets
						Mar 31 2017
Cash	$ 132.5	$ 16.0	$ -	$ 16.0	$ -	$ 16.0
Federal and provincial government issued and guaranteed securities	7,018.4	3,426.5	610.1	4,036.6	1,768.4	2,268.2
Corporate and financial institutions securities	987.1	3,421.0	-	3,421.0	24.0	3,397.0
Asset backed securities	58.3	303.3	-	303.3	-	303.3
Insured mortgages	-	244.7	-	244.7	-	244.7
Other assets	-	40.6	-	40.6	93.7	(53.1)
Total	$ 8,196.3	$ 7,452.1	$ 610.1	$ 8,062.2	$ 1,886.1	$ 6,176.1

Cash and liquid assets increased $0.4 billion in the MLP and decreased $0.2 billion in the WFS year-over-year driven by changes in deposits in the MLP and the WFS. Cash and liquid assets in the MLP represent 44.3 per cent of Central 1's total assets, down from 45.5 per cent in the prior year. Cash and liquid assets in the WFS represent 37.0 per cent of Central 1's total assets, down from 41.4 per cent in the prior year.

Loans

The following table summarizes Central 1's Loans as at March 31, 2018 with comparatives.

Figure 3 – Loans

(Millions of dollars)		Mar 31 2018		Dec 31 2017		Mar 31 2017
Loans to credit unions	**$**	**887.0**	$	782.3	$	320.0
Syndicated commercial loans		**647.2**		622.1		613.6
Non syndicated commercial loans		**4.6**		12.9		11.7
Other loans		**7.6**		7.9		8.5
Residential mortgages		**-**		139.9		159.8
		659.4		782.8		793.6
Securities acquired under reverse repurchase agreements		**1,305.2**		591.9		620.2
	$	**2,851.6**	$	2,157.0	$	1,733.8

*Total loan balances are before the allowance for credit losses and exclude accrued interest, premium and fair value hedge adjustment.

Total loans increased $1.1 billion compared to a year ago, driven by higher loans to credit unions and securities acquired under reverse repurchase agreements, which are generally used to support Central 1's credit union members' participation in the Canada Mortgage Bond Program. These increases were partially offset by lower residential mortgages, which has been reclassified as Securities upon transition to IFRS 9. Commercial loans represented 22.9 per cent of Central 1's total loan portfolio, down from 36.1 per cent in the prior year.

Funding

The following table summarizes Central 1's Funding as at March 31, 2018 with comparatives.

Figure 4 – Funding

(Millions of dollars)	Mar 31 2018	Dec 31 2017	Mar 31 2017
Deposits			
Mandatory deposits	**$ 8,148.9**	$ 8,048.0	$ 7,680.4
Non-mandatory deposits	**4,016.2**	3,134.4	3,454.3
Deposits from member credit unions	**12,165.1**	11,182.4	11,134.7
Deposits from non-credit unions	**675.4**	816.0	881.3
	12,840.5	11,998.4	12,016.0
Debt securities issued			
Commercial paper issued	**633.5**	836.8	744.9
Medium-term notes issued	**1,691.8**	1,341.8	1,151.0
Subordinated liabilities	**424.8**	421.8	424.4
	2,750.1	2,600.4	2,320.3
Obligations under the Canada Mortgage Bond Program	**1,207.8**	1,190.1	1,257.5
Securities under repurchase agreements	**662.6**	500.5	574.5
	$ 17,461.0	$ 16,289.4	$ 16,168.3

Deposits from Central 1's member credit unions increased $1.0 billion from the prior year. Mandatory deposits from credit unions increased $468.5 million, reflective of the growth within the B.C. and Ontario credit union systems. Non-mandatory deposits from credit unions increased $561.9 million. Deposits from member credit unions represented 69.7 per cent of Central 1's total funding portfolio at March 31, 2018, up from 68.9 per cent in the prior year.

Total debt securities outstanding increased $429.8 million compared to the prior year. Debt securities represented 15.7 per cent of Central 1's total funding portfolio at March 31, 2018, up from 14.4 per cent in the prior year. Of the total amount outstanding, $1.7 billion was funded under Central 1's medium-term note facility, $424.8 million was funded through subordinated liabilities and the remainder was funded through Central 1's commercial paper facility. The increase in debt securities was the main cause of 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, slightly decreased from the prior year.

Details of these balances can be found in Notes 11, 13, 14, and 15 of the Interim Consolidated Financial Statements.

Equity

Prior to January 1, 2018, Central 1 distributed the net earnings of the MLP to its Class A members as dividends and required that its Class A members purchase additional Class A shares to capitalize the growth of the MLP. The increase in share capital in the MLP and the earnings retained by Central 1's other business lines accounted for most of the increase in equity prior to 2018. At the end of the first quarter of 2018, Central 1 issued Class F shares following changes to its Rules creating the Class F shares, approved by its members and FICOM in 2017. Class F shares have become the primary form of capital in the MLP and Class A members are required to subscribe in proportion to their share of mandatory deposits. Central 1 distributes dividends to Class F shareholders in an amount equal to profit before taxes earned on the MLP subject to regulatory requirements and approval of Central 1's Board of Directors.

On March 29, 2018, Central 1 issued 425.9 million Class F shares with a price of $1 per share and redeemed 378.1 million of its Class A shares with a redemption value of $1 per share, following members' approval of changes to Central 1's Constitution & Rules. As a part of the share restructuring, Central 1 also redeemed or reacquired 750 thousand Class E shares at an aggregate value of $75.0 million. This restructuring has resulted in a net capital of $27.2 million returned to Class A members. This share restructuring partially offset the earnings retained during the first quarter of 2018, resulting in an increase of $22.3 million in total equity from December 31, 2017 to reach $1,141.4 million at the end of March 2018.

The following table summarizes the details of Central 1's Changes in Equity from December 31, 2017 to March 31, 2018.

Figure 5 – Changes in Equity

(Millions of dollars)		
Balance at December 31, 2017	$	1,119.1
IFRS 9 transition adjustment		2.2
Balance at January 1, 2018		1,121.3
Profit for the period		41.0
Other comprehensive loss, net of tax		(2.1)
Share restructuring:		
Class F share issued		425.9
Class A share redeemed		(378.1)
Class E share redeemed or reacquired		(75.0)
Related tax savings		8.4
Balance at March 31, 2018	$	1,141.4

Statement of Profit

Q1 2018 vs Q1 2017

For the first quarter of 2018, Central 1 reported a profit of $41.0 million, up 180.8 per cent from a year ago, mainly due to the gain of $23.7 million on the disposal of the insurance operations of The CUMIS Group Limited (CUMIS) and another gain of $19.3 million relating to the restructuring of Interac's operations which closed on January 31, 2018. These gains were partially offset by the cost incurred to support strategic initiatives including the User Experience (UX) Platform.

Central 1 reported a profit before tax from continuing operations of $10.3 million for the first quarter of 2018, down $11.4 million from the same period last year mainly due to lower net financial income as well as non-financial income.

Net financial income decreased $8.0 million compared to the first quarter of 2017, primarily due to decreased net realized and unrealized gains partially offset by higher interest margin. Net realized and unrealized gains were $11.9 million lower year-over-year due to widening of credit spreads.

Interest margin increased $4.1 million compared to the prior year, largely driven by the widened net interest spreads and the growth in average net assets. The three interest rate hikes by the BOC between July 2017 and January 2018 had a positive impact on interest margin as the weighted average yield on assets increased relative to the weighted average cost of liabilities, leading to a 23 bps improvement in interest spreads. This was mainly due to MLP investing a greater portion of its investment in longer duration that improves effective yield by 47 bps compared to same quarter last year, an effort to narrow the duration gap between assets and liabilities to mitigate mark to market movement against parallel yield curve change.

Non-financial income from continuing operations decreased $2.5 million from the same period last year. The decrease was driven by lower income from equity investees, partially offset by a combination of higher non-financial income from increased lending activities and increased foreign exchange income within WFS.

Results by Segment

Central 1's operations and activities are organized around three key business segments: MLP, WFS, and Digital & Payment Services. Central 1's investments in equity shares of system-related entities other than the wholly owned subsidiaries are separately reported under System Affiliates segment. All other activities or transactions, such as the costs of implementing other 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.

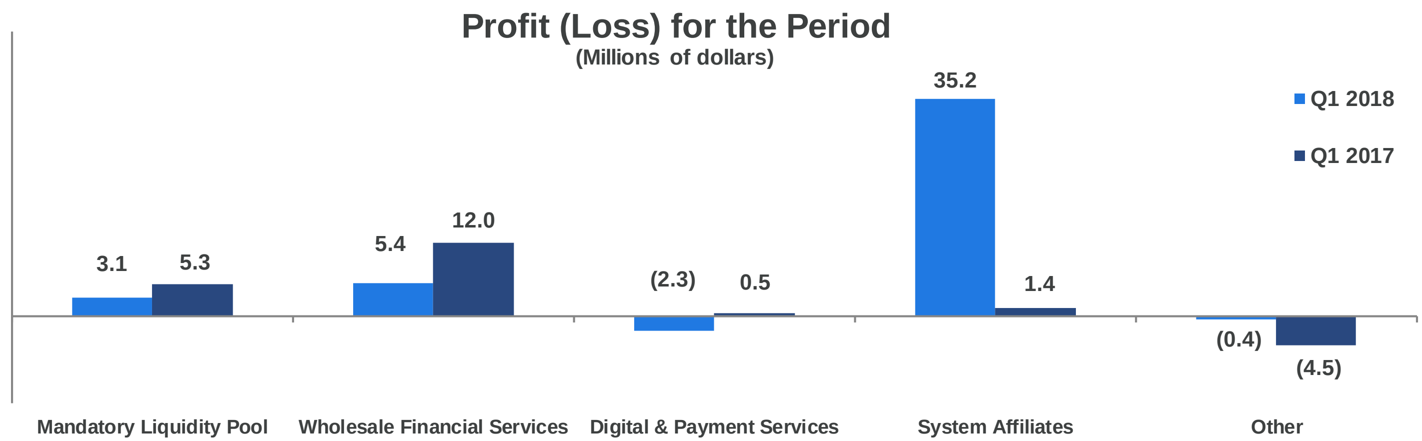
Q1 2018 vs Q1 2017

The following tables summarize Central 1's Results by Segment for the three months ended March 31, 2018 with comparative.

Figure 6 – Results by Segment

(Thousands of dollars)	Mandatory Liquidity Pool	Wholesale Financial Services	Digital & Payment Services	System Affiliates	Other	Total
						For the three months ended March 31, 2018
Continuing operations						
Net financial income (expense), including impairment on financial assets	$ 5,611	$ 8,034	$ (76)	$ (636)	$ -	$ 12,933
Non-financial income	155	7,313	19,653	1,569	3,617	32,307
Net financial and non-financial income	5,766	15,347	19,577	933	3,617	45,240
Non-financial expenses	(2,041)	(7,470)	(16,712)	(1,333)	(7,442)	(34,998)
Profit (loss) for the period from continuing operations	3,725	7,877	2,865	(400)	(3,825)	10,242
Strategic investments						
Gains from system affiliates	-	-	-	43,017	-	43,017
Strategic initiatives	-	-	(5,638)	-	(1,871)	(7,509)
Profit (loss) for the period from strategic investments	-	-	(5,638)	43,017	(1,871)	35,508
Profit (loss) before income taxes	3,725	7,877	(2,773)	42,617	(5,696)	45,750
Income tax expense/recovery	647	2,464	(485)	7,458	(5,324)	4,760
Profit (loss) for the period	$ 3,078	$ 5,413	$ (2,288)	$ 35,159	$ (372)	$ 40,990

(Thousands of dollars)	Mandatory Liquidity Pool	Wholesale Financial Services	Digital & Payment Services	System Affiliates	Other	Total
						For the three months ended March 31, 2017
Continuing operations						
Net financial income (expense), including impairment on financial assets	$ 8,222	$ 13,764	$ (72)	$ (1,054)	$ -	$ 20,860
Non-financial income	(93)	6,706	20,417	3,678	4,228	34,936
Net financial and non-financial income	8,129	20,470	20,345	2,624	4,228	55,796
Non-financial expenses	(1,972)	(6,749)	(18,136)	(1,274)	(5,999)	(34,130)
Profit (loss) for the period from continuing operations	6,157	13,721	2,209	1,350	(1,771)	21,666
Strategic investments						
Strategic initiatives	-	-	(1,617)	-	(2,402)	(4,019)
Profit (loss) for the period from strategic investments	-	-	(1,617)	-	(2,402)	(4,019)
Profit (loss) before taxes	6,157	13,721	592	1,350	(4,173)	17,647
Income tax expense/recovery	862	1,724	83	(10)	374	3,033
Profit (loss) for the period	$ 5,295	$ 11,997	$ 509	$ 1,360	$ (4,547)	$ 14,614



Continuing Operations

Mandatory Liquidity Pool

MLP reported a profit of $3.1 million for the first quarter of 2018, a decrease of $2.2 million compared to the first quarter of 2017. Net financial income decreased by $2.6 million, due to increased net realized and unrealized losses partially offset by an increase in interest margin. Net realized and unrealized losses were $3.1 million for the first quarter of 2018, compared to a $4.9 million gain in the first quarter of 2017 due to the widening of credit spreads in the market. Interest margin increased $5.4 million, driven by MLP's strategy to narrow the duration gap between assets and liabilities. Higher interest income was earned from investing in securities with longer maturities that have higher yields while interest expense remained stable relative to the deposit portfolio, thus widened the interest spreads between assets and liabilities.

Wholesale Financial Services

WFS reported a profit of $5.4 million, a decrease of $6.6 million compared to the first quarter of 2017. Net financial income decreased $5.7 million, with a $3.9 million decrease from net realized and unrealized gains mainly due to the widening of credit spreads in the market. Interest margin decreased $1.7 million compared to the first quarter of 2017, due to higher interest expense paid for deposits and debt securities issued. WFS non-financial income increased $0.6 million mainly due to higher foreign exchange income and lending fees. Non-financial expenses were $0.7 million higher than the first quarter of the prior year, mainly driven by higher salaries and employee benefits and other administrative expenses.

Digital & Payment Services

Digital & Payment Services' profit from continuing operations increased $0.7 million from the first quarter of 2017. The decrease in non-financial expense outweighed the decrease in digital banking fee revenue, resulting in a higher profit from continuing operations.

System Affiliates

System Affiliates reported a loss from continuing operations of $0.4 million, compared to a profit of $1.4 million reported in prior year, largely attributable to the decreased income from equity investees accounted for using equity method of accounting.

Other

The Other operating segment reported a loss from continuing operations of $3.8 million compared to a loss of $1.8 million for the first three months of 2017.

Strategic Investments

Digital & Payment Services

Digital & Payment Services reported an expense of $5.6 million from investments in strategic initiatives, an increase of $4.0 million from the first quarter of 2017. The total costs incurred to support strategic initiatives including the UX Platform increased $6.3 million from a year ago, driven by increased salaries and benefits expense, professional fees and infrastructure expenses.

System Affiliates

The disposal of the CUMIS's insurance operations and the restructuring of Interac's operations led to a $43.0 million total gain being recognized in Central 1's System Affiliates segment during the first quarter.

Other

The Other operating segment included the costs incurred to support strategic initiatives which was $0.5 million lower from a year ago.

Summary of Quarterly Results

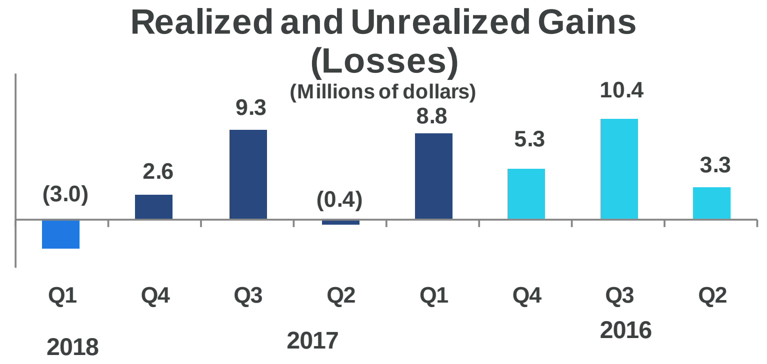
Quarterly Results

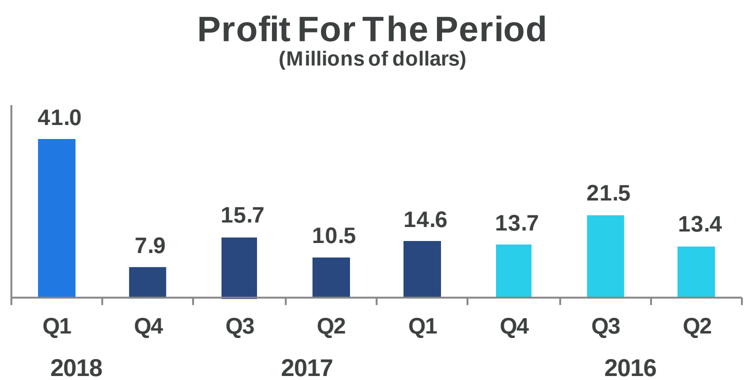
The following table summarizes Central 1's Quarterly Earnings for each of the last eight quarters.

Figure 7 – Quarterly Earnings

	2018	2017				2016		
(Thousands of dollars, except as indicated)	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**
Total interest income	**$ 78,382**	$ 73,208	$ 62,781	$ 60,513	$ 57,366	$ 56,143	$ 52,296	$ 49,975
Total interest expense	**62,220**	57,171	50,407	47,807	45,294	43,784	39,958	37,477
Interest margin	**16,162**	16,037	12,374	12,706	12,072	12,359	12,338	12,498
Realized and unrealized gains (losses)	**(3,046)**	2,579	9,296	(434)	8,815	5,286	10,395	3,261
Impairment on financial assets	**(183)**	(1)	8	140	(27)	(6)	22	(70)
	12,933	18,615	21,678	12,412	20,860	17,639	22,755	15,689
Non-financial income	**34,786**	38,620	37,656	38,575	35,038	35,431	34,461	38,333
Gains from system affiliates	**43,017**	-	-	-	-	-	-	-
Non-financial expense	**(44,986)**	(46,892)	(40,454)	(38,892)	(38,251)	(36,408)	(32,868)	(38,061)
	32,817	(8,272)	(2,798)	(317)	(3,213)	(977)	1,593	272
Profit before income taxes	**45,750**	10,343	18,880	12,095	17,647	16,662	24,348	15,961
Income taxes	**(4,760)**	(2,463)	(3,182)	(1,643)	(3,033)	(2,942)	(2,889)	(2,592)
Profit for the period	**$ 40,990**	$ 7,880	$ 15,698	$ 10,452	$ 14,614	$ 13,720	$ 21,459	$ 13,369
Weighted average shares outstanding *(millions)*	**429.7**	417.1	440.3	425.2	417.0	396.1	385.0	375.8
Earnings per share								
Basic *(cents)*	**9.5**	1.9	3.6	2.5	3.5	3.5	5.6	3.6
Diluted *(cents)*	**9.5**	1.9	3.6	2.5	3.5	3.5	5.6	3.6

* Earnings per share calculated for Central 1 must be taken in the context that member shares may not be traded or transferred except with the consent of Central 1's Board of Directors.





Central 1's interest margin was $16.2 million in the first quarter of 2018. Strong net asset growth together with widened net interest spreads contributed to a strong interest margin for the first quarter. The increased activities in lending business was another key driver of increased interest income; however, the trend was partially offset by increased interest expense, as well as lower net realized and unrealized gains for the quarter.

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, 2018 with comparatives.

Figure 8 – Derivative Financial Instruments

						Notional Amount
(Millions of dollars)		Mar 31 2018		Dec 31 2017		Mar 31 2017
Interest rate contracts						
Bond forwards	**$**	**171.6**	$	96.7	$	53.0
Futures contracts		**250.0**		65.0		690.0
Swap contracts		**30,808.6**		30,292.7		21,101.2
Options purchased		**10.0**		10.0		10.0
Options written		**10.0**		10.0		10.0
		31,250.2		30,474.4		21,864.2
Foreign exchange contracts						
Foreign exchange forward contracts		**461.0**		247.4		126.3
Other derivative contracts						
Equity index-linked options		**222.2**		231.7		244.3
	$	**31,933.4**	$	30,953.5	$	22,234.8

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

Central 1 acts as a swap intermediary between Canada Housing Trust and member credit unions and additionally provides derivative capabilities to member credit unions to be used in the asset/liability management of their respective balance sheets. These activities represented $9.8 billion and $17.7 billion, respectively, of the total derivative notional balances as at March 31, 2018, compared to $10.3 billion and $17.4 billion at March 31, 2017, and $9.6 billion and $17.0 billion at December 31, 2017.

Derivatives are primarily used in the asset/liability management (ALM) activities at Central 1. In addition, Central 1 facilitates the sale of derivative products to member credit unions to be used in the ALM of their respective balance sheets.

Derivatives are recorded in the Consolidated Statements of Financial Position at fair value. The notional amounts are not recorded on the Consolidated Statements of Financial Position as they do not represent actual amounts exchanged. Counterparty credit risk arising from derivative contracts is managed within the context of Central 1's overall credit risk policies and through the existence of Credit Support Annex (CSA) agreements in place with all of its non-credit union derivatives counterparties. Under a CSA, net fair value positions are collateralized with high quality liquid securities. Central 1's credit exposure to its credit union counterparties is secured by the general security arrangements it has in place with each credit union.

The fair value of derivative instruments is presented in Note 7 to the Interim Consolidated Financial Statements.

Guarantees and Commitments

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

Figure 9 – Guarantees and Commitments

(Millions of dollars)		Mar 31 2018		Dec 31 2017		Mar 31 2017
Commitments to extend credit	**$**	**4,251.7**	$	4,327.9	$	4,411.9
Guarantees						
Financial Guarantees	**$**	**397.5**	$	367.5	$	390.0
Performance Guarantees	**$**	**810.0**	$	810.0	$	410.0
Standby letters of credit	**$**	**186.6**	$	187.9	$	174.7
Future prepayment swap reinvestment commitment	**$**	**884.5**	$	770.3	$	505.0

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 decreased $160.2 million from a year ago driven by decreased member credit union lending activities. Guarantees increased $407.5 million due to higher volumes, while standby letters of credit increased $11.9 million. Future prepayment swap reinvestment commitments increased $379.5 million.

Assets under Administration

The following table summarizes assets under administration (AUA) as at March 31, 2018 with comparatives.

Figure 10 – Assets under Administration

(Millions of dollars)		Mar 31 2018		Dec 31 2017		Mar 31 2017
Registered Retirement Savings Plans	**$**	**1,139.5**	$	1,113.7	$	1,176.8
Tax-Free Savings Accounts		**872.6**		829.1		786.7
Registered Retirement Income Funds/Life Income Funds		**423.9**		396.3		375.1
Registered Education Savings Plans		**227.1**		224.0		216.9
Registered Disability Savings Plans		**22.6**		20.7		17.7
	$	**2,685.7**	$	2,583.8	$	2,573.2

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 system and class C members. The subsidiary provides the same services for members of the Ontario and Manitoba credit union system. These assets are owned by members of Central 1's member credit unions.

As at March 31, 2018, AUA totaled $2.7 billion, up $112.5 million or 4.4 per cent from a year ago. The increase was mainly due to the increased Tax-Free Savings Accounts which continues to gain popularity among investors as an alternative to the Registered Retirement Savings Plans, which has been on a steady decline for the past decade. The Registered Retirement Income Funds and the Registered Education Savings Plans also increased slightly from the same period last year.

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 system 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 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.

As a result of members' approval of changes of Central 1's Constitution & Rules, Class A members' investment in Class A shares were reduced and Class F shares were issued to Class A members in proportion to their portion of mandatory deposits.

Central 1's Constitution & Rules permit it to require its Class A members to subscribe for Class F shares. Proceeds from such subscription may be used to maintain its MLP operating Borrowing Multiple operating range. Class F share calls are scheduled each May and November to capitalize the MLP. As Class A members contribute to funding and capital, net earnings in the MLP is to be distributed to Central 1's Class A members as dividends on their Class F shares subject to regulatory requirements and approval of Central 1's Board of Directors.

On March 29, 2018, Central 1 issued 425.9 million Class F shares with a price of $1 per share and redeemed 378.1 million Class A shares at a redemption value of $1 per share. As a part of the capital restructuring, Central 1 also redeemed or reacquired 750 thousand Class E shares at an aggregate value of $75.0 million.

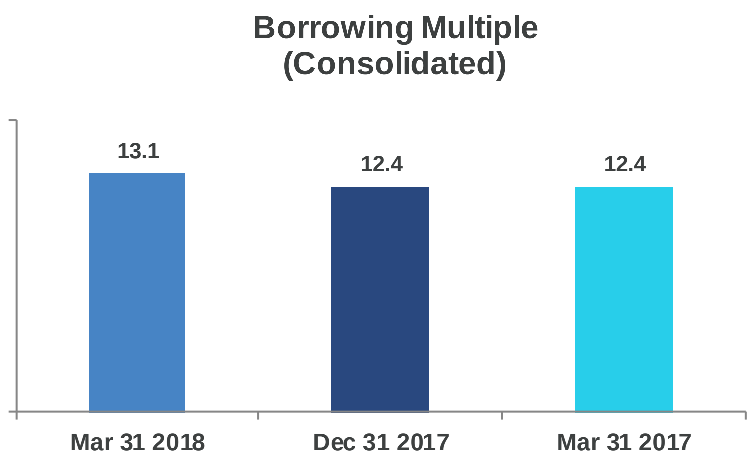
Regulatory Capital

As of March 31, 2018, Central 1's Tier 1 regulatory capital was $1,125.6 million and total capital before deductions was $1,551.3 million. In determining regulatory capital, adjustments are required to amounts reflected in Central 1's Interim Consolidated Statements of Financial Position. Deductions from capital 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, 2018 with comparatives.

Figure 11 – Capital Position

(Millions of dollars)		Mar 31 2018		Dec 31 2017		Mar 31 2017
Share capital	$	**476.0**	$	428.1	$	417.0
Contributed surplus		**-**		72.9		87.9
Retained earnings		**654.3**		585.0		562.3
Less: accumulated net after tax gain in investment property		**(4.7)**		(4.7)		(4.7)
Tier 1 capital		**1,125.6**		1,081.3		1,062.5
Subordinated debt		**421.0**		421.0		421.0
Add: accumulated net after tax gain in investment property		**4.7**		4.7		4.7
Tier 2 capital		**425.7**		425.7		425.7
Total capital		**1,551.3**		1,507.0		1,488.2
Statutory capital adjustments		**(195.8)**		(178.3)		(173.3)
Capital base (federal)	$	**1,355.5**	$	1,328.7	$	1,314.9
Borrowing multiple - Consolidated		**13.1:1**		12.4:1		12.4:1
Borrowing multiple - Mandatory Liquidity Pool		**15.7:1**		15.7:1		15.4:1
Borrowing multiple - Wholesale Financial Services		**14.0:1**		11.9:1		12.6:1



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 these periods.

Effective August 16, 2017, FICOM amended the borrowing multiple requirements to be 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 limits which allowed Central 1 to return $50.0 million in capital to its Class A members.

At March 31, 2018, Central 1's consolidated borrowing multiple was 13.1:1 compared to 12.4:1 at December 31, 2017. Central 1 manages the MLP's borrowing multiple through semi-annual capital calls from its membership and manages the WFS' borrowing multiple through growth in retained earnings and subordinated debt.

Note 26 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 2017 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 system. 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 exist on all financial institutions, including credit unions, from tight margins and financial technology disruption, among other things. Central 1 also faces uncertainty around Class A member credit unions deciding to become federal credit unions. To deliver value for its member credit unions, Central 1 incorporates an informed understanding of the potential future landscape of the credit union system into strategic planning.

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

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

Counterparty Risk

Within the Treasury and Digital & Payment Services operations, Central 1 incurs counterparty risk through entering into contracts with counterparties in return for a bilateral value-exchange of services. The counterparty risk is managed within the same adjudication process as credit 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 system where a robust internal risk rating regime is utilized.

Credit Risk

Central 1 is exposed to Credit Risk from its investment and lending activities, as well as through its role as Group Clearer and other settlement business.

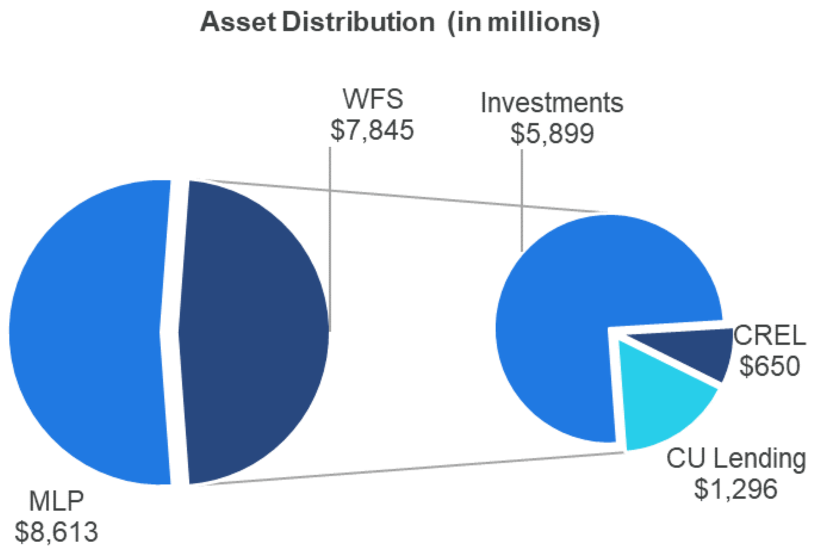
Risks are managed by:

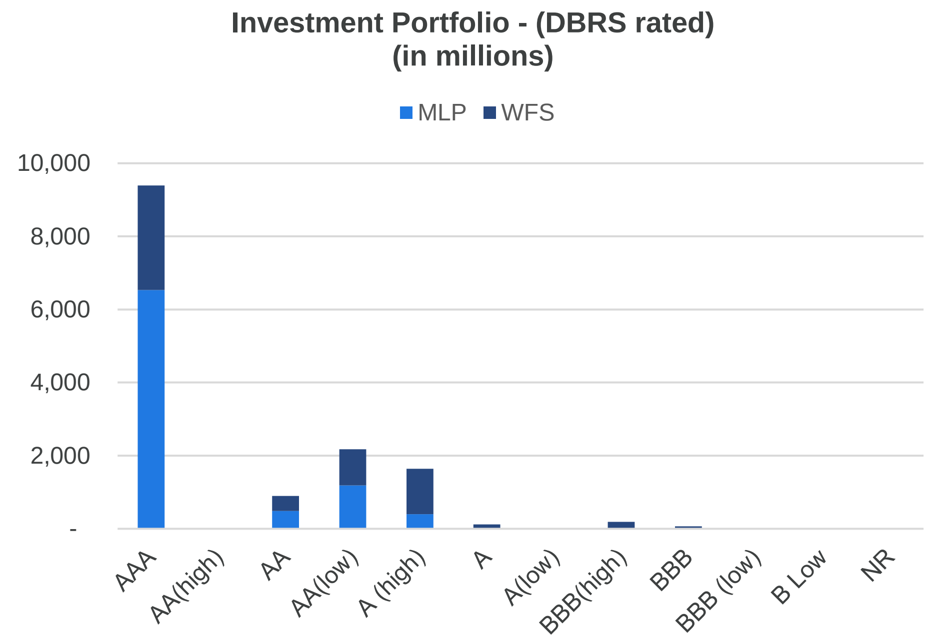
- holding low-risk investment securities;
- a robust and conservative loan underwriting framework that utilizes the acquisition of collateral and other credit enhancements; and
- skilled lending personnel with a depth of experience in both the business line and credit risk.

Credit risk continues to be assessed by management as low.

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 $399.1 million in securities rated A (DBRS) and below, representing 6.8 per cent of the investment portfolio.

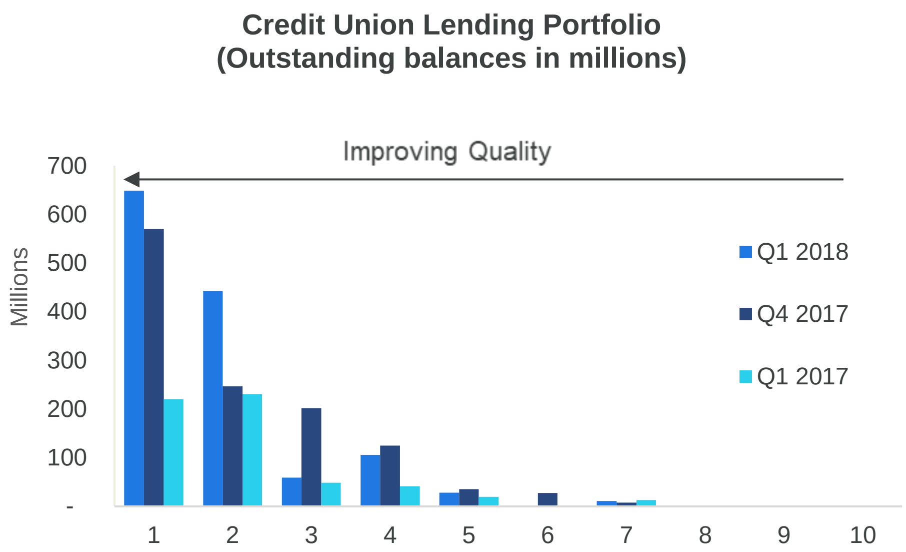
Figure 12 – Credit Exposure by Portfolio and Rating

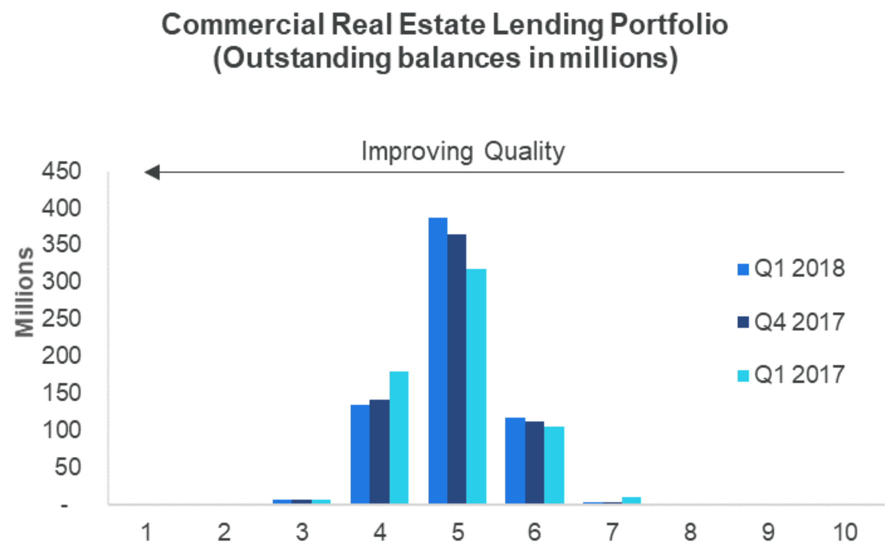




The figure below provides Central 1's quarter end balances in the Credit Union Lending and Commercial Real Estate Lending (CREL) Portfolios.

Figure 13 – Portfolio Balances by Risk Rating





Credit Quality Performance

Commercial Real Estate Lending (CREL)

There are no impaired loans in the CREL portfolio. Watch List (risk rating 7) accounts as at March 31, 2018 represent 0.45 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 four Ontario and two B.C. credit unions classified as Watch List (risk rating 7). One Ontario credit union has been assigned as Unsatisfactory (risk rating 8) in March 2018. Watch List and Unsatisfactory accounts as at March 31, 2018 represent 0.85 per cent of the total outstanding portfolio balance. Credit facilities are well secured and no financial losses are expected.

Investments

Central 1 has an impaired investment related to an Asset-Backed Commercial Paper exposure. Central 1 continues to receive cash flows on the underlying assets. Specific allowances for the impaired investment as at March 31, 2018 were $0.4 million.

Liquidity Risk

Liquidity risk can be caused by an internal mismatch between the cash flows of Central 1's assets and liabilities, external idiosyncratic or systemic market and credit events or unexpected changes in the liquidity needs of Central 1's members. Sound liquidity management by Central 1 provides for strong liquidity support of the credit union system.

Central 1's 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 MLP and WFS portfolios against the 100% target set by the Risk Appetite Statement.

Central 1's highly liquid assets include securities eligible to be pledged to the Bank of Canada under Standard Liquidity Facility (SLF) and USD-denominated variants that meet the SLF eligibility criteria.

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

Figure 14 – Liquidity Coverage Ratio

Liquidity Coverage Ratio	Q1 2018	Q4 2017	Q1 2017	LTM Average	LTM High	LTM Low
Mandatory Liquidity Pool	172.1%	105.7%	103.4%	174.9%	178.1%	171.5%
Wholesale Financial Services	200.1%	174.7%	194.5%	185.1%	253.7%	134.6%

Mandatory Pool values were recalculated to meet current requirements

Market Risk

The level of market risk to which Central 1 is exposed varies according to market conditions and the composition of Central 1's investment, lending and derivative portfolios. Central 1 manages its exposure to market risk through a range of governance and management processes, which establish the measurement of market risk and establish exposure limits in keeping with Central 1's overall risk appetite.

Market risk is measured using 1-Day 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 VaR 99 per cent of the time.

Central 1 will not assume additional market risk for speculative purposes or in pursuit of returns beyond those required to reasonably fulfill its primary mandate of safeguarding system liquidity.

Value at Risk

Central 1 regularly monitors its exposure to market risk. Central 1's Risk Appetite Statement (RAS) currently defines VaR-based market risk limits in relation to changes in portfolio value. In particular, the RAS sets out separate VaR limits for the MLP and WFS. The current limits approved by the Board are 10 bps, or 0.10 per cent, of the current market value of MLP assets and 11 bps, or 0.11 per cent, of WFS assets. As of quarter end, the limits were $8.5 million for MLP and $8.7 million for WFS. Central 1 complied with MLP and WFS limits during the first quarter.

The following tables summarize Central 1's VaR for the quarter ended March 31, 2018 with comparatives.

Figure 15 – VaR by Risk Type

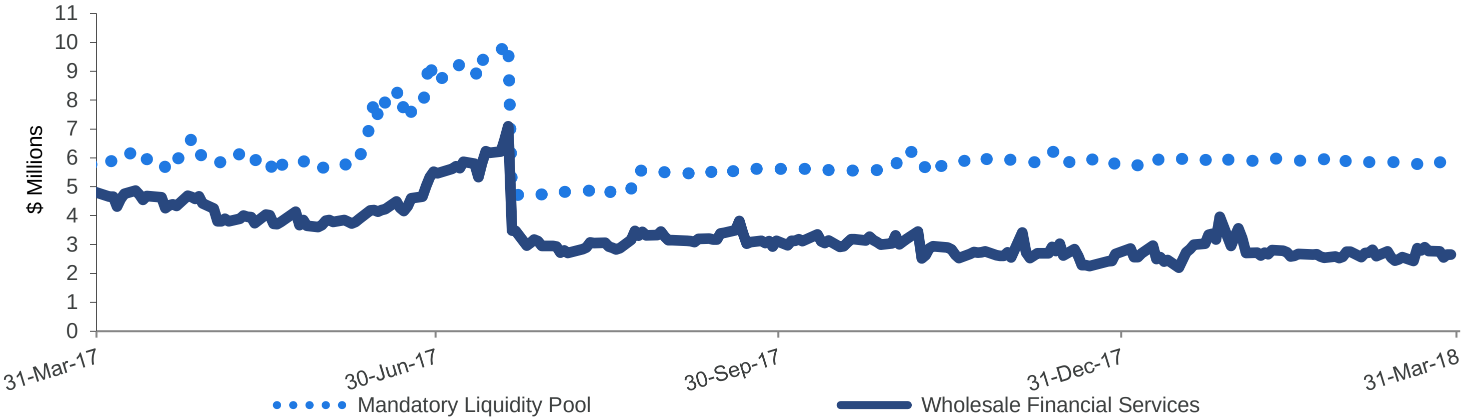
(Millions of dollars)	Mandatory Liquidity Pool					
	Q1 2018	Q4 2017	Q1 2017	Last 12 Months		
				Average	High	Low
Interest Rate VaR	**$ 5.1**	$ 5.1	$ 7.1	$ 5.9	$ 10.3	$ 3.7
Credit Spread VaR	**5.0**	4.8	3.2	4.1	5.1	2.0
Foreign Exchange VaR	**0.1**	0.1	0.1	0.1	0.7	0.0
Diversification[(1)]	**(4.3)**	(4.2)	(4.4)	nm	nm	nm
Total VaR	**$ 5.9**	$ 5.8	$ 6.0	$ 6.1	$ 10.0	$ 4.7

(Millions of dollars)	Wholesale Financial Services					
	Q1 2018	Q4 2017	Q1 2017	Last 12 Months		
				Average	High	Low
Interest Rate VaR	**$ 1.7**	$ 1.6	$ 3.9	$ 2.7	$ 5.9	$ 1.3
Credit Spread VaR	**1.5**	1.3	1.7	1.4	1.8	1.1
Foreign Exchange VaR	**1.7**	2.1	2.6	2.0	5.1	0.8
Diversification[(1)]	**(2.3)**	(2.4)	(3.5)	nm	nm	nm
Total VaR	**$ 2.6**	$ 2.6	$ 4.8	$ 3.6	$ 7.1	$ 2.2

[(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 calculation

Figure 16 – Daily 99% VaR by Business Line



Stress Testing

VaR Stress Testing allows Central 1 to test the performance of the MLP and WFS portfolios in different stressed market environments. Stress tests are measured using a 10-day 99 per cent VaR and are conducted over three historical periods:

- Pre-Lehman Crisis (October 2006 through December 2007) – widening in short-term spreads and increased volatility in the USD-CAD spot rate;
- Lehman Crisis (January 2008 through May 2009) – widening of short-term, corporate, MBS and other yields with high volatility in the USD-CAD rate; and
- European Crisis (November 2010 through December 2013) – rising short-term spreads and USD-CAD rate volatility.

The MLP portfolio is most exposed to market events similar to the Lehman Crisis. This crisis is characterized by the widening of spreads between corporate and government bonds, high volatility in the USD-CAD spot rate and a declining Fed funds rate.

The WFS portfolio is most exposed to market events similar to the European Crisis. This period is characterized by moderate increases in corporate and bank spreads, declining sovereign and swap rates, and a depreciating Canadian dollar.

The following figure summarizes the stress testing results as at March 31, 2018.

Figure 17 – Stress Testing

(Millions of dollars)	Mandatory Liquidity Pool	Wholesale Financial Services
10-Day VaR	$ 11.3	$ 6.8
Pre-Lehman Crisis (Oct 2006-Dec 2007)	$ 11.0	$ 9.6
Lehman Crisis (Jan 2008-May 2009)	$ 20.5	$ 10.6
European Crisis (Nov 2010-Dec 2013)	$ 18.4	$ 14.0

Direction and Sources of Interest Rate Risk

Central 1 uses a number of secondary market risk measures to help understand the direction and sources of interest rate risk in the MLP and WFS portfolios. The dollar duration, or DV01, measures the sensitivity of the portfolio to a one bps increase in interest rates.

Foreign Exchange Rate Exposure

Central 1 has assets and liabilities denominated in several major currencies and trades foreign currencies with its member credit unions and other financial institutions. The risk associated with fluctuating foreign currency values is managed by applying limits on the amounts (short or long positions) that can be maintained in the various currencies, utilizing FX derivatives to lessen the impact of on-balance sheet positions and through VaR management limits. Central 1's FX exposure is concentrated in USD and only a relatively small amount is held in other major currencies.

The following table provides the Foreign Exchange position as at March 31, 2018.

Figure 18 – Foreign Exchange Position

(Millions of dollars)	Balance Sheet in Native Currency	Off-Balance Sheet Items - FX Forwards	Net Position in Native Currency	BoC Closing Rate	CAD Equivalent
USD	$ (8.5)	$ 25.5	$ 17.0	1.2875	$ 21.9

Operational Risk

Operational risks include shortcomings to people, process, systems and the external environment. While the financial impact associated with operational risk can be significant, it is equally important to recognize the less identifiable and quantifiable non-financial impacts. Real or perceived changes in an institution's credibility can damage its reputation, image, and stakeholder confidence, thereby negatively affecting the institution's results in the future. Central 1 manages this type of risk through implementing policies and associated procedures that are fundamental to its operating infrastructure.

During the first quarter of 2018, 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 and the credit union system.

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.
- **Reaction to new housing policy** - Recent provincial and federal regulations aimed at tightening housing market rules, along with the rising mortgage rate environment, have restrained sales and it is yet to be seen how market participants will respond to these changes.

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 2017 Annual Consolidated Financial Statements together with discussions 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.

Changes in Accounting Policies

Effective January 1, 2018, Central 1 adopted IFRS 9, *Financial Instruments* and IFRS 15, *Revenue from Contracts with Customers*. For further details on the impacts of the adoption of IFRS 9 and IFRS 15 including the description of accounting policies selected, refer to Notes 3 and 4 of Central 1's Interim Consolidated Financial Statements for the quarter ended March 31, 2018.

Allowance for credit losses

IFRS 9 introduced a new single expected credit loss (ECL) impairment model for all financial assets and certain off-balance sheet loan commitments and guarantees. The ECL model will result in an allowance for credit losses being recorded on financial assets regardless of whether there has been an actual loss event. The ECL model requires the recognition of credit losses based on 12 months of expected losses for performing loans and recognition of lifetime losses on performing loans that have experienced a significant increase in credit risk since origination. The determination of a significant increase in credit risk takes into account many different factors and varies by product and risk segment. In determining whether there has been a significant increase in credit risk and in calculating the amount of expected credit losses, Central 1 must rely on estimates and exercise judgement regarding matters for which the ultimate outcome is unknown. These judgments include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the expected credit loss allowance.

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, 2017.

Details of Central 1's related party disclosures were disclosed in Note 27 of the Interim Consolidated Financial Statements.

Credit Ratings

Central 1's debt securities are rated by Standard & Poor's and DBRS.

Figure 19 – Credit Ratings

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

Interim Consolidated Financial Statements

For the Quarter Ended March 31, 2018

central 1

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Interim Consolidated Statements of Financial Position (Unaudited)

(Thousands of dollars)	Notes		Mar 31 2018		Dec 31 2017
Assets					
Cash		$	**58,316**	$	550,763
Deposits with regulated financial institutions			**5,999**		5,975
Securities	6		**15,193,523**		14,407,919
Reinvestment assets under the Canada Mortgage Bond Program	6		**606,056**		545,247
Derivative assets	7		**104,167**		101,839
Loans	8		**2,853,372**		2,162,059
Current tax assets			**5,869**		7,027
Property and equipment			**20,503**		21,122
Intangible assets			**34,528**		34,665
Deferred tax assets			**22,087**		14,615
Investments in affiliates			**184,628**		143,642
Settlements in-transit			**392,698**		44,134
Other assets	10		**40,494**		29,893
		$	**19,522,240**	$	18,068,900
Liabilities					
Deposits	11	$	**12,840,464**	$	11,998,395
Obligations related to securities sold short	12		**179,368**		95,503
Derivative liabilities	7		**94,007**		83,933
Debt securities issued	13		**2,325,355**		2,178,650
Obligations under the Canada Mortgage Bond Program	14		**1,207,810**		1,190,108
Subordinated liabilities	15		**424,811**		421,765
Provisions			**1,883**		1,854
Securities under repurchase agreements			**662,554**		500,472
Deferred tax liabilities			**25,732**		23,000
Settlements in-transit			**567,998**		389,814
Other liabilities	17		**50,837**		66,285
			18,380,819		16,949,779
Equity					
Share capital	18		**475,984**		428,143
Contributed surplus			**-**		72,897
Retained earnings			**654,311**		584,971
Accumulated other comprehensive income (loss)			**(2,925)**		19,072
Reserves			**3,944**		3,950
Total equity attributable to members of Central 1			**1,131,314**		1,109,033
Non-controlling interest			**10,107**		10,088
			1,141,421		1,119,121
		$	**19,522,240**	$	18,068,900
Guarantees, commitments, and contingencies	24				
Subsequent event	28				

Approved by the Directors:

Bill Kiss
Chairperson

Robert Wellstood
Chairperson - Audit and Finance Committee

See accompanying notes to the Interim Consolidated Financial Statements

Interim Consolidated Statements of Profit (Unaudited)

(Thousands of dollars)	Notes	For the three months ended Mar 31 2018	Mar 31 2017
Interest income			
Securities		$ **63,755**	$ 48,201
Deposits with regulated financial institutions		**50**	26
Loans		**13,275**	7,379
Reinvestment assets under the Canada Mortgage Bond Program		**1,302**	1,760
		78,382	57,366
Interest expense			
Debt securities issued		**13,382**	5,654
Deposits		**41,420**	31,814
Obligations under the Canada Mortgage Bond Program		**3,103**	4,759
Subordinated liabilities		**4,315**	3,067
		62,220	45,294
Interest margin		**16,162**	12,072
Loss on disposal of financial instruments	19	**(4,712)**	(3,861)
Change in fair value of financial instruments	20	**1,666**	12,676
Net financial income		**13,116**	20,887
Impairment on financial assets	9	**183**	27
		12,933	20,860
Non-financial income	21	**34,786**	35,038
Gains from system affiliates	21	**43,017**	-
Net financial and non-financial income		**90,736**	55,898
Non-financial expense			
Salaries and employee benefits		**20,382**	18,751
Premises and equipment		**1,960**	1,974
Other administrative expenses	22	**22,644**	17,526
		44,986	38,251
Profit before income taxes		**45,750**	17,647
Income taxes		**4,760**	3,033
Profit for the period		$ **40,990**	$ 14,614

See accompanying notes to the Interim Consolidated Financial Statements

Interim Consolidated Statements of Comprehensive Income (Unaudited)

		For the three months ended		
(Thousands of dollars)		**Mar 31 2018**		**Mar 31 2017**
Profit for the period	**$**	**40,990**	$	14,614
Other comprehensive income (loss), net of tax				
Items that may be reclassified subsequently to profit or loss				
Fair value reserves (securities at fair value through other comprehensive income)				
Net change in fair value of debt securities at fair value through other comprehensive income[1]		**83**		n/a
Net change in fair value of available-for-sale assets[2]		**n/a**		7,425
Reclassification of realized (gains) losses to profit or loss[3]		**(3,884)**		(771)
Share of the other comprehensive income of affiliates accounted for using the equity method[4]		**-**		460
		(3,801)		7,114
Item that will not be reclassified subsequently to profit or loss				
Net change in fair value due to change in own credit risk on financial liabilities designated under the fair value option[5]		**1,660**		n/a
Other comprehensive income (loss), net of tax		**(2,141)**		7,114
Comprehensive income, net of tax	**$**	**38,849**	$	21,728
Income taxes (recoveries) on items that may be reclassified subsequently to profit or loss				
[1] Net change in fair value of debt securities at fair value through other comprehensive income	**$**	**19**		n/a
[2] Net change in fair value of available-for-sale assets		**n/a**	$	1,681
[3] Reclassification of realized (gains) losses to profit or loss	**$**	**(824)**	$	(175)
[4] Share of the other comprehensive income of affiliates accounted for using the equity method	**$**	**-**	$	41
Income taxes (recoveries) on items that may not be reclassified subsequently to profit or loss				
[5] Net change in fair value due to change in own credit risk on financial liabilities designated under the fair value option	**$**	**352**		n/a

See accompanying notes to the Interim Consolidated Financial Statements

Interim Consolidated Statements of Changes in Equity (Unaudited)

(Thousands of dollars)	Share Capital	Contributed Surplus	Retained Earnings	Fair Value and Affiliates Reserves	Liability Credit Reserve	Employee Benefits Reserve	Other Reserves	Equity Attributable to Members	Non-Controlling Interest	Total Equity
	Attributable to equity members									
Balance at December 31, 2017	$ 428,143	$ 72,897	$ 584,971	$ 20,880	$ -	$ (1,808)	$ 3,950	$ 1,109,033	$ 10,088	$ 1,119,121
Changes on initial application of IFRS 9 (Note 4)			22,017	(8,067)	(11,789)		(2)	2,159		2,159
Restated balance at January 1, 2018	$ 428,143	$ 72,897	$ 606,988	$ 12,813	$ (11,789)	$ (1,808)	$ 3,948	$ 1,111,192	$ 10,088	$ 1,121,280
Total comprehensive income for the period										
Profit for the period			40,971					40,971	19	40,990
Other comprehensive income (loss), net of tax										
Fair value reserve (securities at fair value through other comprehensive income)				(3,801)				(3,801)		(3,801)
Share of the other comprehensive income of affiliates accounted for using the equity method				-				-		-
Liability credit reserve, net of tax					1,660			1,660		1,660
Total comprehensive income	-	-	40,971	(3,801)	1,660	-	-	38,830	19	38,849
Transactions with owners, recorded directly in equity										
Class "E" shares redemption or reacquisition (Note 18)	(7)	(72,897)	(2,100)					(75,004)		(75,004)
Related tax savings			8,448					8,448		8,448
Net Classes "A", "B", "C" and "F" shares issued (Note 18)	47,848							47,848		47,848
Transfer from reserves			4				(4)	-		-
Total contributions from and distributions to owners	47,841	(72,897)	6,352	-	-	-	(4)	(18,708)	-	(18,708)
Balance at March 31, 2018	**$ 475,984**	**$ -**	**$ 654,311**	**$ 9,012**	**$ (10,129)**	**$ (1,808)**	**$ 3,944**	**$ 1,131,314**	**$ 10,107**	**$ 1,141,421**

Profit attributable to:	**2018**	2017
Members of Central 1	**$ 40,971**	$ 14,823
Non-controlling interest	**19**	(209)
	$ 40,990	$ 14,614

Total comprehensive income attributable to:	**2018**	2017
Members of Central 1	**$ 38,830**	$ 21,937
Non-controlling interest	**19**	(209)
	$ 38,849	$ 21,728

See accompanying notes to the Interim Consolidated Financial Statements

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 (loss), net of tax									
Fair value reserve (available-for-sale financial assets)				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 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

Interim Consolidated Statements of Cash Flows (Unaudited)

(Thousands of dollars)	Notes	For the three months ended Mar 31 2018	Mar 31 2017
Cash flows from operating activities			
Profit for the period		**$ 40,990**	$ 14,614
Adjustments for:			
Depreciation and amortization		**2,098**	1,745
Interest margin		**(16,162)**	(12,072)
Loss on disposal of financial instruments		**4,712**	3,861
Change in fair value of financial instruments		**(1,666)**	(12,676)
Gain from system affiliates		**(43,017)**	-
Income tax expense		**4,760**	3,033
Impairment on financial assets		**183**	27
Other items, net		**(5,650)**	3,868
		(13,752)	2,400
Change in securities		**(789,640)**	(660,350)
Change in settlements in-transit		**(170,381)**	(133,165)
Change in loans		**(692,204)**	(292,135)
Change in deposits		**842,790**	92,915
Change in obligations related to securities sold short		**83,343**	8,859
Change in derivative assets and liabilities		**3,094**	(1,421)
		(736,750)	(982,897)
Interest received		**67,034**	48,225
Interest paid		**(37,404)**	(31,607)
Income tax paid		**(90)**	(23)
Net cash used in operating activities		**(707,210)**	(966,302)
Cash flows from investing activities			
Change in deposits with regulated financial institutions		**-**	(14)
Change in reinvestment assets under the Canada Mortgage Bond Program		**(61,331)**	(52,135)
Change in property and equipment		**(276)**	(1,145)
Change in intangible assets		**(1,039)**	(8,837)
Net cash used in investing activities		**(62,646)**	(62,131)
Cash flows from financing activities			
Change in debt securities issued	16	**145,563**	404,783
Change in obligations under the Canada Mortgage Bond Program	16	**15,215**	16,556
Change in securities under repurchase agreements	16	**161,916**	276,058
Dividends paid	16	**(18,129)**	(13,580)
Issuance of Class F shares	18	**425,949**	-
Redemption of Class A shares	18	**(378,101)**	-
Redemption of Class E shares	18	**(53,050)**	-
Reacquisition of treasury shares	18	**(21,954)**	-
Net cash from financing activities		**277,409**	683,817
Decrease in cash		**(492,447)**	(344,616)
Cash - beginning of period		**550,763**	487,128
Cash - end of period		**$ 58,316**	$ 142,512

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)*. 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

(a) Statement of compliance

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) using the same accounting policies as disclosed in Central 1's Annual Audited Consolidated Financial Statements for the year ended December 31, 2017, with the exception of the adoption of International Financial Reporting Standard (IFRS) 9, *Financial Instruments*, and IFRS 15, *Revenue from Contracts with Customers*, as discussed below. As these Interim Consolidated Financial Statements do not include all of the annual financial statements disclosures required under IFRS, they should be read in conjunction with Central 1's Annual Audited Consolidated Financial Statements and accompanying notes for the year ended December 31, 2017.

The adoption of IFRS 9 on January 1, 2018 has resulted in changes in Central 1's accounting policies for classification and measurement of financial assets and financial liabilities as well as impairment of financial assets. The adoption of IFRS 15 has resulted in changes in Central 1's accounting policies for revenue recognition.

On the Interim Consolidated Statements of Financial Position, the line items previously labelled "Trading assets" and "Investment securities" were combined and re-named to "Securities" as at January 1, 2018. "Securities" represent investment securities that are classified as fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) under IFRS 9. For the comparative period, "Securities" represent trading assets previously classified as FVTPL and investment securities previously classified as available-for-sale under IAS 39, *Financial Instruments: Recognition and Measurement*.

On the Interim Consolidated Statements of Financial Position, the line items previously labelled "Deposits designated as trading" and "Deposits" were combined and re-named to "Deposits" as at January 1, 2018. "Deposits" represents deposits that are designated as FVTPL and classified as amortized cost under IFRS 9. For the comparative period, "Deposits" represent deposits previously designated as FVTPL and classified as other financial liabilities measured at amortized cost under IAS 39.

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, 2018.

(b) Use of estimates and judgements

In preparing the Interim Consolidated Financial Statements in accordance with IFRS, management must exercise judgements and make estimates and assumptions that affect the application of accounting policies and the carrying amounts of assets and liabilities, net income and related disclosures. The most significant areas for which management must make subjective or complex estimates and judgements include:

- Financial instruments measured at fair value,
- Central 1's own credit risk,
- Expected credit loss (ECL) allowance,
- Designating financial instruments in qualifying hedge relationships,
- Income taxes, and
- Pension and post-retirement benefits.

While management makes its best estimates and assumptions, actual results may differ materially from those estimates and assumptions. Details of use of estimates and judgements can be found in Note 5.

3. Change in accounting policies

The accounting policies set out below have been applied since January 1, 2018, following the adoption of IFRS 9 and IFRS 15.

IFRS 9 – Financial Instruments

As permitted under IFRS 9, Central 1 has elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening retained earnings and accumulated other comprehensive income (AOCI) on January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9. The amounts for the period ended March 31, 2018 have been prepared in accordance with IFRS 9; prior period amounts have not been restated.

(a) Classification and measurement of financial assets and financial liabilities

All financial assets are initially recorded at fair value and subsequently classified as measured at amortized cost, FVOCI or FVTPL. A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity instrument that is not held for trading, Central 1 may irrevocably elect to present subsequent changes in fair value in other comprehensive income (OCI). This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

Central 1 classifies its financial liabilities as measured at amortized cost or FVTPL.

On initial recognition, Central 1 may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL.

Central 1 may, at initial recognition, irrevocably designate a financial liability as at FVTPL when one of the following criteria is met:

- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- A group of financial assets and financial liabilities is managed with its performance being evaluated on a fair value basis; or
- The financial liability contains one or more embedded derivatives which significantly modifies the cash flows otherwise be required by the contract.

Financial assets and financial liabilities designated at FVTPL are recorded in the Interim Consolidated Statement of Financial Position at fair value. For assets designated at FVTPL, changes in fair value are recognized in the Interim Consolidated Statement of Profit. For liabilities designated at FVTPL, all changes in fair value are recognized in the Interim Consolidated Statement of Profit, except for changes in fair value arising from changes in the Central 1's own credit risk which are recognized in OCI. Changes in fair value of liabilities due to changes in Central 1's own credit risk, which are recognized in OCI, are not subsequently reclassified to the Interim Consolidated Statement of Profit upon derecognition/extinguishment of the liabilities.

Business model assessment

Central 1 makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to Central 1's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sale activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how Central 1's stated objectives for managing the financial assets are achieved and how cash flows are realized.

Financial assets that are held for trading and financial assets that are managed on a fair value basis are measured at FVTPL because they are neither held-to-collect contractual cash flows nor held-to-collect and for sale.

Contractual cash flows characteristics

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, Central 1 considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

If the contractual terms of a financial asset give rise to contractual cash flows that are not solely payments of principal and interest, it is classified as FVTPL.

(b) Securities

Securities in the Interim Consolidated Statement of Financial Position includes:

- Debt and equity instruments mandatorily measured at FVTPL or designated as at FVTPL. These are measured at fair value with changes recognized immediately in profit or loss
- Debt instruments measured at FVOCI

Debt instruments measured at FVTPL

Debt instruments measured at FVTPL include assets held for trading purposes, assets held as part of a portfolio managed on a fair value basis and assets whose cash flows do not represent payments that are solely payments of principal and interest. These instruments are measured at fair value in the Interim Consolidated Statement of Financial Position, with transaction costs recognized immediately in profit or loss. Realized and unrealized gains and losses are recognized in profit or loss.

Equity instruments measured at FVTPL

Equity instruments are measured at FVTPL unless an election is made to designate them at FVOCI upon purchase. For equity instruments measured at FVTPL, changes in fair value are recognized in profit or loss.

Debt instruments measured at FVOCI

Debt instruments are measured at FVOCI if they are held within a business model whose objective is to hold the assets to collect contractual cash flows and for sale, where contractual cash flows are solely payments of principal and interest. Subsequent to initial recognition, unrealized gains and losses on debt instruments measured at FVOCI are recorded in OCI, unless the instrument is designated in a fair value hedge relationship. When designated in a fair value hedge relationship, any changes in fair value due to changes in the hedged risk is recognized in profit or loss. Upon derecognition, realized gains and losses are reclassified from OCI to profit or loss. Foreign exchange gains and losses that relate to the amortized cost of the debt instrument are recognized in profit or loss.

Premiums, discounts and related transaction costs are amortized over the expected life of the instrument to interest income in the profit or loss using the effective interest rate method.

ECL on debt instruments measured at FVOCI is recognized under IFRS 9. The ECL does not reduce the carrying amount of the asset in the Interim Consolidated Statement of Financial Position, which remains at its fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI with a corresponding charge to “Impairment on financial assets” (previously “Provision for (recovery of) credit losses”) in the Interim Consolidated Statement of Profit.

Cumulative gains and losses recognized in OCI are recycled to profit or loss upon derecognition of the debt instrument.

(c) Reclassification of financial assets

Financial assets are not reclassified subsequent to their initial recognition, except in the period after Central 1 changes its business model for managing those financial assets. There were no changes to any of Central 1’s business models for the quarter ended March 31, 2018.

(d) Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ECL model. The new impairment model also applies to certain loan commitments and financial guarantee contracts. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

Central 1 recognizes loss allowances for ECL on the following financial assets that are not measured at FVTPL:

- Commercial loans and lines of credit;
- Credit union loans and overdraft accounts;
- Residential mortgages;
- Debt instruments measured at amortized cost; and
- Debt instruments measured at FVOCI.

No impairment loss is recognized on equity investments in the scope of IFRS 9.

Central 1 measures ECL at an amount equal to lifetime ECL or 12-month ECL. 12-month ECL is the portion of ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date.

Determining the Stage

The impairment model measures ECL using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – where there has not been a significant increase in credit risk since initial recognition of a financial asset, an amount equal to 12-month ECL is recorded.
- Stage 2 – when a financial asset experiences a significant increase in credit risk subsequent to the origination but is not considered to be in default, an amount equal to lifetime ECL is recorded.
- Stage 3 – when a financial asset is considered credit-impaired, an amount equal to lifetime ECL continues to be recorded or the financial asset is written off.

The interest income is calculated on the gross carrying amount for financial assets in Stage 1 and 2 and on the gross carrying amount, net of the impairment allowance for financial assets, in Stage 3.

Assessment of significant increase in credit risk

The assessment of significant increase in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. Central 1's assessment of significant increases in credit risk is performed quarterly based on the following three factors. If any of these factors indicate that a significant increase in credit risk has occurred, the instrument is moved from Stage 1 to Stage 2:

- Central 1 has established thresholds for significant increases in credit risk based on both a risk rating and change in probability of default relative to initial recognition.
- Additional qualitative reviews are performed to assess the staging results and make adjustments, as necessary, to better reflect the positions whose credit risk has increased significantly.
- Instruments which are 30 days past due are generally considered to have experienced a significant increase in credit risk, even if other metrics do not indicate that a significant increase in credit risk has occurred.

Movements between Stage 1 and Stage 2 are based on whether an instrument's credit risk as at the reporting date has increased significantly relative to the date it was initially recognized. For the purposes of this assessment, credit risk is based on an instrument's probability of default, not the losses Central 1 expects to incur. The assessment is generally performed at the instrument level.

For certain instruments with low credit risk as at the reporting date, it is presumed that credit risk has not increased significantly relative to initial recognition. Credit risk is considered to be low if the instrument has a low risk of default, and the borrower has the ability to fulfill their contractual obligations both in the near term and in the longer term, including periods of adverse changes in the economic or business environment. Central 1 considers a debt instrument to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. Certain securities measured at FVOCI and assets purchased under reverse repurchase agreements have been identified as having low credit risk.

Measurement of ECL

The measurement of ECL is based primarily on the product of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

The PD is an estimate of the likelihood that a loan will not be repaid and will go into default in either a 12-month horizon for Stage 1 or lifetime horizon for Stage 2. The PD for each individual instrument is modelled based on historic data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions.

LGD is an estimate of the amount that may not be recovered in the event of default and is modelled based on historic data and reasonable and supportable information about future economic conditions, where appropriate. LGD takes into consideration the amount and quality of any collateral held.

EAD is an estimate of the outstanding amount of credit exposure at the time a default may occur.

Expected Life

When measuring ECL, Central 1 considers the maximum contractual period over which Central 1 is exposed to credit risk. For facilities without a maximum contractual period or where the contractual period is not enforced as part of normal credit risk management practices, the expected losses are to be calculated over the period that the entity is expected to be exposed to credit risk and that expected losses are not mitigated by credit risk management actions. This period may extend beyond the contractual maturity.

Definition of Default

Central 1 considers a financial asset to be in default when:

- a missed or delayed disbursement of a contractually-obligated interest or principal payment (excluding missed payments cured within a contractually allowed grace period), as defined in credit agreements and indentures;
- a bankruptcy filing or legal receivership by the debt issuer or obligor that will likely cause a miss or delay in future contractually-obligated debt service payments;
- the borrower is unlikely to pay its credit obligations to Central 1 in full, without recourse by Central 1 to actions such as realizing security (if any is held);
- the borrower is past due more than 90 days on any credit obligation to Central 1; or
- Central 1 agrees to a distressed restructuring resulting in a material credit related diminished asset stemming from such actions as material forgiveness or postponement of payments or repayments of amount owing.

Incorporation of forward looking information

The measurement of ECL and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward looking information requires significant judgement.

Macroeconomic factors

In its ECL models, Central 1 relies on a broad range of forward looking information as economic inputs, such as: GDP growth, unemployment rates, central bank interest rates, and house price indices. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays may be made as temporary adjustments using expert judgement.

Multiple forward-looking scenarios

Central 1 determines ECL using multiple probability-weighted forward-looking scenarios. Central 1 considers both internal and external sources of information in order to achieve an unbiased, probability-weighted measure of the scenarios used. Central 1 prepares the scenarios using forecasts generated by its Allowance Working Group Committee. The forecasts are created using internal and external models/data which are then modified by the Allowance Working Group Committee as necessary to formulate a ‘base case’ view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The process involves developing two additional economic scenarios and considering the relative probabilities of each outcome.

The ‘base case’ represents the most likely outcome and is aligned with information used by Central 1 for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset. For modifications that do not result in derecognition, Central 1 will recalculate the gross carrying amount of the financial asset and recognize a modification gain or loss in profit or loss;
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effect interest rate of the existing financial asset. Where modification results in derecognition, the modified financial asset is considered to be a new asset, with the modification date being the date of initial recognition of the modified financial asset.

Presentation of allowance for ECL

Loss allowances for ECL are presented in the Interim Consolidated Statement of Financial Position as follows:

- Debt instruments measured at amortized cost and FVOCI: as a deduction from the gross carrying amount of the instruments;
- Where a financial instrument includes both a drawn and an undrawn component and Central 1 cannot identify the ECL on the undrawn component separately from those on the drawn component, Central 1 presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when Central 1 determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with Central 1's procedures for recovery of amounts due.

(e) Hedge accounting

The new hedge accounting model under IFRS 9 aims to simplify hedge accounting, align the accounting for hedge relationships more closely with an entity's risk management activities and permit hedge accounting to be applied more broadly to a greater variety of hedging instruments and risks eligible for hedge accounting. The new standard does not explicitly address the accounting for macro hedging activities, which is being addressed by the IASB through a separate project. As a result, IFRS 9 includes an accounting policy choice to retain IAS 39 for hedge accounting requirements until the amended standard resulting from the IASB's project on macro hedge accounting is effective. Central 1 has elected the accounting policy choice to continue applying hedge accounting under the IAS 39 framework. The new hedge accounting disclosures required by the related amendments to IFRS 7, *Financial Instruments: Disclosures*, however, are required for the annual period beginning January 1, 2018.

IFRS 15 – Revenue from Contracts with Customers

On January 1, 2018, Central 1 adopted IFRS 15 which replaced the revenue recognition guidance from IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and related interpretations. The new standard provides a single, principles-based five-step model to be applied to all sales contracts, based on the transfer of control of goods and services to customers. As such, Central 1 has changed its accounting policies for revenue recognition as detailed below. The adoption of IFRS 15 did not have a material impact on the Interim Consolidated Financial Statements.

Central 1 has applied IFRS 15 using the cumulative effect method and therefore the comparative figures have not been restated. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 15.

Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control, at a point in time or over time, requires judgement.

Nature of goods and services

Central 1 earns other revenue streams outside of income from financial margin. Revenues arising from these streams are recognized based on contracts with customers. The consideration received does not include any significant financing components that are not included in the transaction price. Central 1's principal activities, separated by operating segments, from which Central 1 generates its revenue, are described below.

Wholesale Financial Services

Under Wholesale Financial Services (WFS), Central 1 earns revenues primarily from Lending and Securitization Fees.

Lending Fees

Central 1 provides access to credit facilities to support clearing, daily cash management, borrowing and other short-term liquidity management that are all less than a one-year period. The revenue is composed of standby rates or commission rates in which the transaction price is determined based on a calculation over time. The rates are calculated daily and billed monthly. Therefore, the performance obligations and revenue are satisfied and recognized over time, respectively. Central 1 also assists in the funding of commercial loans where the transaction price is based on a percentage of the underlying mortgages. Fees are collected up front at inception and are recognized as the performance obligations are satisfied over time.

Securitization Fees

Securitization services fees consist of Mortgage Backed Securities (MBS) services fees and Intermediation Swap fees charged to credit unions. The MBS services fees are calculated daily and billed monthly as the performance obligations are satisfied over time with the right to invoice. The Intermediation Swap fees are calculated monthly as the performance obligations are recognized over time, however, the consideration is received semi-annually. There are no significant financing components within these contracts.

Digital Payment & Services

Under Digital Payment & Services, Central 1 earns revenues primarily from Payment Processing and Digital Banking fees.

Payment Processing and Other Fees

The Payments Services platform is primarily run through Central 1's 'Central Banking System' in conjunction with the 'PaymentStream Direct Software' and related applications. It facilitates the day-to-day banking operations of Central 1's clients. It is divided into multiple payment services that are provided over time; therefore, performance obligations are satisfied as time passes. Accordingly, revenue is recognized and collected monthly over the contracted terms based on the number of transactions that have occurred in the month or a flat monthly fee depending on the type of services provided.

Digital Banking Fees

MemberDirect® services is the multi-platform solution used to deliver digital banking services to customers on their desktop or on mobile devices. There are two main components:

- monthly services and transactions performed over time, and
- billing the implementation of a new service for a client.

Monthly services are provided over time, and therefore these performance obligations are satisfied as time passes. Accordingly, revenue is recognized and collected monthly over the contracted term based on the number of transactions that have occurred in the month or a flat monthly fee depending on the type of service provided.

Implementation projects are billed based on a per hour basis with the right to invoice. Revenue is recognized over time and accrued monthly and typically invoiced at the completion of the project or based on certain milestones if included within the original contract. Contracts are typically completed within a one-year period resulting in no significant financing components.

Other Revenues

Central 1 also earns other revenues primarily from advertising and marketing dues.

Advertising Dues

Central 1 collects advertising dues, as part of the Province Wide Communications Program, from its member credit unions to develop a general brand awareness about the credit union industry. Campaigns range from website creation, videos and internet media, and social media marketing. Marketing prepares a budget for allocated funds to be used, and funds are approved by the member credit unions by vote at the Annual General Meeting. Central 1 engages third party vendors to perform these services. The member credit unions indirectly benefit from the marketing campaigns as the funds are used to promote the credit union network and increase membership. As such, performance obligations are satisfied over time as marketing activities are engaged.

Marketing Dues

Central 1 has a full-service marketing agency that provides marketing and creative services in the areas of strategic marketing, event, and project management. The marketing group also prepares an annual research package with industry analysis, ordered by individual credit unions.

The annual research package consists of multiple reports delivered, as such performance obligations are settled upon delivery of the goods and can be recognized at a point in time. Transaction prices are determined based on the number of reports ordered by a credit union within the contract and allocated to each report accordingly.

4. Transition impact of IFRS 9 adoption

Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and AOCI as at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model in which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

If a debt instrument had low credit risk at the date of initial application of IFRS 9, then Central 1 has assumed that credit risk on the asset had not increased significantly since its initial recognition.

IFRS 9 is not applied to financial assets or financial liabilities that have been derecognized as at January 1, 2018.

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for Central 1's financial assets and financial liabilities as at January 1, 2018.

(Thousands of dollars)	IAS 39 Measurement Category		IAS 39 Carrying Amount Dec 31 2017	IFRS 9 Measurement Category		IFRS 9 Carrying Amount Jan 1 2018
Assets						
Cash	Loans and receivables	$	550,763	Amortized Cost	$	550,763
Deposits with regulated financial institutions	Loans and receivables		5,975	Amortized Cost		5,972
Securities	FVTPL		8,889,745	Mandatorily FVTPL		8,893,543
	AFS		5,518,174	FVOCI		5,659,652
Reinvestment assets under the Canada Mortgage Bond Program[3]	Loans and receivables		228	Amortized Cost		228
	FVTPL		409,571	Mandatorily FVTPL		545,019
	AFS		135,448			
Derivative assets	FVTPL		101,839	Mandatorily FVTPL		101,839
Loans	Loans and receivables		2,150,610	Amortized Cost		2,008,083
	Designated FVTPL		11,449	Mandatorily FVTPL		11,449
Settlements in-transit	Loans and receivables		44,134	Amortized Cost		44,134
Other assets[1]	Loans and receivables		15,636	Amortized Cost		15,636
Total financial assets		$	17,833,572		$	17,836,318
Financial Liabilities						
Deposits	Designated FVTPL	$	8,561,503	Designated FVTPL	$	8,561,503
	Other liabilities		3,436,892	Amortized Cost		3,436,892
Obligations related to securities sold short	FVTPL		95,503	Mandatorily FVTPL		95,503
Derivative liabilities	FVTPL		83,933	Mandatorily FVTPL		83,933
Debt securities issued	Other liabilities		2,178,650	Amortized Cost		2,178,650
Obligations under the Canada Mortgage Bond Program	FVTPL		1,190,108	Designated FVTPL		1,190,108
Subordinated liabilities	Other liabilities		421,765	Amortized Cost		421,765
Securities under repurchase agreements	Other liabilities		500,472	Amortized Cost		500,472
Settlements in-transit	Other liabilities		389,814	Amortized Cost		389,814
Other liabilities[2]	Other liabilities		36,096	Amortized Cost		36,096
Total financial liabilities		$	16,894,736		$	16,894,736

[1] Other assets only included accounts receivable balance
[2] Other liabilities only included dividends and accounts payable balances
[3] Loans and receivables under IAS 39 and amortized cost under IFRS 9 for Reinvestment assets under the Canada Mortgage Bond Program represent accrued interest

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on January 1, 2018.

(Thousands of dollars)	IAS 39 Carrying Amount Dec 31 2017	Adjustment for Reclassification	Adjustment for Remeasurement[3]	Adjustment for Own Credit Risk[4]	Adjustment for Impairment	Adjustment for Tax[6]	IFRS 9 Carrying Amount Jan 1 2018
Assets							
Cash	$ 550,763						$ 550,763
Deposits with regulated financial institutions[1]	5,975				(3)		5,972
Securities at FVTPL[2]	8,889,745	447	3,351				8,893,543
Securities at FVOCI[2]	5,518,174	141,478			-		5,659,652
Reinvestment assets under the CMB Program	545,247						545,247
Derivative assets	101,839						101,839
Loans							
Commercial loans[1]	637,417				(602)		636,815
Mortgage pools[2]	141,925	(141,925)					-
Loans to credit unions	782,549						782,549
Loans to officers and employees	7,937						7,937
Securities acquired under reverse repo agreement	592,231						592,231
Other assets	295,098						295,098
	$ 18,068,900	$ -	$ 3,351	$ -	$ (605)	$ -	$ 18,071,646
Liabilities							
Deposits designated at FVTPL	$ 8,561,503						$ 8,561,503
Deposits at amortized cost	3,436,892						3,436,892
Obligations related to securities sold short	95,503						95,503
Derivative liabilities	83,933						83,933
Debt securities issued	2,178,650						2,178,650
Obligations under the CMB Program	1,190,108						1,190,108
Subordinated liabilities	421,765						421,765
Securities under repurchase agreements	500,472						500,472
Other liabilities	480,952					587	481,539
	$ 16,949,778	$ -	$ -	$ -	$ -	$ 587	$ 16,950,365
Equity							
Share capital	428,143						428,143
Retained earnings[5]	584,971	10,321	3,351	14,290	(1,058)	(4,887)	606,988
Contributed surplus	72,897						72,897
Reserves	3,950				(2)		3,948
Non-controlling interest	10,088						10,088
Accumulated other comprehensive income[5]	19,072	(10,321)		(14,290)	455	4,300	(784)
	$ 1,119,122	$ -	$ 3,351	$ -	$ (605)	$ (587)	$ 1,121,281

[1] Adjustments to certain balances against allowance for credit losses based on the ECL model under IFRS 9 primarily related to $604 thousand for financial assets at amortized cost and $455 thousand for financial assets at FVOCI.

[2] The following reclassification adjustments have been made upon adoption of IFRS 9:
- equity investments of $42.1 million previously classified as available-for-sale were reclassified to FVTPL.
- mortgage pools of $141.9 million previously classified as loans & receivable measured at amortized cost were reclassified as FVTPL based on the assessment of business model and contractual cash flows.
- debt securities of $17.5 million for securitization activities previously classified as available-for-sale were reclassified as FVTPL based on the assessment of business model and contractual cash flows.
- securities of $191.0 million previously classified as trading assets were reclassified to FVOCI based on the assessment of business model and contractual cash flows.
- total securities of $10.0 million owned by Central 1's subsidiaries previously classified as trading assets were reclassified to FVOCI based on the assessment of business model and contractual cash flows.

[3] The adjustment for remeasurement primarily relates to debt instruments (mortgage pools) previously classified as loans and receivables measured at amortized cost and now reclassified to Securities at FVTPL upon adoption of IFRS 9.

[4] Reclassification of cumulative changes in Central 1's own credit risk on deposits classified as FVTPL as of the date of initial application, between retained earnings and AOCI.

[5] Amounts reclassified between retained earnings and AOCI relate to unrealized gains/losses on underlying assets, which have been reclassified in accordance with the reclassification of the underlying assets, as noted above.

[6] The tax adjustments related to the impact of the IFRS 9 related adjustments to retained earnings and AOCI.

The following table analyses the impact, net of tax, of transition to IFRS 9 on reserves and retained earnings. The impact relates to the liability credit reserve, the fair value reserve and retained earnings. There is no impact on other components of equity.

(Thousands of dollars)		
Liability Credit Reserve		
Closing balance under IAS 39 (December 31 2017)	$	-
Change of credit risk for financial liabilities designated at FVTPL		(14,290)
Income tax expense/recovery		2,501
Opening balance under IFRS 9 (January 1 2018)	**$**	**(11,789)**
Fair Value and Affiliates Reserve		
Closing balance under IAS 39 (December 31 2017)	$	20,880
Reclassification of investment securities from available-for-sale to FVTPL		(10,437)
Income tax expense/recovery(1)		1,816
Reclassification of trading assets (debt) from FVTPL to FVOCI		116
Income tax expense/recovery(1)		(17)
Recognition of expected credit losses under IFRS 9		455
Opening balance under IFRS 9 (January 1 2018)	**$**	**12,813**
Retained earnings		
Closing balance under IAS 39 (December 31 2017)	$	584,971
Reclassification under IFRS 9		10,321
Income tax expense/recovery(1)		(1,799)
Remeasurement under IFRS 9		3,351
Income tax expense/recovery(1)		(587)
Own credit risk adjustment under IFRS 9		14,290
Income tax expense/recovery(1)		(2,501)
Recognition of expected credit losses under IFRS 9		(1,058)
Opening balance under IFRS 9 (January 1 2018)	**$**	**606,988**

(1) The tax adjustments related to the impact of the IFRS 9 related adjustments to retained earnings and AOCI.

The following table reconciles the closing impairment allowance for financial assets in accordance with IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as at December 31, 2017; to the opening ECL allowance determined in accordance with IFRS 9 as at January 1, 2018.

(Thousands of dollars)	Specific Allowance	Collective Allowance	IAS 39 Impairment Allowance Dec 31 2017	Transition Adjustments	IFRS 9 ECL Jan 1 2018	Stage 1	Stage 2	Stage 3
Loans and receivables under IAS 39/financial assets at amortized cost under IFRS 9	$ 335	$ 192	$ 527	$ 605	$ 1,132	$ 667	$ 31	$ 434
Available-for-sale debt investment securities under IAS 39/debt financial assets at FVOCI under IFRS 9				455	455	425	30	-
	$ 335	$ 192	$ 527	$ 1,060	$ 1,587	$ 1,092	$ 61	$ 434

5. Use of estimates and judgements

Additional details of Central 1's use of estimates and judgements were disclosed in Note 4 of the Consolidated Financial Statements as at December 31, 2017.

(a) Expected credit loss allowance

The ECL model requires the recognition of credit losses based on 12 months of expected losses for performing loans and recognition of lifetime losses on performing loans that have experienced a significant increase in credit risk since origination. The determination of a significant increase in credit risk takes into account many different factors and varies by product and risk segment. The main factors considered in making this determination are relative changes in probability of default since origination, and certain other criteria such as 30-day past due and watchlist status. The assessment of significant increase in credit risk requires experienced credit judgement.

In determining whether there has been a significant increase in credit risk and in calculating the amount of expected credit losses, Central 1 must rely on estimates and exercise judgement regarding matters for which the ultimate outcome is unknown. These judgements include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the expected credit loss allowance.

The calculation of expected credit losses includes the explicit incorporation of forecasts of future economic conditions. Central 1 has developed models incorporating specific macroeconomic variables that are relevant to each specific portfolio. Key economic variables for our retail portfolios include unemployment rate, housing price index and interest rates and for Central 1's wholesale portfolios include gross domestic product (GDP), interest rates and volatility index, for our primary operating markets of Canada where considered significant. The forecast is developed internally by Central 1's Allowance Working Group Committee, considering external data and Central 1's view of future economic conditions. Central 1 exercises experienced credit judgement to incorporate multiple economic forecasts which are probability-weighted in the determination of the final expected credit loss. The allowance is sensitive to changes in both economic forecast and the probability-weight assigned to each forecast scenario.

6. Securities

(Thousands of dollars)		Mar 31 2018		Dec 31 2017
Securities FVTPL				
Government and government guaranteed securities	**$**	**6,616,282**	$	6,000,006
Corporate and major financial institutions AA[1] or greater		**1,607,632**		1,492,034
Other		**1,445,857**		1,397,705
Fair value	**$**	**9,669,771**	$	8,889,745
Amortized cost	**$**	**9,722,965**	$	8,943,209
Securities FVOCI				
Government and government guaranteed securities	**$**	**4,079,881**	$	4,476,928
Corporate and major financial institutions AA[1] or greater		**581,906**		283,169
Other		**861,965**		758,077
Fair value	**$**	**5,523,752**	$	5,518,174
	$	**15,193,523**	$	14,407,919

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

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 amortized cost under IFRS 9 and loans and receivables under IAS 39. The following table provides a breakdown of these reinvestment assets:

(Thousands of dollars)		Mar 31 2018		Dec 31 2017
FVTPL				
Government and government guaranteed securities	**$**	**562,822**	$	409,571
Amortized cost	**$**	**565,161**	$	411,283
Available-for-sale under IAS 39				
Government and government guaranteed securities		**n/a**	$	135,448
Amortized cost		**n/a**	$	135,425
Amortized cost under IFRS 9 / Loans and receivables under IAS 39				
Assets acquired under reverse repurchase agreements	**$**	**43,234**	$	228
Total reinvestment assets under the Canada Mortgage Bond Program	**$**	**606,056**	$	545,247

7. Derivative instruments

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

		Mar 31 2018		Dec 31 2017
(Thousands of dollars)	**Asset**	**Liability**	**Asset**	**Liability**
Interest rate contracts				
Bond forwards	**$ 680**	**$ 5**	$ 74	$ 234
Futures contracts	**-**	**60**	11	122
Swap contracts	**162,429**	**152,482**	153,555	135,897
Options purchased	**351**	**-**	309	-
Options written	**-**	**346**	-	304
	163,460	**152,893**	153,949	136,557
Foreign exchange contracts				
Forward contracts	**3,419**	**3,831**	2,984	2,477
Other				
Equity index-linked options	**8,586**	**8,581**	11,370	11,363
Total fair value before adjustment	**175,465**	**165,305**	168,303	150,397
Adjustment for offsetting	**(71,298)**	**(71,298)**	(66,464)	(66,464)
Fair value	**$ 104,167**	**$ 94,007**	$ 101,839	$ 83,933

The amounts that have been pledged and received as collateral are $32.5 million and $10.9 million, respectively, as at March 31, 2018 (December 31, 2017 - $19.8 million and $12.4 million).

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

Hedge accounting

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

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

(Thousands of dollars)		Mar 31 2018 Asset		Mar 31 2018 Liability		Dec 31 2017 Asset		Dec 31 2017 Liability
Swap contracts	**$**	**-**	**$**	**4,337**	$	-	$	3,156

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 2018		Dec 31 2017
Change in the fair value on hedging derivatives	**$**	**(1,181)**	$	(4,770)
Fair value hedge adjustment on loans and medium-term notes		**1,175**		4,800
Hedge ineffectiveness recorded in profit	**$**	**(6)**	$	30

8. Loans

Loans that are classified as amortized cost from January 1, 2018 and loans and receivables measured at amortized cost before January 1, 2018 are as follows.

(Thousands of dollars)	Mar 31 2018	Dec 31 2017
Due on demand		
Credit unions	**$ 793,572**	$ 728,449
Commercial and others	**3,988**	1,406
	797,560	729,855
Term		
Credit unions	**93,393**	53,832
Commercial and others	**636,700**	622,392
Reverse repurchase agreements	**1,305,180**	591,944
Officers and employees	**7,555**	7,937
Residential mortgages	**-**	139,870
	2,042,828	1,415,975
	2,840,388	2,145,830
Accrued interest	**2,807**	2,671
Premium	**6,690**	8,897
	2,849,885	2,157,398
Allowance for credit losses	**(1,332)**	(527)
Amortized cost	**2,848,553**	2,156,871
Fair value hedge adjustment[(1)]	**(6,480)**	(6,261)
Carrying value	**$ 2,842,073**	$ 2,150,610
FVTPL		
Term		
Commercial and others	**$ 11,132**	$ 11,225
Accrued interest	**33**	35
Premium	**99**	104
Amortized cost	**$ 11,264**	$ 11,364
Fair value	**$ 11,299**	$ 11,449
Total loans	**$ 2,853,372**	$ 2,162,059

[(1)] Central 1 enters into fair value hedges to hedge the risks caused by changes in interest rates. See Note 7 for detailed information on hedge accounting.

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

9. Allowance for credit losses

The allowance for credit losses as at March 31, 2018 under IFRS 9 are as follows:

(Thousands of dollars)		Stage 1		Stage 2		Stage 3		Mar 31 2018 Total
ECL on financial assets at amortized cost								
Balance at January 1, 2018	$	667	$	31	$	434	$	1,132
Impairment on financial assets		157		46		-		203
Balance at March 31, 2018	**$**	**824**	**$**	**77**	**$**	**434**	**$**	**1,335**
ECL on financial assets at FVOCI [(1)]								
Balance at January 1, 2018	$	425	$	30	$	-	$	455
Impairment (recovery) on financial assets		10		(30)		-		(20)
Balance at March 31, 2018	**$**	**435**	**$**	**-**	**$**	**-**	**$**	**435**
Total ECL								
Balance at January 1, 2018	$	1,092	$	61	$	434	$	1,587
Impairment on financial assets		167		16		-		183
Balance at March 31, 2018	**$**	**1,259**	**$**	**77**	**$**	**434**	**$**	**1,770**

[(1)] ECL on financial assets at FVOCI are not separately recognized on the Interim Consolidated Statements of Financial Position as these assets are recorded at fair value. The cumulative amount of ECL recognized in profit or loss is presented in AOCI.

The allowance for credit losses as at and for the year ended December 31, 2017 under IAS 39 are as follows:

(Thousands of dollars)		Dec 31 2017
Balance at beginning of period	$	518
Net write-off during the period		129
Recovery of credit losses		(120)
Balance at end of period	$	527

10. Other assets

(Thousands of dollars)		Mar 31 2018		Dec 31 2017
Investment property	**$**	**1,189**	$	1,216
Prepaid expenses		**14,745**		9,956
Post-employment benefits		**3,047**		3,085
Accounts receivable and other		**21,513**		15,636
	$	**40,494**	$	29,893

Contract balances

(Thousands of dollars)		Mar 31 2018		Jan 1 2018
Receivables arising from contracts with customers				
Trade receivables	**$**	**6,816**	$	6,012
Contract assets		**13,779**		7,336
Total contract assets	**$**	**20,595**	$	13,348
Total contract liabilities	**$**	**4,149**	$	5,898

11. Deposits

(Thousands of dollars)		Mar 31 2018		Dec 31 2017
Deposits designated as FVTPL				
Due within three months	**$**	**654,889**	$	1,788,615
Due after three months and within one year		**1,806,424**		1,704,206
Due after one year and within five years		**5,001,927**		5,103,429
Due after five years		**750**		350
		7,463,990		8,596,600
Accrued interest		**48,782**		44,622
Amortized cost	**$**	**7,512,772**	$	8,641,222
Fair value	**$**	**7,424,246**	$	8,561,503
Deposits held at amortized cost				
Due on demand	**$**	**1,453,981**	$	1,577,881
Due within three months		**1,648,969**		79,739
Due after three months and within one year		**1,199,147**		805,077
Due after one year and within five years		**1,103,982**		968,315
		5,406,079		3,431,012
Accrued interest		**10,139**		5,880
Amortized cost	**$**	**5,416,218**	$	3,436,892
	$	**12,840,464**	$	11,998,395

12. Obligations related to securities sold short

(Thousands of dollars)		Mar 31 2018		Dec 31 2017
Amortized cost	**$**	**179,263**	$	95,819
Fair value	**$**	**179,368**	$	95,503

13. Debt securities issued

(Thousands of dollars)		Mar 31 2018		Dec 31 2017
Amounts				
Due within three months	$	**633,542**	$	805,034
Due after three months and within one year		**449,770**		481,473
Due after one year and within five years		**1,245,227**		896,469
		2,328,539		2,182,976
Accrued interest		**7,693**		5,209
Amortized cost		**2,336,232**		2,188,185
Fair value hedge adjustment[1]		**(10,877)**		(9,535)
Carrying value	$	**2,325,355**	$	2,178,650

[1] Central 1 enters into fair value hedges to hedge the risk caused by changes in interest rates. See Note 7 for detailed information on hedge accounting.

Central 1 has established $200.0 million of unsecured credit facilities with various financial institutions. The unsecured facilities rank equally with the outstanding notes and deposits. At March 31, 2018 and December 31, 2017, the amounts outstanding were $111.9 million and $117.4 million, respectively.

Central 1 is authorized to issue up to $1.0 billion in short-term commercial paper and up to $1.7 billion in other borrowings which includes Central 1's medium-term note facility. At March 31, 2018, a par value of $634.2 million was borrowed under the short-term commercial paper facility (December 31, 2017 - $837.8 million) and a par value of $1.7 billion was borrowed under the medium-term note facility (December 31, 2017 - $1.4 billion).

On November 16, 2016, Central 1 issued $450.0 million principal amount of Series 13 medium-term floating rate notes due November 21, 2018. The notes bear interest at 3-month Canadian Dollar Offering Rate (CDOR) plus 62 basis points payable quarterly on the 21st of February, May, August, and November of each year, commencing February 21, 2017.

On March 9, 2017, Central 1 issued $400.0 million principal amount of Series 14 medium-term fixed rate notes due March 16, 2020. The notes bear interest at a fixed rate of 1.87%, payable semi-annually on the 16th of March and September of each year, commencing September 16, 2017.

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%, payable semi-annually on the 7th of May and November of each year, commencing May 7, 2018.

On January 31, 2018, Central 1 issued $350.0 million principal amount of Series 16 medium-term floating rate notes due February 5, 2021. The notes bear interest at 3-month CDOR plus 35 basis points payable and reset quarterly on the 5th of February, May, August, and November of each year, commencing May 5, 2018.

14. Obligations under the Canada Mortgage Bond Program

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

(Thousands of dollars)		Mar 31 2018		Dec 31 2017
Amounts				
Due within one year	**$**	**213,156**	$	213,156
Due after one year and within five years		**998,170**		982,886
		1,211,326		1,196,042
Accrued interest		**4,943**		966
Amortized cost	**$**	**1,216,269**	$	1,197,008
Fair value	**$**	**1,207,810**	$	1,190,108

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

(Thousands of dollars)		Mar 31 2018		Dec 31 2017
FVTPL				
Total reinvestment assets under the Canada Mortgage Bond Program (see Note 6)	**$**	**606,056**	$	545,247
Assets recognized as securities		**608,115**		519,193
Fair value	**$**	**1,214,171**	$	1,064,440
Amortized cost				
Assets recognized in loans	**$**	**-**	$	130,933
Total underlying assets designated	**$**	**1,214,171**	$	1,195,373

15. Subordinated liabilities

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

(Thousands of dollars)		Mar 31 2018		Dec 31 2017
Series 4	**$**	**200,000**	$	200,000
Series 5		**21,000**		21,000
Series 6		**200,000**		200,000
Principal amount		**421,000**		421,000
Discount		**(1,562)**		(1,646)
Accrued interest		**5,373**		2,411
Amortized cost	**$**	**424,811**	$	421,765

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.

16. 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, 2018:

			Non-cash changes		
(Thousands of dollars)	Dec 31 2017	Cash flow changes	Fair value changes	Other	Mar 31 2018
Debt securities issued	$ 2,178,650	$ 145,563	$ -	$ 1,142	**$ 2,325,355**
Obligations under the CMB Program	1,190,108	15,215	(1,559)	4,046	**1,207,810**
Subordinated liabilities	421,765	-	-	3,046	**424,811**
Securities under repurchase agreements	500,472	161,916	-	166	**662,554**
Dividends payable	18,129	(18,129)	-	-	**-**
Balance at end of period	$ 4,309,124	$ 304,565	$ (1,559)	$ 8,400	**$ 4,620,530**

			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
Balance at end of period	$ 3,460,190	$ 683,817	$ 371	$ 14,155	$ 4,158,533

17. Other liabilities

(Thousands of dollars)	Mar 31 2018	Dec 31 2017
Post-employment benefits	**$ 22,473**	$ 22,503
Short-term employee benefits	**9,252**	6,548
Dividends payable	**-**	18,129
Unearned insurance premiums	**697**	1,138
Accounts payable and other	**18,415**	17,967
	$ 50,837	$ 66,285

18. Share capital

Details of Central 1's share capital disclosures were disclosed in Note 21 of the Annual Consolidated Financial Statements as at December 31, 2017.

(Thousands of shares)	For the three months ended Mar 31 2018	For the year ended Dec 31 2017
Number of shares issued		
Class A - credit unions		
Balance at beginning of period	**428,101**	416,952
Issued during the period	**-**	41,149
Redeemed during the period	**(378,101)**	(30,000)
Balance at end of period	**50,000**	428,101
Class B - co-operatives		
Balance at beginning of period	**5**	5
Balance at end of period	**5**	5
Class C - other		
Balance at beginning of period	**7**	7
Balance at end of period	**7**	7
Class E - credit unions		
Balance at beginning of period	**3,051**	3,157
Redeemed during the period	**(530)**	(106)
Balance at end of period	**2,521**	3,051
Class F - credit unions		
Balance at beginning of period	**-**	-
Issued during the period	**425,949**	-
Balance at end of period	**425,949**	-
Number of treasury shares		
Treasury shares - Class E		
Balance at beginning of period	**(44)**	-
Reacquired during the period	**(220)**	(44)
Balance at end of period	**(264)**	(44)

On March 29, 2018, Central 1 issued 425.9 million Class F Shares with a price of $1 per share and redeemed 378.1 million Class A Shares with a redemption value of $1 per share, following members' approval of changes to Central 1's Constitutions & Rules. As a part of this transaction, Central 1 also redeemed or reacquired 750 thousand Class E Shares for an aggregate value of $75.0 million, of which 220 thousand Class E Shares were reacquired and maintained as treasury shares through one of Central 1's wholly owned subsidiaries.

(Thousands of dollars)		Mar 31 2018		Dec 31 2017
Amount of share capital outstanding				
Outstanding $1 par value shares				
Class A - credit unions	$	**50,000**	$	428,101
Class B - cooperatives		**5**		5
Class C - other		**7**		7
Class F - credit unions		**425,949**		-
Outstanding $0.01 par value shares				
Class E - credit unions		**25**		31
		475,986		428,144
Amount of treasury shares				
Treasury shares		**(2)**		(1)
Balance at end of period	$	**475,984**	$	428,143

The dividend amounts are as follows:

(Thousands of dollars)		As at and for the three months ended Mar 31 2018		For the year ended Dec 31 2017
Dividend payable, balance at beginning of period	$	**18,129**	$	13,580
Declared during the period[1]		**-**		23,129
Paid during the period		**(18,129)**		(18,580)
Dividend payable, balance at the end of period	$	**-**	$	18,129

[1] Dividends for all classes of shares are accrued on an annual basis subject to the approval of Central 1's Board of Directors

19. Loss on disposal of financial instruments

(Thousands of dollars)		For the three months ended Mar 31 2018		Mar 31 2017
Net (loss) on disposal of securities at FVTPL	$	**(12,894)**	$	(3,623)
Net gain on disposal of securities at FVOCI		**4,708**		n/a
Net gain on disposal of available for sale investment securities		**n/a**		945
Net gain (loss) on disposal of derivative instruments		**2,872**		(265)
Net gain (loss) on disposal of deposits designated at FVTPL		**334**		(2,073)
Net gain on disposal of obligations related to securities sold short		**268**		1,155
	$	**(4,712)**	$	(3,861)

20. Change in fair value of financial instruments

(Thousands of dollars)	For the three months ended Mar 31 2018	Mar 31 2017
Securities at FVTPL	**$ (5,565)**	$ 19,309
Loans	**(52)**	43
Activities under the Canada Mortgage Bond Program		
Reinvestment assets	**(650)**	345
Derivative instruments	**(867)**	280
Obligations under the Canada Mortgage Bond Program	**1,559**	(371)
Derivative instruments	**885**	423
Financial liabilities at FVTPL		
Deposits designated as FVTPL	**6,776**	(6,886)
Obligations related to securities sold short	**(420)**	(467)
	$ 1,666	$ 12,676

21. Non-financial income

			For the three months ended Mar 31 2018	Mar 31 2017
(Thousands of dollars)	Revenue arising from contracts with customers	Revenue arising from other sources	Total	Total
Mandatory Liquidity Pool	**$ -**	**$ 155**	**$ 155**	$ (93)
Wholesale Financial Services				
Lending fees	**1,637**	**-**	**1,637**	1,439
Securitization fees	**1,899**	**-**	**1,899**	1,849
Foreign exchange income	**-**	**1,821**	**1,821**	1,614
Other	**1,469**	**487**	**1,956**	1,804
Digital & Payment Services				
Payment processing and other fees	**13,969**	**-**	**13,969**	12,930
Digital banking fees	**8,005**	**-**	**8,005**	7,487
System Affiliates				
Equity interest in affiliates	**-**	**126**	**126**	2,395
Income from investees	**-**	**1,443**	**1,443**	1,283
Other				
Membership dues	**2,941**	**-**	**2,941**	2,441
Other	**208**	**626**	**834**	1,889
	$ 30,128	**$ 4,658**	**$ 34,786**	$ 35,038

Gains from system affiliates

(Thousands of dollars)	Mar 31 2018 Revenue arising from contracts with customers	Mar 31 2018 Revenue arising from other sources	Mar 31 2018 Total	Mar 31 2017 Total
CUMIS transaction (Note 27)	$ -	$ 23,673	$ 23,673	$ -
Interac restructuring (Note 27)	-	19,344	19,344	-
	$ -	$ 43,017	$ 43,017	$ -

22. Other administrative expense

(Thousands of dollars)	For the three months ended Mar 31 2018	For the three months ended Mar 31 2017
Cost of sales and services	$ 3,898	$ 4,962
Cost of payments processing	3,704	3,892
Management information systems	4,581	3,379
Professional fees	6,436	2,753
Flow through membership dues	1,426	1,497
Business development projects	164	245
Other	2,435	798
	$ 22,644	$ 17,526

23. Segment information

For management reporting purposes, Central 1's operations and activities are organized around three key business segments: Mandatory Liquidity Pool (MLP), WFS, and Digital & Payment Services. Central 1's investments in equity shares of network-related entities other than the wholly owned subsidiaries are separately reported under System Affiliates. All other activities or transactions which do not relate directly to these business segments are reported in "Other".

A description of each business segment is as follows:

Mandatory Liquidity Pool

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

Wholesale Financial Services

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

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

The WFS segment 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 participant, and acts as the credit union networks' financial institution connection to the Canadian payments system.

With a focus on expanding our markets, solidifying our funding and providing holistic and proactive solutions to our members and clients, Central 1 reorganized its Trade Services functions in September 2017 and moved a number of functions into WFS, including risk solutions and product compliance & design. Comparative information has been restated to reflect this change.

Digital & Payment Services

Digital & Payment Services develops and operates innovative digital banking technologies and payment processing solutions for member credit unions, other financial institutions and corporate clients. This segment offers *MemberDirect*® services, a host of digital banking 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.

System Affiliates

This segment includes Central 1's investments in equity shares of network-related entities other than the wholly owned subsidiaries. For those entities over which Central 1 has significant influence, Central 1 uses equity method to account for its share of income in these entities. The details of the entities that Central 1 has substantial investments and over which Central 1 has significant influence are described in Note 27.

Other

The Other segment comprises enterprise level activities which are not allocated to business segments described above, 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.

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 judgements 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 three core business segments and dues funded activities 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 2.

Periodically, certain business lines and units are transferred among business segments to closely align Central 1's organizational structure with its strategic priorities. 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, 2018:

(Thousands of dollars)	Mandatory Liquidity Pool	Wholesale Financial Services	Digital & Payment Services	System Affiliates	Other	Total
Net financial income (expense) including impairment on financial assets	$ 5,611	$ 8,034	$ (76)	$ (636)	$ -	**$ 12,933**
Non-financial income	155	7,313	21,974	44,586	3,775	**77,803**
Net financial and other income	5,766	15,347	21,898	43,950	3,775	**90,736**
Non-financial expense	(2,041)	(7,470)	(24,671)	(1,333)	(9,471)	**(44,986)**
Profit (loss) before income taxes	3,725	7,877	(2,773)	42,617	(5,696)	**45,750**
Income tax expense/recovery	647	2,464	(485)	7,458	(5,324)	**4,760**
Profit (loss) for the period	**$ 3,078**	**$ 5,413**	**$ (2,288)**	**$ 35,159**	**$ (372)**	**$ 40,990**
Total assets at March 31 2018	**$ 8,731,499**	**$ 10,439,119**	**$ 21,888**	**$ 230,589**	**$ 99,145**	**$ 19,522,240**
Total liabilities at March 31 2018	**$ 8,211,146**	**$ 9,997,296**	**$ (36,838)**	**$ 152,574**	**$ 56,641**	**$ 18,380,819**
Total equity at March 31 2018	**$ 520,353**	**$ 441,823**	**$ 58,726**	**$ 78,015**	**$ 42,504**	**$ 1,141,421**

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	System Affiliates	Other	Total
Net financial income (expense) including impairment on financial assets	$ 8,222	$ 13,764	$ (72)	$ (1,054)	$ -	$ 20,860
Non-financial income	(93)	6,706	20,417	3,678	4,330	35,038
Net financial and other income	8,129	20,470	20,345	2,624	4,330	55,898
Non-financial expense	(1,972)	(6,749)	(19,753)	(1,274)	(8,503)	(38,251)
Profit (loss) before income taxes	6,157	13,721	592	1,350	(4,173)	17,647
Income tax expense/recovery	862	1,724	83	(10)	374	3,033
Profit (loss) for the period	$ 5,295	$ 11,997	$ 509	$ 1,360	$ (4,547)	$ 14,614
Total assets at March 31 2017	$ 8,204,067	$ 9,551,882	$ 18,761	$ 183,514	$ 57,495	$ 18,015,719
Total liabilities at March 31 2017	$ 7,695,608	$ 9,105,514	$ (3,986)	$ 147,677	$ (30,402)	$ 16,914,411
Total equity at March 31 2017	$ 508,459	$ 446,368	$ 22,747	$ 35,837	$ 87,897	$ 1,101,308

24. 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, standby letters of credit and mortgage purchase commitment.

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

(Thousands of dollars)		Mar 31 2018		Dec 31 2017
Commitments to extend credit	**$**	**4,251,714**	$	4,327,871
Guarantees				
Financial guarantees	**$**	**397,500**	$	367,500
Performance guarantees	**$**	**810,000**	$	810,000
Standby letters of credit	**$**	**186,556**	$	187,910
Future prepayment swap				
Reinvestment commitment	**$**	**884,538**	$	770,314

Amounts utilized under these agreements representing off-balance sheet amounts for commitments to extend credit, guarantees, and standby letters of credit, respectively, on March 31, 2018 are $38.8 million, $460.3 million and $106.6 million (December 31, 2017 - $17.4 million, $455.3 million and $102.8 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.

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 2018		Dec 31 2017
Assets pledged to Bank of Canada & Direct Clearing Organizations [1][2]	$	**56,126**	$	57,206
Assets pledged in relation to:				
Derivative financial instrument transactions		**32,546**		19,828
Securities lending		**9,504**		10,496
Obligations under the Canada Mortgage Bond Program		**565,769**		604,105
Reinvestment assets under the Canada Mortgage Bond Program		**606,056**		545,247
Securities under repurchase agreements		**662,554**		500,472
	$	**1,932,555**	$	1,737,354

[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.

25. Financial instruments – Fair value

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

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

Financial instruments whose carrying value approximate fair value

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

Financial instruments for which fair value is determined using valuation techniques

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

(Thousands of dollars) Mar 31 2018		Level 1		Level 2		Level 3		Amounts at Fair Value		Amounts at Amortized Cost(1)		Total Carrying Value
Financial assets												
Cash	$	-	$	-	$	-	$	-	$	58.3		58.3
Deposits with regulated financial institutions(1)		-		-		-		-		6.0		6.0
Securities		-		15,147.5		46.1		15,193.6		-		15,193.6
Reinvestment assets under the CMB Program		-		562.8		-		562.8		43.3		606.1
Derivative assets		-		104.2		-		104.2		-		104.2
Loans		-		-		11.3		11.3		2,842.1		2,853.4
Total financial assets	$	-	$	15,814.5	$	57.4	$	15,871.9	$	2,949.7	$	18,821.6
Financial liabilities												
Deposits	$	-	$	7,424.2	$	-	$	7,424.2	$	5,416.2		12,840.4
Obligations related to securities sold short		-		179.4		-		179.4		-		179.4
Derivative liabilities		-		94.0		-		94.0		-		94.0
Debt securities issued		-		-		-		-		2,325.4		2,325.4
Obligations under the CMB Program		-		1,207.8		-		1,207.8		-		1,207.8
Subordinated liabilities		-		-		-		-		424.8		424.8
Provisions		-		-		-		-		1.9		1.9
Securities under repurchase agreements		-		-		-		-		662.6		662.6
Total financial liabilities	$	-	$	8,905.4	$	-	$	8,905.4	$	8,830.9	$	17,736.3

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

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

(Thousands of dollars) Dec 31 2017		Level 1		Level 2		Level 3		Amounts at Fair Value		Amounts at Amortized Cost(1)		Total Carrying Value
Financial assets	$	-	$	15,012.7	$	21.3	$	15,034.0	$	2,739.8	$	17,773.8
Financial liabilities	$	-	$	9,931.0	$	-	$	9,931.0	$	6,537.9	$	16,468.9

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 2017	Purchases	Disposals	Transfers	Changes in fair value of assets in profit or loss	Fair value at Mar 31 2018
Equity shares	$ 9.9	$ 4.1	$ -	$ 32.1	$ -	**$ 46.1**
Loans	11.4	-	-	-	(0.1)	**11.3**
Total financial assets	$ 21.3	$ 4.1	$ -	$ 32.1	$ (0.1)	**$ 57.4**

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		Unrealized Gain (Loss)	
(Millions of dollars)	Mar 31 2018	Dec 31 2017	Mar 31 2018	Dec 31 2017	Mar 31 2018	Dec 31 2017
Assets						
Cash	**$ 58.3**	$ 550.8	**$ 58.3**	$ 550.8	**$ -**	$ -
Deposits with regulated financial institutions(1)	**6.0**	6.0	**6.0**	6.0	**-**	-
Securities FVTPL	**9,669.8**	8,889.7	**9,669.8**	8,889.7	**-**	-
Securities FVOCI	**5,523.8**	5,518.2	**5,523.8**	5,518.2	**-**	-
Loans(2)	**2,853.3**	2,165.3	**2,853.4**	2,162.1	**(0.1)**	3.2
Reinvestment assets under the CMB Program	**606.1**	545.2	**606.1**	545.2	**-**	-
Derivative assets	**104.2**	101.8	**104.2**	101.8	**-**	-
Liabilities						
Deposits designated as FVTPL	**7,424.2**	8,561.5	**7,424.2**	8,561.5	**-**	-
Deposits held at amortized cost(1)	**5,422.8**	3,445.0	**5,416.2**	3,436.9	**(6.6)**	(8.1)
Obligations related to securities sold short	**179.4**	95.5	**179.4**	95.5	**-**	-
Derivative liabilities	**94.0**	83.9	**94.0**	83.9	**-**	-
Debt securities issued(1)	**2,317.9**	2,176.0	**2,325.4**	2,178.7	**7.5**	2.7
Obligations under the CMB Program	**1,207.8**	1,190.1	**1,207.8**	1,190.1	**-**	-
Subordinated liabilities(1)	**425.0**	423.3	**424.8**	421.8	**(0.2)**	(1.5)
Securities under repurchase agreements	**662.6**	500.5	**662.6**	500.5	**-**	-
Total					**$ 0.6**	$ (3.7)

(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.

26. 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 not breached; 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 March 29, 2018, Class A members’ investment in Class A shares were reduced and Class F shares were 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. Central 1 redeemed or reacquired 750 thousand Class E shares with an aggregate value of $75.0 million, which reduced Central 1’s regulatory capital.

(Thousands of dollars)		Mandatory Liquidity Pool		Wholesale Financial Services
Class A Shares				
Balance at December 31 2017	$	428,101	$	-
Issued during the period		-		50,000
Redeemed during the period		(428,101)		-
Balance at March 31, 2018	$	-	$	50,000
Class F Shares				
Balance at December 31 2017	$	-	$	-
Issued during the period		425,949		-
Balance at March 31, 2018	$	425,949	$	-
Class E Shares[1]				
Contributed Surplus				
Balance at December 31 2017	$	-	$	72,897
Redeemed/reacquired during the period		-		(72,897)
Balance at March 31, 2018	$	-	$	-

[1] Of the $75.0 million Class E shares redeemed or reacquired on March 29, 2018, $72.9 millon was recorded in contributed surplus with the remaining $2.1 million together with related tax savings recorded in retained earnings.

Regulatory capital

Central 1’s capital levels are regulated under provincial regulations administered by FICOM. FICOM has also adopted the previous federal regulations administered by the Office of the Superintendent of Financial Institutions (OSFI). This regulation requires Central 1 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 requires Central 1 to maintain a federal borrowing multiple of no more than 17.0:1 for the MLP segment and no more than 15.0:1 for the WFS segment.

In order to ensure that Central 1 maintains regulatory capital sufficient to absorb sudden increases in borrowings or a reduction in capital due to mark-to-market fluctuations, Central 1 targets an operating borrowing multiple with upper limit no greater than 16:8:1 for the MLP segment and 14:0:1 for the WFS segment.

Provincial regulations in British Columbia, which apply to B.C. credit unions as well as to Central 1, use a risk-weighted approach to capital adequacy that is based on standards issued by the Bank for International Settlements. The provincial risk weightings generally parallel the methodology used by 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 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, certain deductions are required for certain assets.

Central 1 was in compliance with all regulatory capital requirements throughout the periods ended March 31, 2018 and March 31, 2017.

27. 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 27 of the Annual Consolidated Financial Statements as at December 31, 2017.

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 2018		Dec 31 2017
Mortgage loans oustanding at the end of the period	**$**	**361**	$	364
Maximum mortgage loans oustanding during the period	**$**	**364**	$	377

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 the three months ended		
(Thousands of dollars)		Mar 31 2018		Mar 31 2017
Salaries and short-term employee benefits	**$**	**617**	$	689
Post-employment benefits		**41**		46
	$	**658**	$	735

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.

Transactions with Board of Directors

		For the three months ended		
(Thousands of dollars)		Mar 31 2018		Mar 31 2017
Total remuneration	**$**	**147**	$	164

Significant subsidiaries

(% of direct ownership of outstanding)	Mar 31 2018	Dec 31 2017
Central 1 Trust Company	**100%**	100%
CUPP Services Ltd.	**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 outstanding)	Mar 31 2018	Dec 31 2017
Credential Financial Inc.	**26%**	26%
The CUMIS Group Limited	**27%**	27%
Northwest & Ethical Investments L.P.	**26%**	26%
189286 Canada Inc.	**52%**	52%

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

On January 31, 2018, Interac group completed its restructuring and formed Interac Corp. of which Central 1 directly owns 0.9% and indirectly owns 3.8% through its investment in 189286 Canada Inc. This restructuring has resulted in Central 1 recognizing a $19.3 million gain on Central 1's Interim Consolidated Statements of Profit from both direct and indirect ownership during the first quarter of 2018.

In March 2018, The Co-operators Group Limited acquired the insurance operations of The CUMIS Group Limited (CUMIS), an affiliate of Central 1. This transaction has resulted in a preliminary gain of $23.7 million on Central 1's Interim Consolidated Statements of Profit for the quarter ended March 31, 2018. The transaction proceeds are expected to be finalized during the second quarter of 2018. Subsequent to the closing of the transaction, Central 1 still holds 27% ownership interest in CUMIS and continues to apply the equity method to account for its investment in CUMIS.

Substantial investments

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

(% of direct ownership of outstanding)	Mar 31 2018	Dec 31 2017
The Co-operators Group Limited	**21%**	21%
Canadian Credit Union Association	**59%**	59%

28. Subsequent event

In April 2018, the transaction to amalgamate the businesses of Credential Financial Inc. (CFI), Qtrade Canada Inc., and Northwest & Ethical Investments LP (NEI) closed. This transaction will result in a preliminary gain of $45.0 million for the second quarter of 2018. At the closing of this transaction, Central 1 ceased its ownership in CFI and NEI. and has become an indirect shareholder of Aviso Wealth Inc. (Aviso) through its ownership in CU CUMIS Wealth Holdings L.P. (Holdings LP). Central 1 exercises significant influence over Aviso through a 35% direct ownership in Holdings LP's voting shares and 9% indirect ownership in CUMIS and thus will apply the equity method to account for its investment in Aviso.