



Quarterly Report

For the Third Quarter of 2018

Results for the Third Quarter of 2018

Financial Highlights

Third quarter highlights compared to the same period last year:

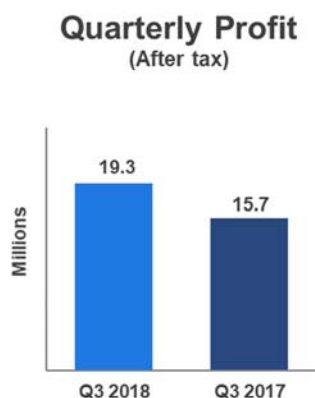
- Profit after tax of \$19.3 million, up \$3.6 million from \$15.7 million.
- Return on average equity of 6.4 per cent, compared to 5.5 per cent.
- Net financial income of \$27.3 million, up \$5.6 million from \$21.7 million.
- Assets of \$19.2 billion, up 8.5 per cent from \$17.7 billion.
- Tier 1 capital ratio of 35.1 per cent, compared to 33.1 per cent.

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

- Profit after tax of \$100.9 million, up \$60.1 million from \$40.8 million.
- Return on average equity of 11.6 per cent, compared to 4.9 per cent.
- Net financial income of \$53.2 million, down \$1.7 million from \$54.9 million.

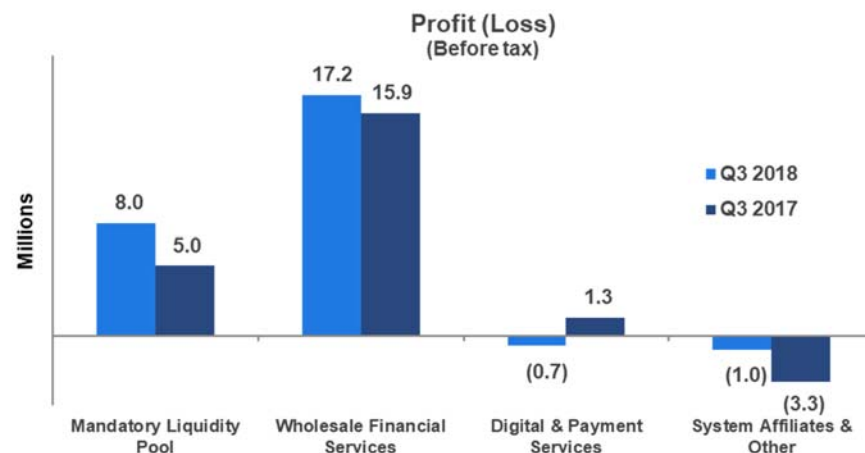
“We continue to make progress on our goals of delivering flexible digital platforms and robust financial products to our credit union members and clients,” said Mark Blucher, President and CEO of Central 1. “We’re engaging partners and clients in our transformation to meet the changing expectations of Canadians, we have the leadership team to execute our strategy and we’re investing in digital solutions to lead credit unions into the future.”

Quarterly Financial Results



Profit after tax for the third quarter of 2018 was up \$3.6 million from the same period last year. Net financial income increased by \$5.6 million, driven by

balance sheet growth and widening of net interest spreads resulting in a higher interest margin. This was partially offset by increased costs incurred to support strategic initiatives, leading to an overall increase in this quarter's profit before tax.



The Mandatory Liquidity Pool reported a profit before tax of \$8.0 million, an increase of \$3.0 million compared to the third quarter of 2017. The longer duration in assets together with the net long exposures in floating yield securities over liabilities contributed to a \$8.7 million increase in interest margin. This was partially offset by a \$5.6 million decrease in net realized and unrealized gains as lower yield securities were traded at a loss in order to replace them with higher yield securities.

Wholesale Financial Services reported a profit before tax of \$17.2 million, an increase of \$1.3 million compared to the third quarter of 2017. Net realized and unrealized gains were \$1.7 million higher compared to the third quarter of 2017 as rising interest rates created favorable gains on financial liabilities, which were partially offset by the losses on financial assets.

Digital & Payment Services reported a loss before tax of \$0.7 million compared to a profit of \$1.3 million in the same period last year. The total costs incurred to support strategic initiatives, primarily the development of the Forge Digital Banking Platform (Forge), formerly the UX Platform, were \$5.7 million higher than a year ago. This was partially offset by increased revenue from growth in *Interac* e-transfer® volumes.

The \$1.5 billion increase in total assets from a year ago was primarily as a result of increased mandatory deposits from credit unions and medium-term notes issued.

For the quarter ended September 30, 2018, Central 1 was in compliance with all regulatory capital requirements and all Risk Appetite Statements.

Third Quarter Highlights

In July, Central 1 launched Canada's first Small Business Payroll system integrated with online banking for a pilot credit union in B.C., and in early November, launched with general availability to all financial institutions across Canada. Small Business Payroll lets owners pay their employees anytime, anywhere and cuts processing time from six days to two. Designed to work seamlessly and automatically—payroll is paid, reconciled, securely stored and easily analyzed within the online banking platform to help inform future business decisions.

Central 1 launched Canada's first-ever authenticated voice banking service using Amazon Alexa in August. Two initial Central 1 clients are piloting the technology that allows customers to use their voice to command actions for their bank accounts, comparable to Amazon Alexa being a customer service representative. In addition to being cutting-edge, the technology is revolutionary for those who may be either visually impaired, unable to leave their homes or use keyboards or smartphones to conduct their banking.

In August, Central 1 announced three additions to the executive team. Elizabeth (Buffy) Duke joined in August as the Senior Vice President of Client Development, a new role reporting to the President & Chief Executive Officer. In September, Arvind Sharma brought his understanding of designing and building fully integrated, digital platforms to the Chief Digital & Payments Officer role for Central 1. Sheila Vokey joined as Chief Financial Officer in October, supporting our transformative organizational change throughout the finance function.

In September, Central 1 signed the United Nations-supported Principles for Responsible Investment (PRI), joining more than 2,000 other organizations around the world that have publicly demonstrated their commitment to including environmental, social and governance (ESG) factors in investment decision making and practices. Central 1 joins Vancity Investment Management as a signatory, and is the only credit union in Canada verified with PRI. PRI signatories voluntarily commit to a set of ESG investment principles and contribute to developing a more sustainable global financial system. The PRI were developed by an international group of institutional investors and the process is convened by the United Nations Secretary-General.

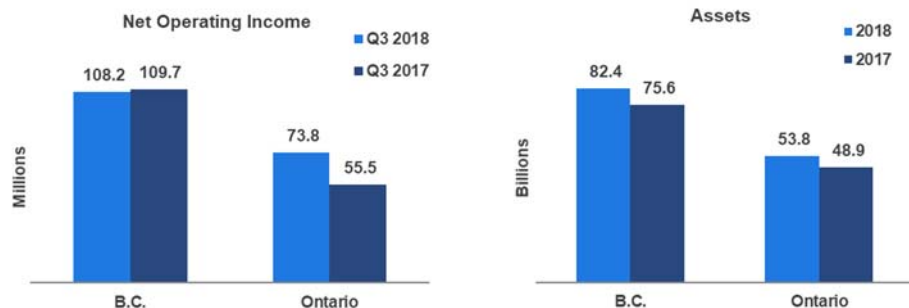
By applying these principles, we will better align Central 1's investments with our values, the values of the cooperative movement and credit union system, and the broader objectives of society. Also, adhering to the PRI is just one way that we are positioning our portfolios for the long-term by considering systemic issues such as climate change. Some of the ways we have already integrated ESG factors into our mandates and practices include: dedicating a portion of our investment portfolio in our Mandatory Liquidity Pool to Green and Social Impact Bonds and incorporating ESG into our counterparty investment review procedure.

In September, Central 1 and CCUA entered into an agreement to formally transfer responsibility for government relations services for B.C. and Ontario credit unions from Central 1 to CCUA, effective October 7, 2018.

Through the third quarter, the UX Platform program progressed on schedule in anticipation of the fall 2018 launch of the mobile app and public website with Central 1's champion clients. The detailed featured roadmap, which showed how the Platform will evolve across the 2018/2019 release dates, was also shared with other clients. Importantly, the implementation wave selection also commenced. This process allowed clients to identify their preferred wave for platform implementation and put the necessary letters of commitment in place. On October 29, Central 1 unveiled the platform's new name as "Forge". Built using global-leading Backbase technology, Forge puts control in the hands of clients, providing the flexibility to design their digital branch with an unparalleled user experience. Forge will be the foundational platform of Central 1's digital services going forward.

After the close of the quarter, Central 1's member, Coast Capital Savings Credit Union (Coast Capital), was given approval by the Minister of Finance to become a federal credit union, effective November 1, 2018. Central 1 is pleased to have worked closely with Coast Capital in supporting them through this process. For additional information, see Note 29 to Central 1's Interim Consolidated Financial Statements.

System Performance



Third quarter highlights compared to the same period last year:

- B.C. system's net operating income of \$108.2 million, down 1.4 per cent from \$109.7 million.
- B.C. system's assets of \$82.4 billion, up 9.0 per cent from \$75.6 billion.
- Ontario system's net operating income of \$73.8 million, up 33.0 per cent from \$55.5 million.
- Ontario system's assets of \$53.8 billion, up 10.0 per cent from \$48.9 billion.

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

- B.C. system's net operating income of \$330.9 million, up 13.5 per cent from \$291.5 million.
- Ontario system's net operating income of \$204.9 million, up 30.8 per cent from \$156.7 million.

The B.C. system reported net operating income of \$108.2 million in the third quarter of 2018, down \$1.5 million or 1.4 per cent from the same period in 2017. Growth in personal mortgages, liquid investments and commercial mortgages led to a \$13.7 million increase in net interest income over the same period last year. Non-interest income increased \$6.2 million led by income from equity investments. These increases were outweighed by a \$21.4 million increase in non-interest expenses. Combined assets of the B.C. system at the end of September 2018 rose 9.0 per cent year-over-year to reach \$82.4 billion.

The Ontario system reported net operating income of \$73.8 million in the third quarter of 2018, up \$18.3 million or 33.0 per cent from the same period in 2017. Growth in residential mortgages and commercial loans led to a \$24.1 million increase in net interest income. This was partially offset by a \$9.1 million increase in non-interest expenses. Combined assets of the

Ontario system at the end of September 2018 rose 10.0 per cent year-over-year to reach \$53.8 billion.

See "Cautionary Note Regarding Forward-Looking Statements" on Page 4 of Central 1's Management Discussion & Analysis for the period ended September 30, 2018.



Management's Discussion & Analysis

For the Quarter Ended September 30, 2018

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Management's Discussion and Analysis

In this Management's Discussion and Analysis (MD&A), unless the context otherwise requires, references to "Central 1", "we", "us" and "our" refer to Central 1 Credit Union and its subsidiaries.

The MD&A is provided to enable readers to assess our financial condition and our results of operations as at and for the three and nine months ended September 30, 2018. This MD&A should be read in conjunction with our unaudited Interim Consolidated Financial Statements for the same periods ended September 30, 2018 as well as our 2017 Annual Report for the year ended December 31, 2017. This MD&A is dated November 22, 2018.

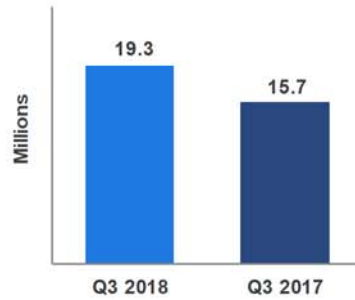
Except as otherwise indicated, financial information included in this MD&A has been prepared in accordance with International Financial Reporting Standards (IFRS). Effective January 1, 2018, we adopted IFRS 9, *Financial Instruments*, and did not restate the prior periods. Accordingly, results for the periods prior to January 1, 2018 are reported in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*. Additional information may be found on our website at www.central1.com and on SEDAR at www.sedar.com.

This MD&A also includes financial information about the credit union systems in British Columbia (B.C.) and Ontario. The B.C. credit union system is made up of all credit unions in B.C. while the Ontario credit union system is made up of only those credit unions that have elected to become our members. 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 our total membership, encompassing credit unions in both provinces.

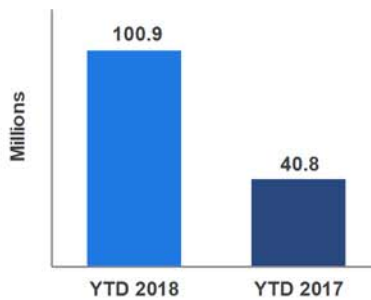
Financial information for the B.C. system has been provided by the Financial Institutions Commission of British Columbia (FICOM) and by the Deposit Insurance Corporation of Ontario (DICO) for the Ontario system. The different provincial regulatory guidelines reduce the comparability of the information between the two systems. We have no means of verifying the accuracy of such information. This information is provided purely to assist the reader with understanding our results and should be read in the proper context. This financial information was prepared using the format and accounting principles developed by these regulators and are not fully consistent with IFRS. For instance, the net operating income reported in this MD&A is not equivalent to income from continuing operations under IFRS.

Overall Performance

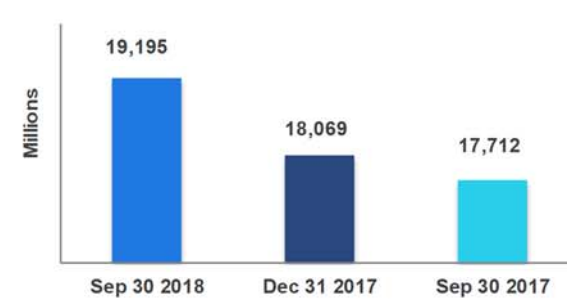
Quarterly Profit
(After tax)



Year-to Date Profit
(After tax)



Total Assets



| For the three months ended | | | For the nine months ended | | |
|----------------------------|-------------|--------|---------------------------|-------------|--------|
| Sep 30 2018 | Sep 30 2017 | Change | Sep 30 2018 | Sep 30 2017 | Change |

Income statement (millions of dollars)

| | | | | | | | | | | | | |
|--|----|-------|----|-------|----|-------|----|--------|----|--------|----|--------|
| Continuing operations | | | | | | | | | | | | |
| Net financial income | \$ | 27.3 | \$ | 21.7 | \$ | 5.6 | \$ | 53.2 | \$ | 54.9 | \$ | (1.7) |
| Non-financial income | | 34.0 | | 37.5 | | (3.5) | | 100.8 | | 110.6 | | (9.8) |
| Net financial and non-financial income | | 61.3 | | 59.2 | | 2.1 | | 154.0 | | 165.5 | | (11.5) |
| Non-financial expense | | 31.9 | | 33.2 | | (1.3) | | 100.2 | | 101.1 | | (0.9) |
| Profit from continuing operations | | 29.4 | | 26.0 | | 3.4 | | 53.8 | | 64.4 | | (10.6) |
| Strategic investments | | | | | | | | | | | | |
| Gains from system affiliates | | | | | | | | | | | | |
| CUMIS transaction | | 3.1 | | - | | 3.1 | | 26.2 | | - | | 26.2 |
| Interac restructuring | | - | | - | | - | | 19.3 | | - | | 19.3 |
| Aviso transaction | | (0.4) | | - | | (0.4) | | 37.4 | | - | | 37.4 |
| Strategic initiatives | | (8.6) | | (7.1) | | (1.5) | | (24.1) | | (15.8) | | (8.3) |
| Profit (loss) from strategic investments | \$ | (5.9) | \$ | (7.1) | \$ | 1.2 | \$ | 58.8 | \$ | (15.8) | \$ | 74.6 |
| Profit before tax | \$ | 23.5 | \$ | 18.9 | \$ | 4.6 | \$ | 112.6 | \$ | 48.6 | \$ | 64.0 |
| Profit after tax | \$ | 19.3 | \$ | 15.7 | \$ | 3.6 | \$ | 100.9 | \$ | 40.8 | \$ | 60.1 |

| | For the three months ended | | | For the nine months ended | | |
|--|----------------------------|--------------------|-------------------|---------------------------|--------------------|-------------------|
| | Sep 30 2018 | Sep 30 2017 | Change | Sep 30 2018 | Sep 30 2017 | Change |
| Selected information | | | | | | |
| Productivity ratio - total | 64.0% | 68.2% | -4.2% | 53.7% | 70.7% | -17.0% |
| Productivity ratio - non-financial | 110.1% | 107.4% | 2.7% | 68.8% | 105.7% | -36.9% |
| Return on average assets | 0.4% | 0.3% | 0.1% | 0.7% | 0.3% | 0.4% |
| Return on average equity | 6.4% | 5.5% | 0.9% | 11.6% | 4.9% | 6.7% |
| Earnings per share (cents) | | | | | | |
| Basic | 4.0 | 3.6 | 0.4 | 21.7 | 9.5 | 12.2 |
| Diluted | 4.0 | 3.6 | 0.4 | 21.7 | 9.5 | 12.2 |
| Dividends per share (cents)⁽¹⁾ | | | | | | |
| Class A | - | 2.3 | (2.3) | - | 3.9 | (3.9) |
| Class B & C | - | 0.6 | (0.6) | - | 1.1 | (1.1) |
| Weighted average shares outstanding (millions of dollars) | \$ 486.5 | \$ 440.3 | \$ 46.2 | \$ 465.4 | \$ 427.6 | \$ 37.8 |
| Average assets (millions of dollars) | \$ 19,384.4 | \$ 17,934.0 | \$ 1,450.4 | \$ 19,088.1 | \$ 17,784.9 | \$ 1,303.2 |

⁽¹⁾ Starting 2018, dividends for all Classes of shares will only be accrued once declared by our Board of Directors.

| | Sep 30 2018 | Dec 31 2017 | As at Sep 30 2017 |
|---|-------------|-------------|----------------------|
| Balance sheet (millions of dollars) | | | |
| Total assets | \$ 19,195.0 | \$ 18,068.9 | \$ 17,712.3 |
| Long-term financial liabilities | \$ 8,997.9 | \$ 8,458.4 | \$ 8,654.8 |
| Regulatory ratios | | | |
| Tier 1 capital ratio | 35.1% | 35.7% | 33.1% |
| Provincial capital ratio | 49.2% | 53.6% | 49.6% |
| Borrowing multiple (times) | 11.5 | 12.4 | 12.1 |
| Share Information (thousands of dollars, unless otherwise indicated) | | | |
| Outstanding \$1 par value shares | | | |
| Class A - credit unions | \$ 50,000 | \$ 428,101 | \$ 410,951 |
| Class B - cooperatives | \$ 5 | \$ 5 | \$ 5 |
| Class C - other | \$ 7 | \$ 7 | \$ 7 |
| Class F - credit unions | \$ 435,949 | \$ - | \$ - |
| Outstanding \$0.01 par value shares with redemption value of \$100 | | | |
| Class E - credit unions | \$ 25 | \$ 31 | \$ 32 |
| Treasury shares | \$ (2) | \$ (1) | \$ - |

Effective January 1, 2018, we prospectively adopted IFRS 9, *Financial Instruments*. Prior periods have not been restated. Results for the periods prior to January 1, 2018 are reported in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*.

Certain comparative figures have been reclassified to conform with the current period's presentation.

Cautionary Note Regarding Forward-Looking Statements

From time to time, we make written forward-looking statements, including in this MD&A, in other filings with Canadian regulators, and in other communications. In addition, our representatives 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 our 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 our member credit unions operate. The forward-looking information provided herein is presented for the purpose of assisting readers in understanding our 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 us 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. We caution 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 our 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 our results. We do 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 our 2017 Annual Report.

Economic Developments and Outlook

The following summaries of the economic environment, the state of financial markets, as well as the current quarter performance of both provincial systems offer a context for interpreting our quarterly results and provide insight into our future performance.

Economic Environment

The Bank of Canada's (BOC) Monetary Policy Report, issued in October 2018, states that global economic growth remains solid. The global economic growth forecast remains at 3.8 per cent for 2018. Forecast growth would be an estimated 0.3 per cent stronger by the end of 2020 without the uncertainty surrounded the U.S.-China trade tensions, which are a drag on trade, investment and non-energy commodity prices. Consumer spending and business investment in the U.S. economy are expected to remain strong. Trade tensions remain a threat globally but have been reduced in North America by the new trade agreement, the United States-Mexico-Canada Agreement (USMCA). The BOC estimates the real gross domestic product in the U.S. will grow 2.9 per cent this year, down from April's estimate of 3.1 per cent. The growth outlook for most other regions has also become slightly weaker over the last three months.

Canada's economy continues to operate at close to full capacity according to the BOC and economic growth remains forecasted to average just over 2.0 per cent through 2020. The economy will be supported by solid growth in foreign and domestic demand as well as continued favorable financial conditions. Business investment is required to expand capacity and improve productivity. Exports are forecasted to expand at a moderate pace. Consumer spending is forecasted to grow at a healthy pace, supported by rising wages, even as households adjust to higher interest rates and stricter mortgage qualifying criteria. Residential investment is projected to maintain current levels through 2020. Consumer price inflation is expected to decline from 2.7 per cent in the third quarter to around 2.0 per cent through 2020 as the effects of temporary factors wane and some monetary stimulus is withdrawn.

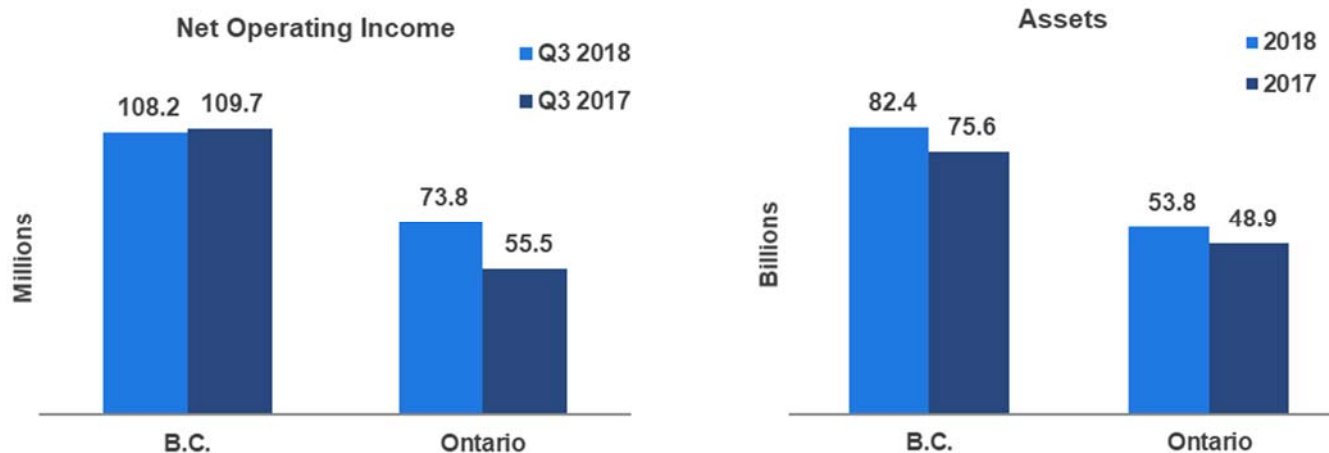
Financial Markets

The BOC held its key monetary policy interest rate at 1.5 per cent on September 5 and raised its policy rate by 25 basis points (bps) on October 24, 2018. The USMCA eliminates NAFTA uncertainty, which has been a drag on Canadian growth for close to two years. With the removal of trade agreement uncertainty, together with a stronger than expected economy in the U.S., the market expects North America will have a stronger economic outlook than the rest of the world.

The Canadian stock market has seen the positive news for Canada and assuming ratification, removes the trade tensions weighed on Canadian equities. With the newly agreed USMCA, the Canadian Dollar rallied to its 4.5 months high, above 78 US cents to the dollar before settling back a bit. The market expects the exchange rate will be relatively stable for some time.

On the fixed income front we look for the yield curves to continue to flatten. As the BOC continues to apply tight monetary policy, longer-term treasury products are expected to underperform in the Treasury market.

System Performance



British Columbia

Net operating income for the third quarter of 2018 was \$108.2 million, decreased \$1.5 million from the same period in 2017. Net interest income increased \$13.7 million or 3.6 per cent over the same period last year, driven by growth in personal mortgages, liquid investments and commercial mortgages. Non-interest income increased \$6.2 million or 7.6 per cent year-over-year, led by income from equity investments. These increases were outweighed by a \$21.4 million increase in non-interest expenses, leading to an overall decreased net operating income.

Total assets increased 9.0 per cent year-over-year to reach \$82.4 billion at the end of the third quarter in 2018. Asset growth was led by a 7.6 per cent increase in personal mortgages, 10.1 per cent in commercial mortgages, and 16.5 per cent in liquid investments. Liability growth was led by term deposits, up \$5.0 billion or 13.5 per cent.

The system's rate of loan delinquencies over 90 days was 0.19 per cent of total loans at the end of September 2018, down five bps year-over-year. Provision for credit losses as a percentage of loans was 0.28 per cent, unchanged from a year earlier. The B.C. system's loan loss expense ratio was 0.08 per cent annualized in the third quarter of 2018, unchanged year-over-year.

The B.C. system's regulatory capital as a percentage of risk-weighted assets was 15.2 per cent at the end of September 2018, up 56 bps from a year ago. The aggregate liquidity ratio of the B.C. system, including that held by Central 1, was 15.7 per cent of deposit and debt liabilities, up from 14.7 per cent a year ago. The B.C. system's return on assets was 0.53 per cent annualized in the third quarter, down six bps year-over-year.

Ontario

Net operating income for the third quarter of 2018 was \$73.8 million, compared to \$55.5 million in the third quarter of 2017. Net interest income increased \$24.1 million over the same period last year, driven by growth in residential mortgages and commercial loans. Non-interest income increased \$3.2 million year-over-year, led by mutual fund and securitization revenues.

Total assets increased 10.0 per cent year-over-year to reach \$53.8 billion at the end of the third quarter of 2018. Asset growth was led by increases in residential mortgages of 14.8 per cent and commercial loans of 10.6 per cent, which was driven by economic growth and low interest rates. The asset growth was supported by increases in non-registered term deposits of 13.7 per cent, non-registered demand deposits of 9.4 per cent, and borrowings of 24.6 per cent.

The system's rate of loan delinquencies over 90 days was 0.27 per cent of total loans at the end of September 2018, up four bps year-over-year. Provision for credit losses as a percentage of loans was 0.24 per cent, unchanged from a year earlier. The Ontario system's loan loss expense ratio was 0.04 per cent annualized in the third quarter, unchanged from a year earlier.

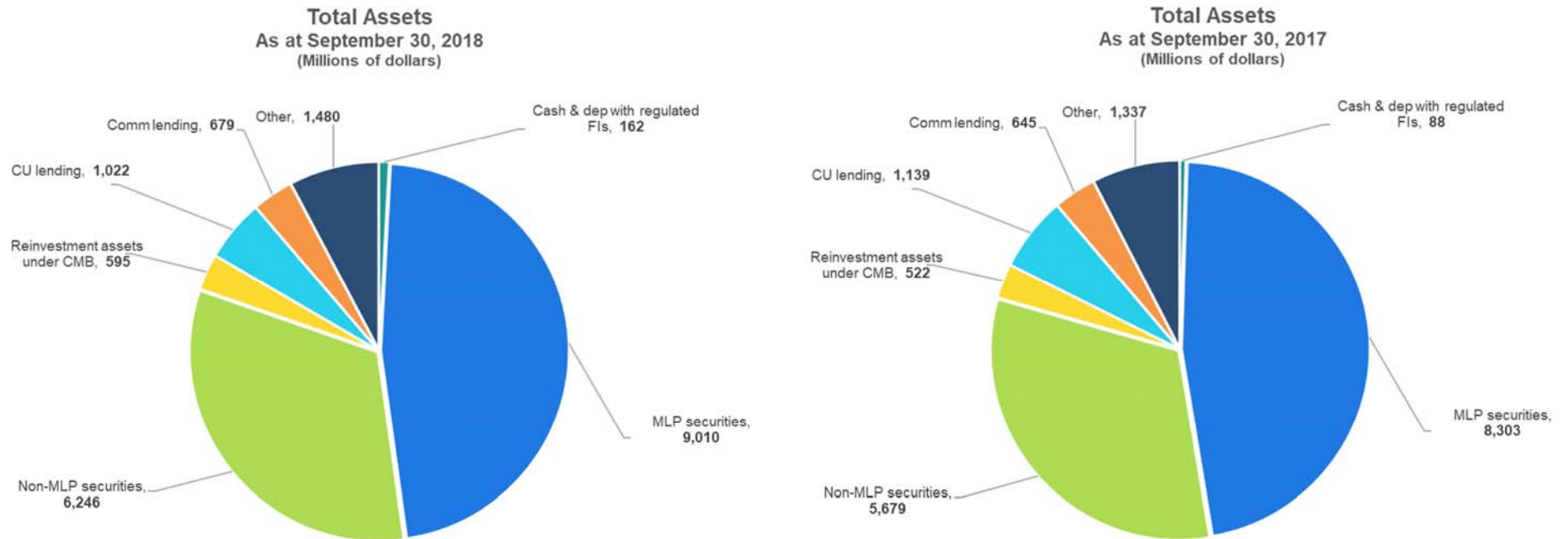
The Ontario system's regulatory capital as a percentage of risk-weighted assets was 13.0 per cent at the end of September 2018, down 29 bps from a year ago. The aggregate liquidity ratio, including that held by Central 1, was 11.9 per cent of deposit and debt liabilities, up 44 bps from a year ago. The Ontario system's return on assets was 0.55 per cent annualized in the third quarter, up nine bps year-over-year.

Regulatory Environment

Legislative reviews have been ongoing in both B.C. and Ontario. In August, FICOM and the B.C. Ministry of Finance (the Ministry) met with the B.C. system's *Financial Institutions Act* (FIA) Working Group to review the system's recommendations, and to provide additional details on the proposed FICOM Crown Agency model. The Ministry confirmed it will table legislation in Spring 2019 that enables FICOM to transition into a Crown Agency. The Ministry committed to establish a new committee representing the system, the Ministry and FICOM, to focus on emerging challenges and opportunities for credit unions.

In Ontario, work resumed on the *Credit Unions and Caisses Populaires Act* (CUCPA) review. The Credit Union Capital Adequacy Working Group, resourced by Central 1 and the Canadian Credit Union Association (CCUA), collaborated with the Ontario Ministry of Finance on a capital adequacy model that is aligned with Basel III requirements and appropriate for cooperative financial institutions. This portion of the CUCPA review should conclude in the fourth quarter of 2018. The Ontario government also began establishing the Financial Services Regulatory Authority (FSRA) to amalgamate FSCO and DICO, effective some time in 2019. Central 1 and CCUA facilitated a credit union Industry Advisory Group (IAG) that met with FSRA senior management and Board of Directors in the third quarter, preparing for the formal public consultation regarding structure and fee rules.

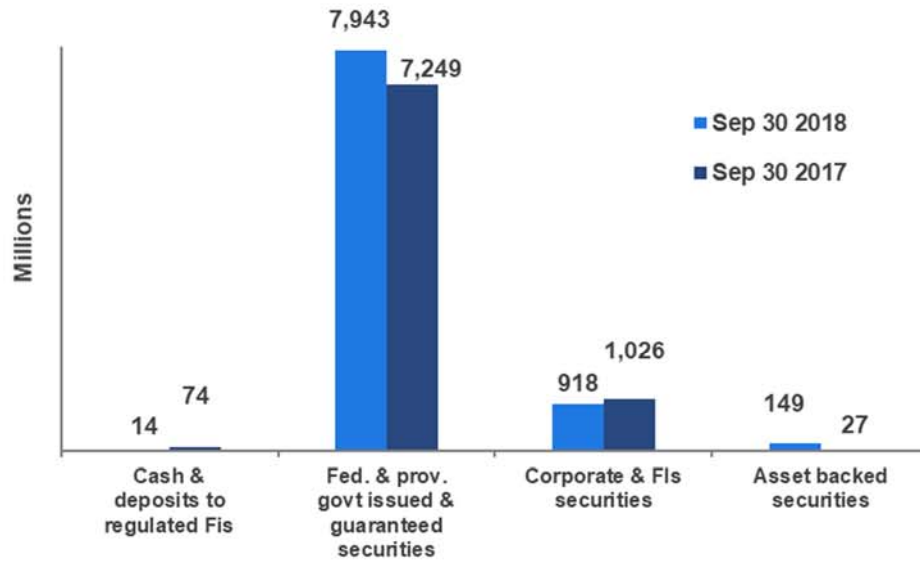
Statement of Financial Position



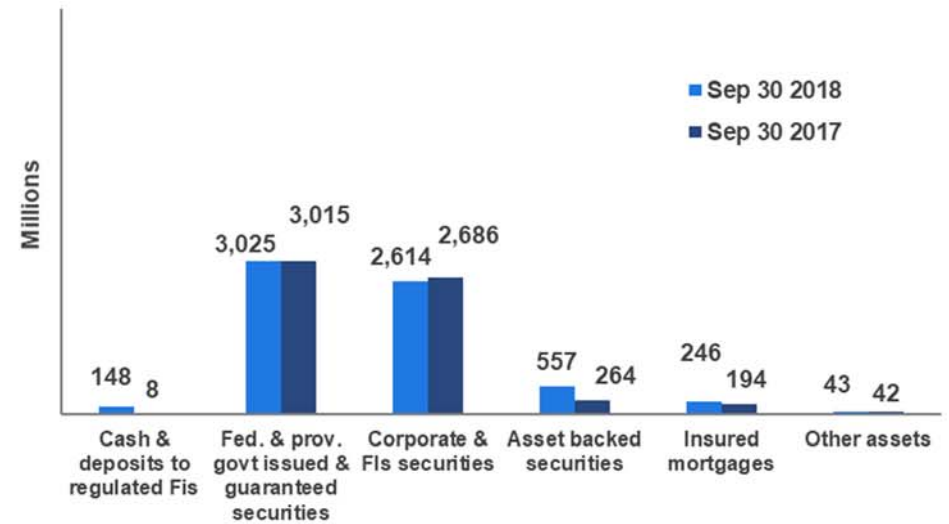
Total assets of \$19.2 billion as at September 30, 2018 increased \$1.5 billion from a year ago, with majority of the increases stemming from the growth in the securities portfolios and increased lending activities which were up by \$1.3 billion and \$0.2 billion, respectively, from a year ago. The growth in total assets was a result of a \$681.6 million increase in mandatory deposits from credit unions, reflective of the growth within the B.C. and Ontario credit union systems, and the \$850.0 million medium-term notes issued during the past year to meet our liquidity and funding requirements.

Cash and Liquid Assets

MLP Liquid Assets



WFS Liquid Assets



| Sep 30 2018 (Millions of dollars) | MLP Liquid Assets | WFS Liquid Assets | Securities Received as Collateral | Total Liquid Assets | Encumbered Liquid Assets | Unencumbered Liquid Assets* |
|--|-------------------------|-------------------------|---|---------------------------|-----------------------------|--------------------------------|
| Cash and deposits with regulated financial institutions | \$ 14.0 | \$ 147.9 | \$ - | \$ 147.9 | \$ - | \$ 147.9 |
| Federal and provincial government issued and guaranteed securities | 7,942.9 | 3,025.0 | 765.9 | 3,790.9 | 1,730.0 | 2,060.9 |
| Corporate and financial institutions securities | 918.0 | 2,614.0 | - | 2,614.0 | 28.4 | 2,585.6 |
| Asset backed securities | 149.2 | 556.6 | - | 556.6 | - | 556.6 |
| Insured mortgages | - | 246.2 | - | 246.2 | - | 246.2 |
| Other assets | - | 47.8 | - | 47.8 | - | 47.8 |
| Total | \$ 9,024.1 | \$ 6,637.5 | \$ 765.9 | \$ 7,403.4 | \$ 1,758.4 | \$ 5,645.0 |

*Unencumbered liquid assets include high quality liquid assets that are marketable, can be pledged as security for borrowings, and can be converted to cash in a time frame that meets our liquidity and funding requirements.

| Dec 31 2017 | MLP | WFS | Securities | Total | Encumbered | Unencumbered |
|--|---------------|---------------|------------------------|---------------|---------------|----------------|
| (Millions of dollars) | Liquid Assets | Liquid Assets | Received as Collateral | Liquid Assets | Liquid Assets | Liquid Assets* |
| Cash and deposits with regulated financial institutions | \$ 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 | 82.3 | 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 |

*Unencumbered liquid assets include high quality liquid assets that are marketable, can be pledged as security for borrowings, and can be converted to cash in a time frame that meets our liquidity and funding requirements.

| Sep 30 2017 | MLP | WFS | Securities | Total | Encumbered | Unencumbered |
|--|---------------|---------------|------------------------|---------------|---------------|----------------|
| (Millions of dollars) | Liquid Assets | Liquid Assets | Received as Collateral | Liquid Assets | Liquid Assets | Liquid Assets* |
| Cash and deposits with regulated financial institutions | \$ 73.5 | \$ 8.1 | \$ - | \$ 8.1 | \$ - | \$ 8.1 |
| Federal and provincial government issued and guaranteed securities | 7,249.3 | 3,014.6 | 238.6 | 3,253.2 | 1,805.0 | 1,448.2 |
| Corporate and financial institutions securities | 1,026.4 | 2,685.7 | - | 2,685.7 | 14.0 | 2,671.7 |
| Asset backed securities | 27.1 | 264.4 | - | 264.4 | - | 264.4 |
| Insured mortgages | - | 194.0 | - | 194.0 | 86.2 | 107.8 |
| Other assets | - | 42.1 | - | 42.1 | - | 42.1 |
| Total | \$ 8,376.3 | \$ 6,208.9 | \$ 238.6 | \$ 6,447.5 | \$ 1,905.2 | \$ 4,542.3 |

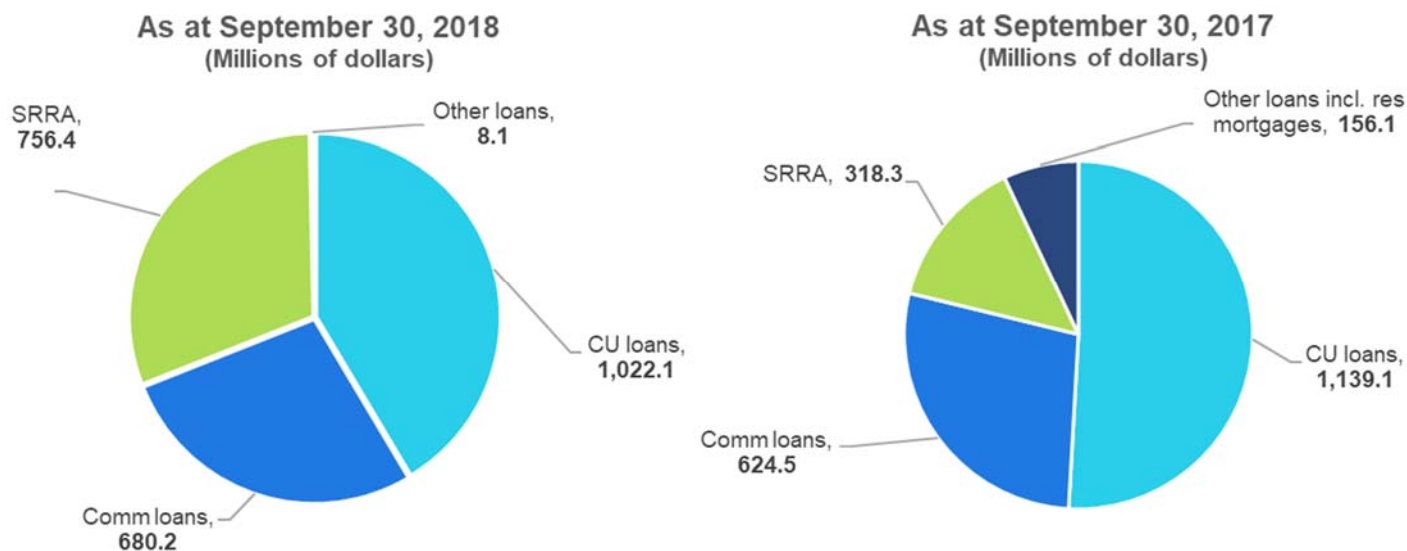
*Unencumbered liquid assets include high quality liquid assets that are marketable, can be pledged as security for borrowings, and can be converted to cash in a time frame that meets our liquidity and funding requirements.

The cash and liquid assets for the MLP are managed on behalf of the credit union system. Consistent with our designation as a D-SIFI, all Canadian dollar denominated securities in the MLP are eligible for collateral under the BOC Standing Liquidity Facility.

The liquidity management framework for WFS is designed to support the liquidity requirements for the system under non-stressed conditions. This is to ensure that credit unions have access to reliable and cost-effective sources of liquidity, as well as our potential cash and collateral obligations, including collateral pledged to the BOC's Large Value Transfer System. We maintain a portfolio of high quality liquid assets in WFS to support these objectives.

Cash and liquid assets increased \$0.6 billion in MLP and \$0.4 billion in WFS year-over-year, driven by changes in deposits in MLP and increased medium-term notes funding in WFS. Cash and liquid assets in MLP represents 47.0 per cent of our total assets, down from 47.3 per cent in the prior year. Cash and liquid assets in WFS represents 34.6 per cent of our total assets, down from 35.1 per cent in the prior year.

Loans

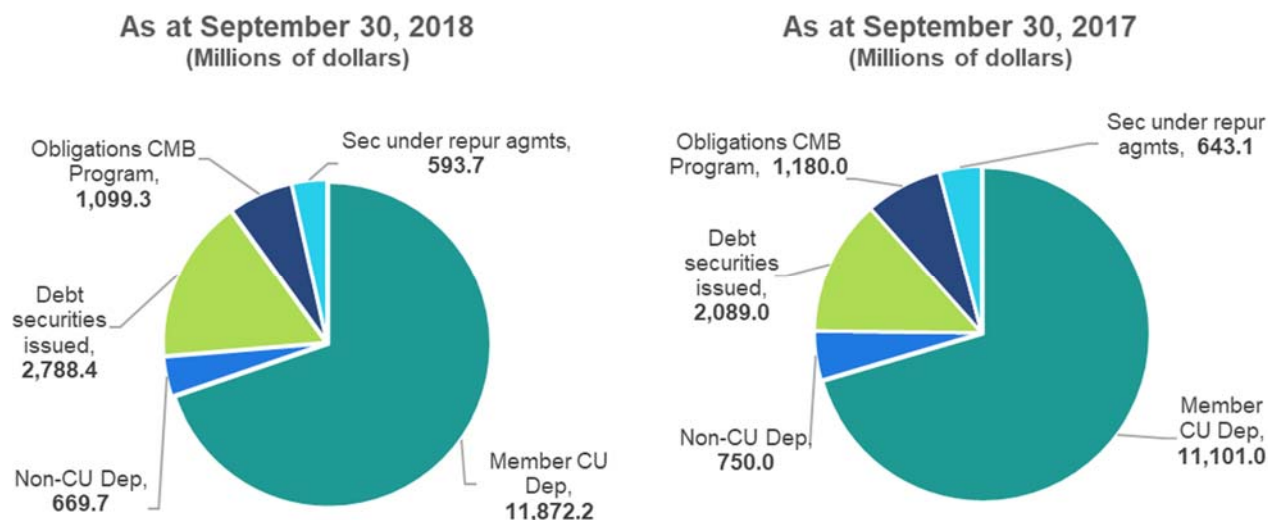


| (Millions of dollars) | Sep 30 2018 | Dec 31 2017 | Sep 30 2017 |
|--|-------------|-------------|-------------|
| Loans to credit unions | \$ 1,022.1 | \$ 782.3 | \$ 1,139.1 |
| Syndicated commercial loans | 672.6 | 622.1 | 607.8 |
| Non syndicated commercial loans | 7.6 | 12.9 | 16.7 |
| Other loans | 8.1 | 7.9 | 7.8 |
| Residential mortgages | - | 139.9 | 148.3 |
| | 688.3 | 782.8 | 780.6 |
| Securities acquired under reverse repurchase agreements (SRRA) | 756.4 | 591.9 | 318.3 |
| | \$ 2,466.8 | \$ 2,157.0 | \$ 2,238.0 |

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

Compared to a year ago, total loans increased \$228.8 million largely driven by higher securities acquired under reverse repurchase agreements, which are generally used to support our credit union members' participation in the Canada Mortgage Bond Program and routine cash management at the end of each period. This increase was partially offset by a \$117.0 million decrease in loans to credit unions and a \$nil residential mortgages balance as a result of reclassification to securities upon transition to IFRS 9 on January 1, 2018.

Funding



| (Millions of dollars) | Sep 30 2018 | Dec 31 2017 | Sep 30 2017 |
|--|-------------|-------------|-------------|
| Deposits | | | |
| Mandatory deposits | \$ 8,516.6 | \$ 8,048.0 | \$ 7,835.0 |
| Non-mandatory deposits | 3,355.6 | 3,134.4 | 3,266.0 |
| Deposits from member credit unions | 11,872.2 | 11,182.4 | 11,101.0 |
| Deposits from non-credit unions | 669.7 | 816.0 | 750.0 |
| | 12,541.9 | 11,998.4 | 11,851.0 |
| Debt securities issued | | | |
| Commercial paper issued | 673.5 | 836.8 | 820.0 |
| Medium-term notes issued | 1,689.9 | 1,341.8 | 844.0 |
| Subordinated liabilities | 425.0 | 421.8 | 425.0 |
| | 2,788.4 | 2,600.4 | 2,089.0 |
| Obligations under the Canada Mortgage Bond Program | 1,099.3 | 1,190.1 | 1,180.0 |
| Securities under repurchase agreements | 593.7 | 500.5 | 643.1 |
| | \$ 17,023.3 | \$ 16,289.4 | \$ 15,763.1 |

Deposits from our member credit unions increased \$771.2 million from the prior year. Mandatory deposits from credit unions increased \$681.6 million, reflective of the growth within the B.C. and Ontario credit union systems. Non-mandatory deposits from credit unions increased \$89.6 million due to increased demand in discretionary deposits.

Total debt securities outstanding increased \$699.4 million from the prior year. Of the total amount outstanding, \$1.7 billion was borrowed under our medium-term note facility, \$425.0 million was borrowed through subordinated debt issuance and the remaining was borrowed through our commercial paper facility. The issuance of medium-term notes, which was to meet our liquidity and funding requirements, contributed to the overall growth in our balance sheet.

Direct securitization transactions are accounted for on-balance sheet while indirect securitizations are off-balance sheet. Total obligations outstanding were \$1.1 billion, largely in line with the prior year.

Details of these balances can be found in Notes 12, 14, 15, and 16 of the Interim Consolidated Financial Statements.

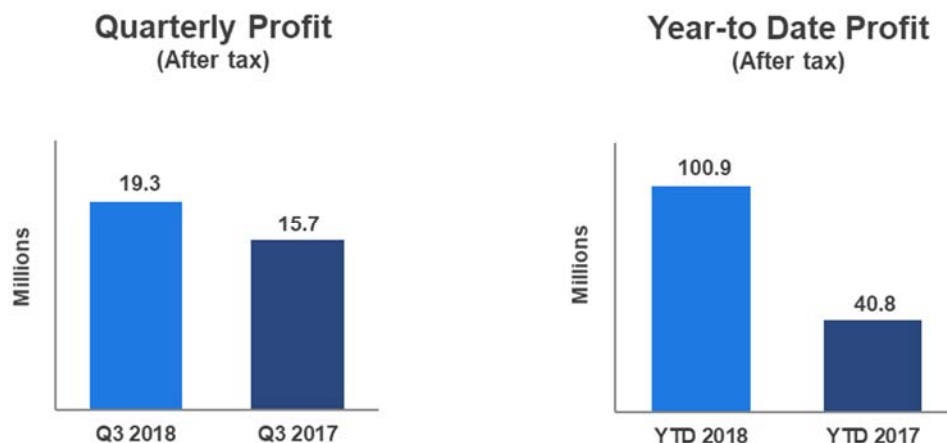
Equity

Prior to January 1, 2018, we distributed the net earnings of the MLP to our Class A members as dividends, and required that our 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 our other business lines accounted for most of the increase in equity prior to 2018. During the first quarter of 2018, we issued Class F shares following changes to our Constitution and Rules (Rules) creating the Class F shares which were approved by our members and FICOM in 2017. Proceeds from the issuance of Class F shares have become the primary form of capital in the MLP and Class A members are required to subscribe for Class F shares in proportion to their share of mandatory deposits. We intend to distribute dividends to Class F shareholders in an amount equal to profit before tax earned on the MLP subject to regulatory requirements and approval from our Board of Directors.

| (Millions of dollars) | |
|--------------------------------------|-------------------|
| Balance at December 31, 2017 | \$ 1,119.1 |
| IFRS 9 transition adjustment | (1.1) |
| Balance at January 1, 2018 | 1,118.0 |
| Profit for the period | 100.9 |
| Other comprehensive loss, net of tax | (7.4) |
| Share restructuring: | |
| Class F share issued | 436.0 |
| Class A share redeemed | (378.1) |
| Class E share redeemed or reacquired | (75.0) |
| Related tax savings | 8.4 |
| Balance at September 30, 2018 | \$ 1,202.8 |

Subsequent to the quarter-end, Coast Capital Savings Credit Union (Coast Capital) received regulatory approval to continue as a federal credit union, effective November 1, 2018. In connection with this approval, Coast Capital has withdrawn all of their mandatory deposits held with Central 1 which totalled \$1.2 billion and reduced their non-mandatory deposits by \$18.1 million with the remaining \$50.0 million expected to be withdrawn by the end of 2018. In addition, their Class A, E and F shares were redeemed for an aggregate redemption price of \$105.6 million and Class B shares were issued to Coast Capital at an aggregate price of \$100.

Statement of Profit



Q3 2018 vs Q3 2017

For the third quarter of 2018, profit after tax increased \$3.6 million from the same period in 2017, largely driven by higher interest margin within MLP arising from the recent rate hikes. The lower non-financial income and higher costs incurred to support strategic initiatives, including the development of the Forge Digital Banking Platform (Forge), formerly the UX Platform, partially offset the higher interest margin.

Net financial income increased \$5.6 million compared to the same period last year. Interest margin increased \$8.7 million mainly due to balance sheet growth as well as net long exposure in floating rate securities over financial liabilities, allowing the portfolios to widen the net interest spreads as rates continues to rise. Net realized and unrealized gains decreased \$3.0 million quarter-over-quarter due to rising interest rates and widening credit spreads in the market.

YTD 2018 vs YTD 2017

Profit after tax for the nine months ended September 30, 2018 increased \$60.1 million from the same period last year. The one-time gains totaling \$83.2 million recognized from the formation of Aviso Wealth Inc. (Aviso), the restructuring of Interac's operations and the disposal of CUMIS' insurance operations, contributed to most of this increase. These gains were partially offset by decreased non-financial income combined with higher costs incurred to support strategic initiatives, which included the development of Forge.

Non-financial income from continuing operations decreased by \$9.8 million from the same period last year, primarily driven by lower income from equity investees. The disposal of CUMIS' insurance operations lowered our equity income from CUMIS. This was partially offset by higher foreign exchange income and lending fees arising from increased lending activities within WFS.

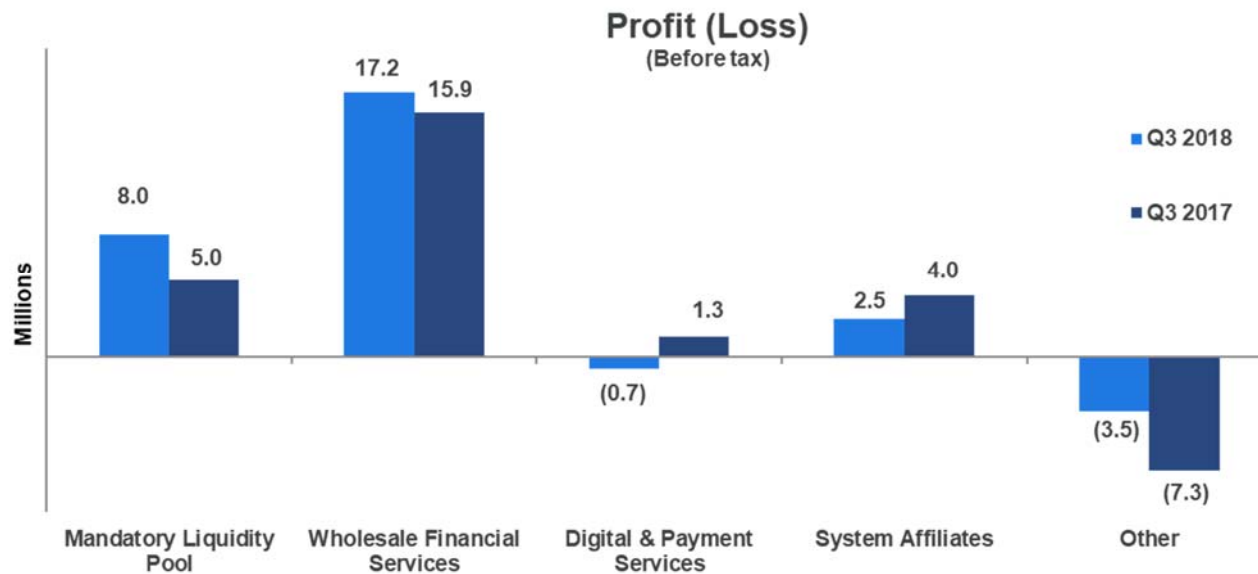
Net financial income also decreased \$1.7 million from the same period last year. Net realized and unrealized gains decreased \$20.5 million year-over-year primarily due to rising interest rates which negatively impacted fixed income securities. This was mostly offset by a \$19.0 million increase in interest margin from balance sheet growth, which was funded by higher medium-term notes, together with positive yield spreads between financial assets and financial liabilities.

Results by Segment

Our operations and activities are organized around three key business segments: MLP, WFS, and Digital & Payment Services. Our investments in equity shares of system-related entities, other than the wholly owned subsidiaries, are separately reported under the 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 our members and clients in the future, are reported in the "Other" segment. The costs of Corporate Support functions are attributed to business lines as appropriate, with the remaining included in the Other segment.

Periodically, certain business lines and units are transferred among business segments to closely align our organizational structure with our 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.

Q3 2018 vs Q3 2017



For the three months ended Sep 30 2018

| (Millions of dollars) | Mandatory Liquidity Pool | | Wholesale Financial Services | | Digital & Payment Services | | System Affiliates | | Other | | Total |
|--|-----------------------------|-------|------------------------------------|------|----------------------------------|-------|----------------------|-------|-------|-------|---------|
| Continuing operations | | | | | | | | | | | |
| Net financial income (expense), including impairment on financial assets | \$ | 10.3 | \$ | 17.3 | \$ | (0.1) | \$ | (0.2) | \$ | - | \$ 27.3 |
| Non-financial income | | (0.1) | | 8.4 | | 21.7 | | 0.5 | | 3.5 | 34.0 |
| Net financial and non-financial income | | 10.2 | | 25.7 | | 21.6 | | 0.3 | | 3.5 | 61.3 |
| Non-financial expenses | | 2.2 | | 8.5 | | 15.8 | | 0.5 | | 4.9 | 31.9 |
| Profit (loss) from continuing operations | | 8.0 | | 17.2 | | 5.8 | | (0.2) | | (1.4) | 29.4 |
| Strategic investments | | | | | | | | | | | |
| Gains from system affiliates | | | | | | | | | | | |
| CUMIS transaction | | - | | - | | - | | 3.1 | | - | 3.1 |
| Aviso transaction | | - | | - | | - | | (0.4) | | - | (0.4) |
| Strategic initiatives | | - | | - | | (6.5) | | - | | (2.1) | (8.6) |
| Profit (loss) from strategic investments | | - | | - | | (6.5) | | 2.7 | | (2.1) | (5.9) |
| Profit (loss) before tax | \$ | 8.0 | \$ | 17.2 | \$ | (0.7) | \$ | 2.5 | \$ | (3.5) | \$ 23.5 |

For the three months ended Sep 30 2017

| (Millions of dollars) | Mandatory Liquidity Pool | | Wholesale Financial Services | | Digital & Payment Services | | System Affiliates | | Other | | Total | |
|--|--------------------------|-------|------------------------------|------|----------------------------|-------|-------------------|-------|-------|-------|-------|-------|
| Continuing operations | | | | | | | | | | | | |
| Net financial income (expense), including impairment on financial assets | \$ | 7.2 | \$ | 15.6 | \$ | - | \$ | (1.1) | \$ | - | \$ | 21.7 |
| Non-financial income | | (0.2) | | 6.9 | | 21.7 | | 5.2 | | 3.9 | | 37.5 |
| Net financial and non-financial income | | 7.0 | | 22.5 | | 21.7 | | 4.1 | | 3.9 | | 59.2 |
| Non-financial expenses | | 2.0 | | 6.6 | | 18.2 | | 0.1 | | 6.3 | | 33.2 |
| Profit (loss) from continuing operations | | 5.0 | | 15.9 | | 3.5 | | 4.0 | | (2.4) | | 26.0 |
| Strategic initiatives | | | | | | | | | | | | |
| Profit (loss) from strategic investments | | - | | - | | (2.2) | | - | | (4.9) | | (7.1) |
| Profit (loss) before tax | \$ | 5.0 | \$ | 15.9 | \$ | 1.3 | \$ | 4.0 | \$ | (7.3) | \$ | 18.9 |

Effective January 1, 2018, we prospectively adopted IFRS 9, *Financial Instruments*. Prior periods have not been restated. Results for the periods prior to January 1, 2018 are reported in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*.

Certain comparative figures have been reclassified to conform with the current period's presentation.

Continuing Operations

Mandatory Liquidity Pool

MLP's profit before tax was \$8.0 million, an increase of \$3.0 million compared to the third quarter of 2017. Net financial income increased by \$3.1 million, largely due to increase in interest margin. The updated FICOM requirements received in August 2017 allowed us to raise the asset duration limit for the MLP, which gave us greater flexibility to manage the assets in the MLP. The longer duration in assets together with the net long exposures in floating yield securities over liabilities in a rising rate environment, contributed to the increased interest margin. However, a \$5.6 million decrease in net realized and unrealized gains due to the rising interest rates and the widening credit spreads in the market partially offset the increased interest margin.

Wholesale Financial Services

WFS' profit before tax was \$17.2 million, an increase of \$1.3 million compared to the third quarter of 2017. The continued growth in interest income, due to rate hikes, was offset by an increase in interest expense reflective of higher debt securities issued. Net realized and unrealized gains were \$1.7 million higher than prior year, as rising interest rates created favorable gains on financial liabilities which were partially offset by the losses on financial assets. WFS' non-financial income was up \$1.5 million, largely reflective of increased revenues from additional credit union services provided, such as the IFRS 9 Loan Loss model and the Anti-Money Laundering program. The costs associated with providing these services also contributed to higher non-financial expenses.

Digital & Payment Services

Digital & Payment Services' profit before tax increased \$2.3 million from the third quarter of 2017. While non-financial income was in line with the prior year, the decreased salary expense from transferring staff to support strategic initiatives contributed to a higher profit.

System Affiliates

System Affiliates reported a loss before tax of \$0.2 million, a decrease of \$4.2 million compared to the same period in the prior year, largely attributable to lower equity income from CUMIS as a result of the disposal of CUMIS' insurance operations in 2018.

Other

The Other operating segment reported a loss before tax of \$1.4 million compared to a loss of \$2.3 million for the third quarter of 2017. Included in prior year was the one-time restructuring charge of \$1.3 million.

Strategic Investments

Digital & Payment Services

Digital & Payment Services incurred an expense of \$6.5 million due to investments in strategic initiatives, an increase of \$4.3 million from the same period last year. The total costs incurred to support strategic initiatives, primarily the development of Forge, increased \$5.7 million from the same period last year with the increase comprising of salaries and benefits expense, professional fees and infrastructure expenses.

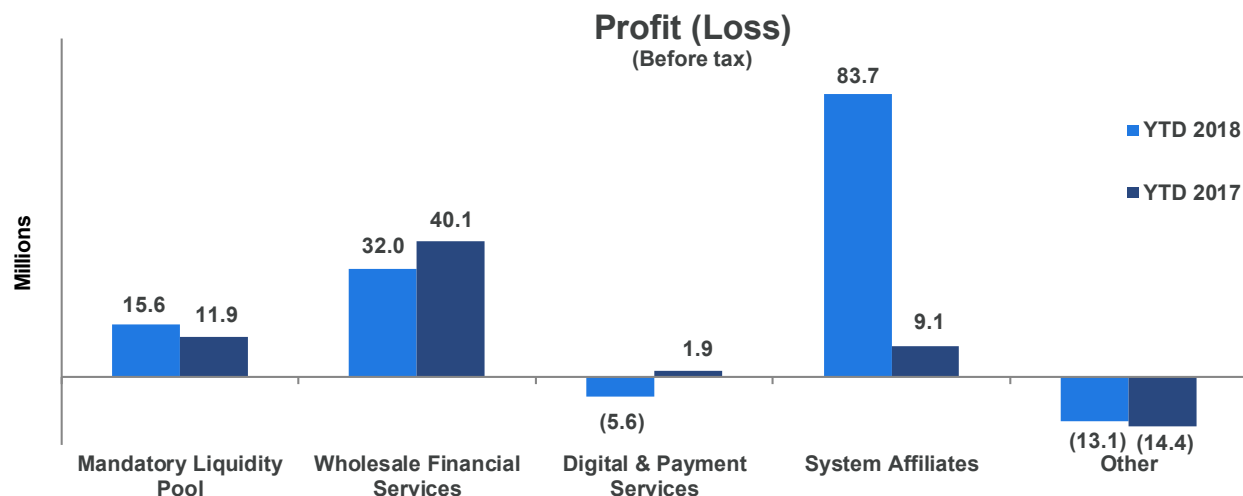
System Affiliates

During the third quarter, the gain from system affiliates increased by \$2.7 million, as a result of adjustments made to the gains arising from the CUMIS and Aviso transactions.

Other

The Other operating segment included the costs incurred to support strategic initiatives which was \$2.8 million lower from the third quarter of 2017. Some strategic initiatives were under development in 2017 but have been operationalized in 2018, resulting in an overall decrease in the costs incurred for the current period.

YTD 2018 vs YTD 2017



For the nine months ended Sep 30 2018

| (Millions of dollars) | Mandatory Liquidity Pool | | Wholesale Financial Services | | Digital & Payment Services | | System Affiliates | | Other | | Total |
|--|--------------------------|------|------------------------------|------|----------------------------|--------|-------------------|-------|-------|--------|----------|
| Continuing operations | | | | | | | | | | | |
| Net financial income (expense), including impairment on financial assets | \$ | 21.7 | \$ | 32.9 | \$ | (0.2) | \$ | (1.2) | \$ | - | \$ 53.2 |
| Non-financial income | | 0.2 | | 23.9 | | 62.4 | | 3.8 | | 10.5 | 100.8 |
| Net financial and non-financial income | | 21.9 | | 56.8 | | 62.2 | | 2.6 | | 10.5 | 154.0 |
| Non-financial expenses | | 6.3 | | 24.8 | | 48.7 | | 1.8 | | 18.6 | 100.2 |
| Profit (loss) from continuing operations | | 15.6 | | 32.0 | | 13.5 | | 0.8 | | (8.1) | 53.8 |
| Strategic investments | | | | | | | | | | | |
| Gains from system affiliates | | | | | | | | | | | |
| CUMIS transaction | | - | | - | | - | | 26.2 | | - | 26.2 |
| Interac restructuring | | - | | - | | - | | 19.3 | | - | 19.3 |
| Aviso transaction | | - | | - | | - | | 37.4 | | - | 37.4 |
| Strategic initiatives | | - | | - | | (19.1) | | - | | (5.0) | (24.1) |
| Profit (loss) from strategic investments | | - | | - | | (19.1) | | 82.9 | | (5.0) | 58.8 |
| Profit (loss) before tax | \$ | 15.6 | \$ | 32.0 | \$ | (5.6) | \$ | 83.7 | \$ | (13.1) | \$ 112.6 |

Effective January 1, 2018, we prospectively adopted IFRS 9, *Financial Instruments*. Prior periods have not been restated. Results for the periods prior to January 1, 2018 are reported in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*.

Certain comparative figures have been reclassified to conform with the current period's presentation.

For the nine months ended Sep 30 2017

| (Millions of dollars) | Mandatory Liquidity Pool | Wholesale Financial Services | Digital & Payment Services | System Affiliates | Other | Total |
|--|-----------------------------|------------------------------------|----------------------------------|----------------------|-----------|---------|
| Continuing operations | | | | | | |
| Net financial income (expense), including impairment on financial assets | \$ 18.3 | \$ 40.0 | \$ (0.2) | \$ (3.2) | \$ - | \$ 54.9 |
| Non-financial income | (0.4) | 20.7 | 62.9 | 13.8 | 13.6 | 110.6 |
| Net financial and non-financial income | 17.9 | 60.7 | 62.7 | 10.6 | 13.6 | 165.5 |
| Non-financial expenses | 6.0 | 20.6 | 54.6 | 1.5 | 18.4 | 101.1 |
| Profit (loss) from continuing operations | 11.9 | 40.1 | 8.1 | 9.1 | (4.8) | 64.4 |
| Strategic initiatives | | | | | | |
| Profit (loss) from strategic investments | - | - | (6.2) | - | (9.6) | (15.8) |
| Profit (loss) before tax | \$ 11.9 | \$ 40.1 | \$ 1.9 | \$ 9.1 | \$ (14.4) | \$ 48.6 |

Effective January 1, 2018, we prospectively adopted IFRS 9, *Financial Instruments*. Prior periods have not been restated. Results for the periods prior to January 1, 2018 are reported in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*.

Certain comparative figures have been reclassified to conform with the current period's presentation.

Continuing Operations

Mandatory Liquidity Pool

MLP's profit before tax was \$15.6 million, an increase of \$3.7 million compared to the same period last year. Interest margin was higher due to balance sheet growth as well as an active portfolio management, which increased net interest spreads in a rising rate environment. However, trading activities also increased to replace low yield securities holdings, leading to realization of trading losses. The offsetting effect resulted in a \$3.4 million increase in net financial income.

Wholesale Financial Services

WFS' profit was \$32.0 million, a decrease of \$8.1 million compared to the same period in 2017, mainly due to lower net realized and unrealized gains and higher cost of borrowings. Net realized and unrealized gains were \$4.4 million lower due to rising interest rates and widening credit spreads, resulting in a decrease of \$7.1 million in WFS' net financial income. WFS' non-financial income was up \$3.2 million mainly due to higher foreign exchange income and lending fees. Higher salaries and employee benefits expense along with the costs associated with running the external IFRS 9 Loan Loss model contributed to increased non-financial expenses.

Digital & Payment Services

Digital & Payment Services' profit before tax increased \$5.4 million from the same period last year primarily driven by decreased salaries and employee benefits expense from transferring staff to support strategic initiatives, partially offset by a \$0.5 million decrease in non-financial income. Revenues decreased due to development revenues being applied against strategic initiatives, which was largely offset by increased revenue from growth in the *Interac e-Transfer®* volumes.

System Affiliates

System Affiliates reported a profit before tax of \$0.8 million, compared to a profit of \$9.1 million reported in the prior year. This was largely attributable to decreased equity income from CUMIS, driven by the disposal of CUMIS' insurance operations.

Other

The Other operating segment reported a loss before tax of \$8.1 million, compared to a loss of \$4.8 million from the same period last year, primarily driven by a provision of \$1.6 million for provincial sales tax in 2018.

Strategic Investments

Digital & Payment Services

Digital & Payment Services incurred an expense of \$19.1 million due to investments in strategic initiatives, an increase of \$12.9 million over the same period last year. The total costs incurred to support strategic initiatives was primarily for the development of Forge including increased salaries and benefits expense, professional fees and infrastructure expenses.

System Affiliates

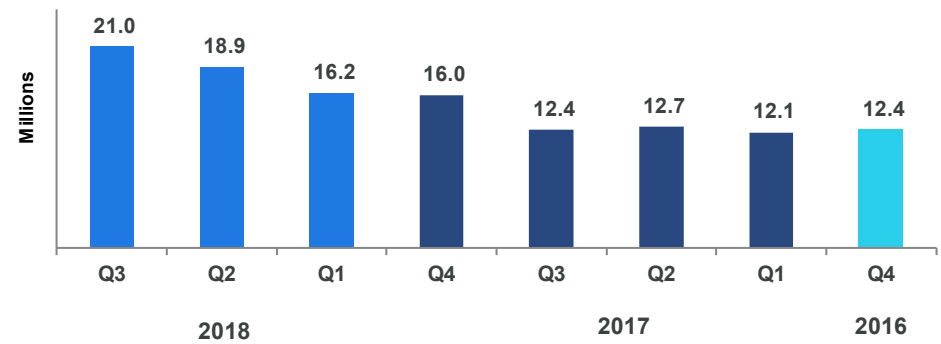
The transactions surrounding our equity investees, including the disposal of CUMIS' insurance operations, the restructuring of Interac's operations and the formation of Aviso, completed during 2018. This led to a \$82.9 million net gain recognized in the first nine months of 2018.

Other

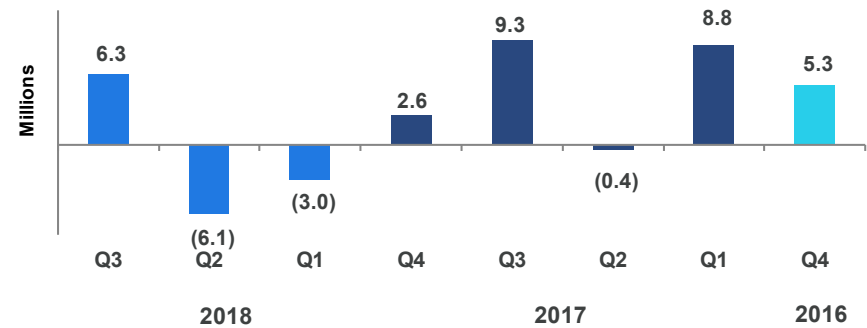
The Other operating segment included costs incurred to support other strategic initiatives, which was \$4.6 million lower from a year ago. Some of these strategic initiatives were under development in 2017 but have been operationalized in 2018, resulting in an overall decrease in the costs incurred for the current period.

Summary of Quarterly Results

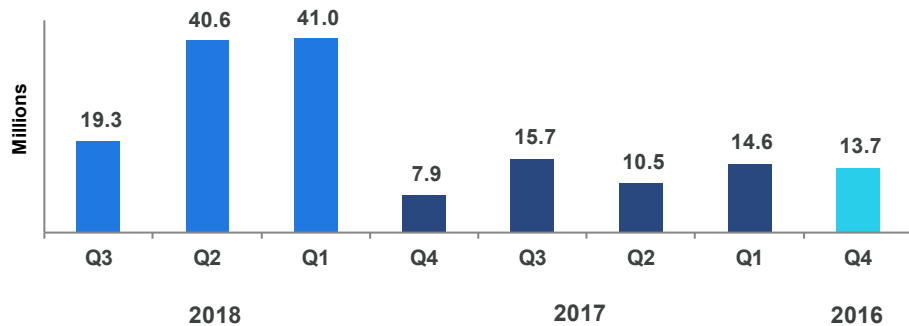
Interest Margin



Realized and Unrealized Gains (Losses)



Profit
(After tax and before distributions)



| (Thousands of dollars, except as indicated) | 2018 | | | 2017 | | | | 2016 | |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|--|
| | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | |
| Interest income | \$ 93,713 | \$ 87,579 | \$ 78,382 | \$ 73,208 | \$ 62,781 | \$ 60,513 | \$ 57,366 | \$ 56,143 | |
| Interest expense | 72,683 | 68,650 | 62,220 | 57,171 | 50,407 | 47,807 | 45,294 | 43,784 | |
| Interest margin | 21,030 | 18,929 | 16,162 | 16,037 | 12,374 | 12,706 | 12,072 | 12,359 | |
| Realized and unrealized gains (losses) | 6,326 | (6,128) | (3,046) | 2,579 | 9,296 | (434) | 8,815 | 5,286 | |
| Impairment loss (recovery) on financial assets | 58 | (175) | 183 | 1 | (8) | (140) | 27 | 6 | |
| | 27,298 | 12,976 | 12,933 | 18,615 | 21,678 | 12,412 | 20,860 | 17,639 | |
| Non-financial income | 35,164 | 37,233 | 34,786 | 38,620 | 37,656 | 38,575 | 35,038 | 35,431 | |
| Gains from system affiliates | 2,671 | 37,470 | 43,017 | - | - | - | - | - | |
| | 37,835 | 74,703 | 77,803 | 38,620 | 37,656 | 38,575 | 35,038 | 35,431 | |
| Non-financial expense | 41,658 | 44,255 | 44,986 | 46,892 | 40,454 | 38,892 | 38,251 | 36,408 | |
| | (3,823) | 30,448 | 32,817 | (8,272) | (2,798) | (317) | (3,213) | (977) | |
| Profit before tax | 23,475 | 43,424 | 45,750 | 10,343 | 18,880 | 12,095 | 17,647 | 16,662 | |
| Income taxes | 4,145 | 2,866 | 4,760 | 2,463 | 3,182 | 1,643 | 3,033 | 2,942 | |
| Profit | \$ 19,330 | \$ 40,558 | \$ 40,990 | \$ 7,880 | \$ 15,698 | \$ 10,452 | \$ 14,614 | \$ 13,720 | |
| Weighted average shares outstanding (millions) | 486.5 | 479.4 | 429.7 | 417.1 | 440.3 | 425.2 | 417.0 | 396.1 | |
| Earnings per share* | | | | | | | | | |
| Basic (cents) | 4.0 | 8.5 | 9.5 | 1.9 | 3.6 | 2.5 | 3.5 | 3.5 | |
| Diluted (cents) | 4.0 | 8.5 | 9.5 | 1.9 | 3.6 | 2.5 | 3.5 | 3.5 | |

*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 our Board of Directors.

Effective January 1, 2018, we prospectively adopted IFRS 9, *Financial Instruments*. Prior periods have not been restated. Results for the periods prior to January 1, 2018 are reported in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*.

Certain comparative figures have been reclassified to conform with the current period's presentation.

Interest margin was \$21.0 million in the third quarter of 2018, an increase of \$2.1 million from \$18.9 million in the second quarter of 2018. Strong net assets, as well as widening net interest spreads continued to contribute to a strong interest margin quarter-over-quarter.

Our profit growth for the first two quarters of 2018 was largely driven by the gains from system affiliate transactions, including the disposal of CUMIS' insurance operations, the restructuring of Interac's operations and the formation of Aviso. Excluding these one-time gains, our growth in profit has been supported by a strong interest margin.

Off-Balance Sheet Arrangements

In the normal course of business, we enter 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

| (Millions of dollars) | Sep 30 2018 | Dec 31 2017 | Notional Amount Sep 30 2017 |
|------------------------------------|-------------|-------------|--------------------------------|
| Interest rate contracts | | | |
| Bond forwards | \$ 78.7 | \$ 96.7 | \$ 103.3 |
| Futures contracts | 230.0 | 65.0 | 470.0 |
| Swap contracts | 33,337.5 | 30,292.7 | 20,573.1 |
| Options purchased | - | 10.0 | 10.0 |
| Options written | - | 10.0 | - |
| | 33,646.2 | 30,474.4 | 21,156.4 |
| Foreign exchange contracts | | | |
| Foreign exchange forward contracts | 890.2 | 247.4 | 223.5 |
| Other derivative contracts | | | |
| Equity index-linked options | 220.2 | 231.7 | 237.6 |
| | \$ 34,756.6 | \$ 30,953.5 | \$ 21,617.5 |

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

We act as a swap intermediary between Canada Housing Trust and member credit unions and additionally provide derivative capabilities to member credit unions to be used in the asset/liability management (ALM) of their respective balance sheets. These activities represented \$9.4 billion and \$21.6 billion, respectively, of the total derivative notional balances as at September 30, 2018, compared to \$10.1 billion and \$16.4 billion at September 30, 2017, and \$9.5 billion and \$17.0 billion at December 31, 2017. Derivatives are primarily used in our ALM activities. In addition, we facilitate 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 our overall credit risk policies and through the existence of Credit Support Annex (CSA) agreements in place with all of our non-credit union derivatives counterparties. Under a CSA, net fair value positions are collateralized with high quality liquid securities. Our credit exposure to our credit union counterparties is secured by the general security arrangements we have in place with each credit union.

The fair value of derivative instruments is presented in Note 8 to the Interim Consolidated Financial Statements.

Guarantees and Commitments

The following table presents the maximum amounts of credit that we 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.

| (Millions of dollars) | Sep 30 2018 | | Dec 31 2017 | | Sep 30 2017 |
|--|-------------|---------|-------------|---------|-------------|
| Commitments to extend credit | \$ | 4,131.7 | \$ | 4,327.9 | \$ 3,913.0 |
| Guarantees | | | | | |
| Financial Guarantees | \$ | 378.3 | \$ | 367.5 | \$ 400.0 |
| Performance Guarantees | \$ | 810.0 | \$ | 810.0 | \$ 340.0 |
| Standby letters of credit | \$ | 198.5 | \$ | 187.9 | \$ 175.1 |
| Future prepayment swap reinvestment commitment | \$ | 940.1 | \$ | 770.3 | \$ 626.8 |

In the normal course of business, we enter into various off-balance sheet credit instruments to meet the financing, credit, and liquidity requirements of our member credit unions. These are in the form of commitments to extend credit, standby commitments, and performance guarantees.

Commitments to extend credit increased \$218.7 million from a year ago driven by increased member credit union lending activities. Guarantees increased \$448.3 million due to higher transaction volumes, while standby letters of credit increased \$23.4 million. Future prepayment swap reinvestment commitments increased \$313.3 million due to increased prepayment swap activities.

Assets under Administration

| (Millions of dollars) | Sep 30 2018 | | Dec 31 2017 | | Sep 30 2017 |
|--|-------------|---------|-------------|---------|-------------|
| Registered Retirement Savings Plans | \$ | 1,090.7 | \$ | 1,126.2 | \$ 1,129.0 |
| Tax-Free Savings Accounts | | 907.9 | | 829.1 | 808.9 |
| Registered Retirement Income Funds/Life Income Funds | | 431.6 | | 396.3 | 416.9 |
| Registered Education Savings Plans | | 232.9 | | 224.0 | 218.1 |
| Registered Disability Savings Plans | | 25.2 | | 20.7 | 19.4 |
| | \$ | 2,688.3 | \$ | 2,596.3 | \$ 2,592.3 |

Comparative figures have been restated

Assets under Administration (AUA) mainly include government approved registered plans for tax deferral purposes, which are trustee and administered by Central 1 or one of its wholly owned subsidiaries. Central 1 provides trust and administrative services on AUA for the beneficial owners and 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.

As at September 30, 2018, AUA totaled \$2.7 billion, up \$96.0 million or 3.7 per cent from a year ago. An overall increase in business from both Ontario and B.C. has contributed to the growth of AUA. The Tax-Free Savings Accounts increased 12.2 per cent from a year ago reflective of its increasing popularity among investors as an alternative to the Registered Retirement Savings Plans (RRSP), which shows a corresponding 3.4 per cent decrease in AUA for the same period. This downward trend in RRSP contributions is expected to continue as investors age-out into annuity options at age 71 and as younger investors opt for the TFSA.

The Registered Disability Savings Plans and the Registered Education Savings Plan also increased 29.9 per cent and 6.8 per cent, respectively, from the same period last year, contributing to the overall AUA increase.

Capital Management and Capital Resources

We manage capital to maintain strong capital ratios in support of the risks and activities of the organization while generating an appropriate rate of return for our members. In addition to the regulatory requirements, we consider 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

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

Our share capital, with the exception of nominal amounts, is entirely contributed by our Class A members, which are comprised of B.C. credit unions and our member credit unions in Ontario. These Class A members, collectively, hold our Class A, E and F shares. Our policy requires an annual rebalancing of Class A share capital based on each Class A members' consolidated assets in proportion to the total consolidated assets of all Class A members at the immediately preceding fiscal year-end.

On April 28, 2017 members approved certain amendments to our Rules creating Class F shares. The regulatory approval by FICOM for such amendments was received on December 5, 2017. The proceeds from the issuance of Class F shares now provide the primary form of capital in the MLP.

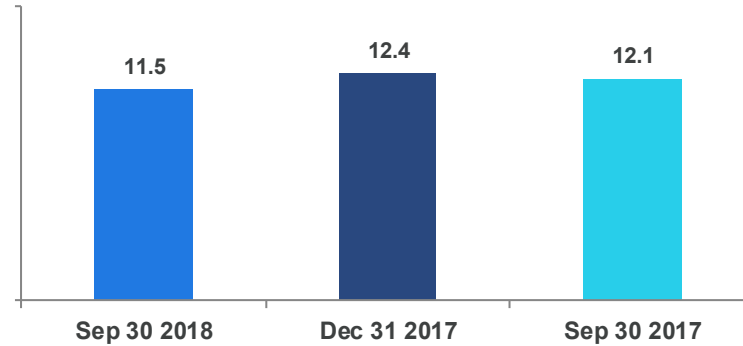
A component of our capital management is maintaining an appropriate number of issued and outstanding shares held by Class A members. Class F

in-cycle share calls are scheduled in each May and November to capitalize the growth in the MLP. Class A members are required to subscribe for Class F shares based on their deposits in proportion to the total deposits in the MLP. As Class A members contribute the funding and capital, net earnings in the MLP are distributed to the Class A members as dividends on their Class F shares subject to approval of our Board of Directors.

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 capital from the remaining outstanding number of Class A shares of \$50.0 million will provide regulatory capital to support strategic and operational initiatives over our planning cycle. As a part of this transaction, we also redeemed or reacquired approximately 750 thousand Class E shares with an aggregate value of \$75.0 million, which reduced our regulatory capital.

Regulatory Capital

Borrowing Multiple (Consolidated)



| (Millions of dollars) | Sep 30 2018 | Dec 31 2017 | Sep 30 2017 |
|---|-------------|-------------|-------------|
| Share capital | \$ 486.0 | \$ 428.1 | \$ 411.0 |
| Contributed surplus | - | 72.9 | 87.9 |
| Retained earnings | 711.2 | 585.0 | 580.0 |
| Less: accumulated net after tax gain in investment property | (4.7) | (4.7) | (4.7) |
| Tier 1 capital | 1,192.5 | 1,081.3 | 1,074.2 |
| 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 | 1,618.2 | 1,507.0 | 1,499.9 |
| Statutory capital adjustments | (107.5) | (178.3) | (172.4) |
| Capital base (federal) | \$ 1,510.7 | \$ 1,328.7 | \$ 1,327.5 |
| Borrowing multiple - Consolidated | 11.5:1 | 12.4:1 | 12.1:1 |
| Borrowing multiple - Mandatory Liquidity Pool | 15.8:1 | 15.7:1 | 15.9:1 |
| Borrowing multiple - Wholesale Financial Services | 12.6:1 | 11.9:1 | 11.4:1 |

As of September 30, 2018, our Tier 1 regulatory capital was \$1,192.5 million and total capital before deductions was \$1,618.2 million. In determining regulatory capital, adjustments are required to amounts reflected in our Interim Consolidated Statements of Financial Position. Deductions from capital are required for certain investments, including our 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 increase in share capital was due to the share restructuring and in-cycle Class F share call during 2018 which was outweighed by the decreased contributed surplus from the redemption and re-acquisition of Class E shares. The gains recognized in our profit for the first nine months of 2018, as a result of the transactions surrounding our equity investees, contributed to increased regulatory capital from December 31, 2017. The increase in regulatory capital was also contributed by decreased statutory capital adjustments. The disposal of CUMIS' insurance operations reduced our investment balance in CUMIS, leading to the decreased statutory capital adjustments.

We were in compliance with all regulatory capital requirements during these periods.

FICOM requires us to maintain a consolidated borrowing multiple of no more than 20.0:1, and a borrowing multiple no more than 17.0:1 for the MLP segment and no more than 15.0:1 for the WFS segment. At September 30, 2018, our consolidated borrowing multiple was 11.5:1 compared to 12.4:1 at December 31, 2017. We manage the MLP's borrowing multiple through semi-annual capital calls from our membership and manage the WFS' borrowing multiple through growth in retained earnings and subordinated debt.

Note 27 to our 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 our 2017 Annual Report.

We manage risk and perform 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 our risk activities and oversight operations.

We recognize that reputation is among our most important assets, and actively seek to maintain a positive reputation both for ourselves 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.

Our risk management framework assesses and monitors reputational threats and impacts that arise from business activities. We continue to improve our approaches for the assessment, measurement, and monitoring of reputation impact.

Strategic Risk

We believe that pressures exist on all financial institutions, including credit unions, from tight margins and financial technology disruption, among other things. We also face uncertainty around Class A member credit unions deciding to become federal credit unions. To deliver value for our member credit unions, we incorporate an informed understanding of the potential future landscape of the credit union system into strategic planning.

Compliance Risk

We are exposed to compliance risk in all areas of our 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 we continue to meet the requirements of:

- the law, to uphold our 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
- internal policies and procedures, to help ensure a strong and efficient governance structure

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

Counterparty Risk

Within the Treasury and Digital & Payment Services operations, we incur 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 our own credit union system where a robust internal risk rating regime is utilized.

Credit Risk

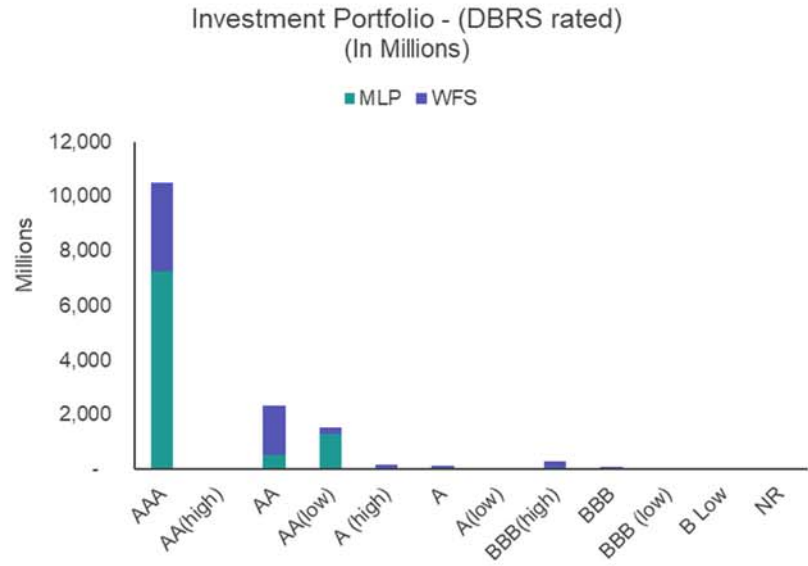
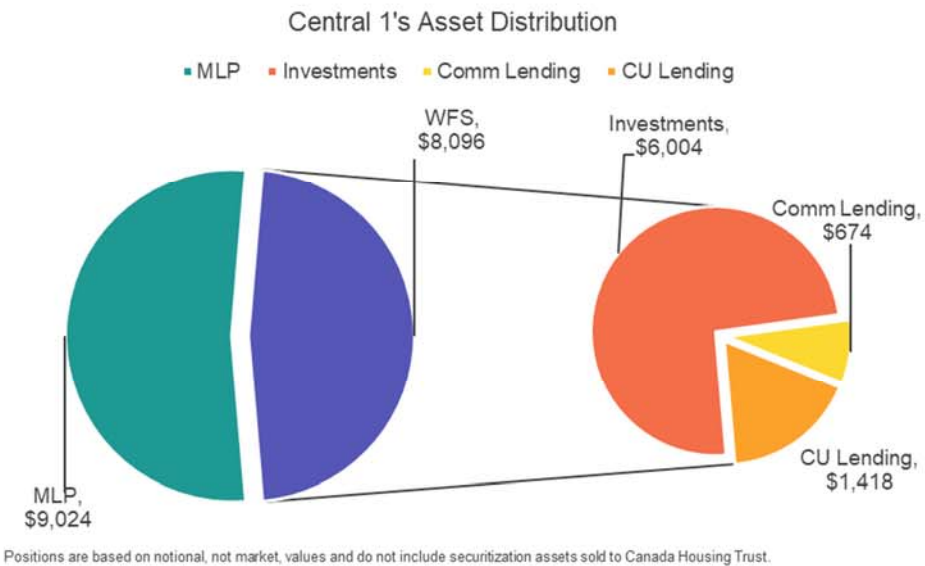
We are exposed to Credit Risk from our investment and lending activities, as well as through our role as Group Clearer and other settlement business.

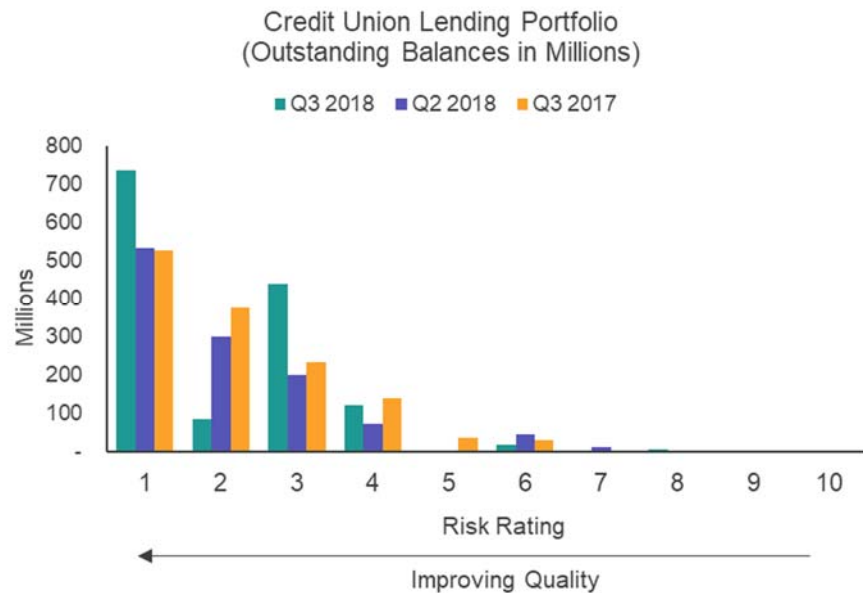
Risks are managed by:

- holding low-risk investment securities
- a robust and conservative loan underwriting framework that utilizes the acquisition of collateral and other credit enhancements
- 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 following figure illustrates our credit exposure and risk profile based on outstanding balances in the investment portfolios held in MLP and WFS. WFS holds \$562.6 million in securities rated A or below (DBRS), which represents 9.4 per cent of the investment portfolio.





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 September 30, 2018 represent 1.46 per cent of the total outstanding portfolio balance.

Credit Union Lending

While there are no impaired facilities in our Credit Union Lending portfolio, a number of credit unions have been placed on the Watch List. To date, there are two Ontario and two B.C. credit unions classified as Watch List (risk rating 7). Three Ontario credit unions have been assigned Unsatisfactory risk (risk rating 8). Watch List and Unsatisfactory accounts as at September 30, 2018 represent 0.68 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. We continue to receive cash flows on the underlying assets. Expected credit loss for the impaired investment as at September 30, 2018 was \$0.4 million.

Liquidity Risk

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

Our liquidity positions continue to be strong. The Liquidity Coverage Ratio (LCR) demonstrates our 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. We calculate the LCR for MLP and WFS portfolios against the 100 per cent target set by the Risk Appetite Statement.

Our highly liquid assets include securities eligible to be pledged to the BOC under Standard Liquidity Facility (SLF) and USD-denominated variants that meet the SLF eligibility criteria.

| | Q3 2018 | Q2 2018 | Q1 2018 | LTM Average | LTM High | LTM Low |
|------------------------------|---------|---------|---------|-------------|----------|---------|
| Mandatory Liquidity Pool | 172.9% | 170.2% | 172.1% | 173.6% | 178.1% | 168.8% |
| Wholesale Financial Services | 137.5% | 156.2% | 164.8% | 149.1% | 198.6% | 117.8% |

Wholesale Financial Services values were recalculated to meet current requirements.

Market Risk

The level of market risk to which we are exposed varies according to market conditions and the composition of our investment, lending, and derivative portfolios. We manage our 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 our 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. Our risk appetite statement requires us to not assume additional market risk for speculative purposes or in pursuit of returns beyond those required to reasonably fulfill our primary mandate of safeguarding system liquidity.

Value at Risk

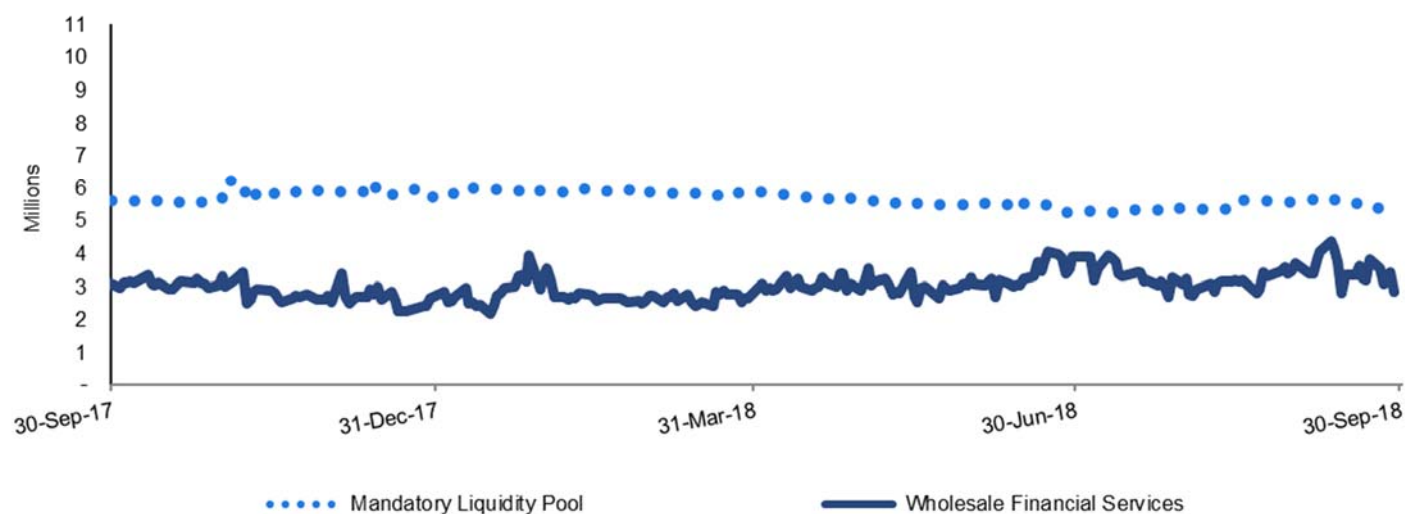
We regularly monitor our exposure to market risk. Our Risk Appetite Statement (RAS) currently defines VaR-based market risk limits in relation to changes in portfolio value. In particular, the RAS sets out separate VaR limits for the MLP and WFS. The current limits approved by the Board are 10 bps, or 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 \$8.89 million for MLP and \$9.26 million for WFS. We complied with MLP and WFS limits during the third quarter.

| (Millions of dollars) | Mandatory Liquidity Pool | | | | | |
|--------------------------------|--------------------------|---------|---------|----------------|---------|--------|
| | Q3 2018 | Q2 2018 | Q1 2018 | Last 12 Months | | |
| | | | | Average | High | Low |
| Interest Rate VaR | \$ 4.4 | \$ 3.9 | \$ 5.1 | \$ 5.0 | \$ 10.3 | \$ 3.7 |
| Credit Spread VaR | 5.5 | 5.0 | 5.0 | 4.8 | 5.2 | 2.0 |
| Foreign Exchange VaR | 0.2 | 0.6 | 0.1 | 0.2 | 0.7 | 0.0 |
| Diversification ⁽¹⁾ | (4.6) | (4.2) | (4.3) | nm | nm | nm |
| Total VaR | \$ 5.5 | \$ 5.3 | \$ 5.9 | \$ 5.8 | \$ 10.0 | \$ 4.7 |

| (Millions of dollars) | Wholesale Financial Services | | | | | |
|--------------------------------|------------------------------|---------|---------|----------------|--------|--------|
| | Q3 2018 | Q2 2018 | Q1 2018 | Last 12 Months | | |
| | | | | Average | High | Low |
| Interest Rate VaR | \$ 1.8 | \$ 1.6 | \$ 1.7 | \$ 1.9 | \$ 5.9 | \$ 1.3 |
| Credit Spread VaR | 1.7 | 1.6 | 1.5 | 1.4 | 1.6 | 1.1 |
| Foreign Exchange VaR | 2.0 | 3.4 | 1.7 | 2.1 | 5.2 | 1.1 |
| Diversification ⁽¹⁾ | (2.6) | (2.6) | (2.3) | nm | nm | nm |
| Total VaR | \$ 2.9 | \$ 4.0 | \$ 2.6 | \$ 3.1 | \$ 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



Stress Testing

VaR Stress Testing allows us 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
- European Crisis (November 2010 through December 2013) – rising short-term spreads and USD-CAD rate volatility

Both the MLP and WFS portfolio are 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.

| (Millions of dollars) | Mandatory Liquidity Pool | | Wholesale Financial Services | |
|---------------------------------------|--------------------------|------|------------------------------|------|
| 10-Day VaR | \$ | 11.1 | \$ | 7.8 |
| Pre-Lehman Crisis (Oct 2006-Dec 2007) | \$ | 12.3 | \$ | 14.4 |
| Lehman Crisis (Jan 2008-May 2009) | \$ | 25.4 | \$ | 24.9 |
| European Crisis (Nov 2010-Dec 2013) | \$ | 18.1 | \$ | 12.9 |

Direction and Sources of Interest Rate Risk

We use 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

We have assets and liabilities denominated in several major currencies and trades foreign currencies with our member credit unions and other clients. 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. Our FX exposure is concentrated in USD and only a relatively small amount is held in other major currencies.

| (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 | \$ (21.3) | \$ 42.3 | \$ 20.9 | 1.2921 | \$ 27.0 |

Operational Risk

Operational risks include shortcomings related to people, process, systems and the external environment. While the financial impact associated with operational risk can be significant, it's 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. We manage this type of risk through implementing policies and associated procedures that are fundamental to our operating infrastructure.

During the third quarter of 2018, our operational risk exposures were within the limits of allocated capital for operational risk.

We continue to experience increasing exposure to technology risk from both an adversarial threat environment and a complex ecosystem of integration with many financial institutions. We have implemented real-time intrusion detection and monitoring of our infrastructure and banking applications, including the use of external agencies to continuously evaluate security performance. We continue 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 ourselves and the credit union system.

We identify and assess 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 our treatment of emerging risks. Emerging risks are quantified using established techniques where possible or qualitatively assessed on the basis of impact and likelihood.

Currently, we consider the possible end of the economic cycle and open banking as emerging risks.

- **Possible end of the economic cycle** – There are indicators, such as decreasing employment rates and undue risk being taken at elevated prices, that economic growth could be slowing. Also, the length of the current bull cycle and high valuations in equity markets

could also be indications that the economic cycle is ending. However, further analysis of other factors is necessary to determine whether this will lead to a downturn in the overall economy that could affect our business.

- **Open banking** – The federal government has launched an Advisory Committee on Open Banking with the intent to release a consultation paper this year. Open banking could increase consumer choice, but amongst privacy and security concerns is the likelihood of increased competition from smaller, nimbler fintechs.

Accounting Matters

Critical Accounting Policies and Estimates

A summary of significant accounting policies can be found in Note 4 to our 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.

Expected Credit Loss

Effective January 1, 2018, 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 resulted 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, we 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.

Gains from System Affiliates

The transactions surrounding our equity investees during this year resulted in a significant impact on our Consolidated Interim Financial Statements. Management estimates and judgements were made to determine the fair values for Qtrade Canada Inc. (Qtrade), and Northwest & Ethical Investments LP (NEI) in the Aviso transaction. These judgements included assessing the applicability of valuation approaches for us and selecting the ranges of the fair values for Qtrade and NEI that were derived based on the estimates of their respective future cash flows projection. Actual results may differ materially from these estimates and judgements.

Changes in Accounting Policies

Effective January 1, 2018, we 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 4 and 5 of our Interim Consolidated Financial Statements for the quarter ended September 30, 2018.

Future Changes in Accounting Policies

Conceptual Framework for Financial Reporting

On March 29, 2018, the IASB issued the revised *Conceptual Framework for Financial Reporting* (Conceptual Framework) which describes the objective of, and the concepts for, general purpose financial reporting. The purpose of the Conceptual Framework is to assist preparers of financial statements to develop consistent accounting policies when no IFRS Standard (Standard) applies to a particular transaction or other event, or when a Standard allows a choice of accounting policy. The Conceptual Framework is not a Standard and does not override any Standard or any requirement in a Standard.

As the revised Conceptual Framework is effective for us on January 1, 2020, we are currently assessing the impact of adoption.

Amendments to IAS 19, Employee Benefits

On February 1, 2018, the IASB issued amendments to IAS 19 which clarify that on plan amendments, curtailments or settlements of a defined benefit plan, updated actuarial assumptions are used to determine the current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating gain or loss on any settlement of the defined benefit plan. The amendments apply for plan amendments, curtailments or

settlements that occur on or after January 1, 2019, or the date on which they are first applied with earlier application permitted.

We intend to adopt the amendments to IAS 19 in our financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the amendments has not yet been determined.

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16, *Leases*, which will replace IAS 17, *Leases*, and related interpretations. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard, and lessors continue to classify leases as finance or operating leases.

We are required to adopt IFRS 16 for the annual period beginning on January 1, 2019 and will adopt a modified retrospective approach to recognize any transition impact as an adjustment to the opening balance of retained earnings on the adoption date, with no restatement of comparative information. We plan to apply the practical expedient to grandfather the assessment of which transactions are leases. This means that we will apply IFRS 16 to leases previously identified in accordance with IAS 17 and related interpretations.

For leases in which we are a lessee, new assets and liabilities for the required operating leases will be recognized. Previously, we recognized operating lease expense on a straight-line basis over the term of the leases, and recognized assets and liabilities only to the extent that there was a timing difference between actual lease payments and the lease expense recognized. Under IFRS 16, we will recognize a depreciation charge for right-of-use asset and interest expense on lease liabilities.

As a lessor, we lease out our investment property. Under IFRS 16, we are not required to make an adjustment for leases in which we act as a lessor. As such, we will continue classify the leases of investment property as operating leases because we do not transfer substantially all the risks and rewards incidental to the ownership of the property.

We are continuing to review our lease contracts that fall within the scope of IFRS 16 and to assess the impact on its consolidated financial statements, including the additional disclosure requirements.

Related Party Disclosures

In the normal course of business, we grant loans to our 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 our Executive Management and Vice-Presidents. Our policies and procedures for related party transactions have not changed significantly since December 31, 2017.

Details of our related party disclosures were disclosed in Note 28 of the Interim Consolidated Financial Statements.

Credit Ratings

| | DBRS | S&P | Fitch |
|-------------------|--------------|-------------|--------|
| Instrument rating | | | |
| Senior debt | A (high) | A- | A |
| Subordinated debt | A | BBB+ | A- |
| Short-term debt | R-1 (middle) | A-1 (low) * | F1 |
| Issuer rating | | | |
| Rating outlook | Stable | Stable | Stable |

* A-1 Low represents the Canada National Scale Commercial Paper methodology. Our Local Currency rating is A-2.



Interim Consolidated Financial Statements

For the Quarter Ended September 30, 2018

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Central 1 Credit Union

Notes to the Interim Consolidated Financial Statements (Unaudited)
Period ended September 30, 2018

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Interim Consolidated Statements of Financial Position (Unaudited)

| (Thousands of dollars) | Notes | Sep 30 2018 | Dec 31 2017 |
|--|-------|----------------------|----------------------|
| Assets | | | |
| Cash | | \$ 156,164 | \$ 550,763 |
| Deposits with regulated financial institutions | | 6,046 | 5,975 |
| Securities | 7 | 15,255,845 | 14,407,919 |
| Reinvestment assets under the Canada Mortgage Bond Program | 7 | 595,177 | 545,247 |
| Derivative assets | 8 | 127,204 | 101,839 |
| Loans | 9 | 2,466,390 | 2,162,059 |
| Current tax assets | | 6,985 | 7,027 |
| Property and equipment | | 19,282 | 21,122 |
| Intangible assets | | 34,235 | 34,665 |
| Deferred tax assets | | 19,329 | 14,615 |
| Investments in affiliates | 28 | 77,529 | 143,642 |
| Settlements in-transit | | 407,369 | 44,134 |
| Other assets | 11 | 23,420 | 29,893 |
| | | \$ 19,194,975 | \$ 18,068,900 |
| Liabilities | | | |
| Deposits | 12 | \$ 12,541,925 | \$ 11,998,395 |
| Obligations related to securities sold short | 13 | 341,249 | 95,503 |
| Derivative liabilities | 8 | 113,519 | 83,933 |
| Debt securities issued | 14 | 2,363,407 | 2,178,650 |
| Obligations under the Canada Mortgage Bond Program | 15 | 1,099,269 | 1,190,108 |
| Subordinated liabilities | 16 | 425,039 | 421,765 |
| Provisions | | 1,766 | 1,854 |
| Securities under repurchase agreements | | 593,718 | 500,472 |
| Deferred tax liabilities | | 29,724 | 23,000 |
| Settlements in-transit | | 431,994 | 389,814 |
| Other liabilities | 18 | 50,594 | 66,285 |
| | | 17,992,204 | 16,949,779 |
| Equity | | | |
| Share capital | 19 | 485,984 | 428,143 |
| Contributed surplus | | - | 72,897 |
| Retained earnings | | 711,223 | 584,971 |
| Accumulated other comprehensive income (loss) | | (8,429) | 19,072 |
| Reserves | | 3,911 | 3,950 |
| | | 1,192,689 | 1,109,033 |
| Total equity attributable to members of Central 1 | | | |
| Non-controlling interest | | 10,082 | 10,088 |
| | | 1,202,771 | 1,119,121 |
| | | \$ 19,194,975 | \$ 18,068,900 |
| Guarantees, commitments, and contingencies | 25 | | |
| Subsequent event | 29 | | |

Approved by the Directors:

"Bill Kiss"

Bill Kiss

Chairperson

"Launi Skinner"

Launi Skinner

Director

See accompanying notes to the Interim Consolidated Financial Statements

Central 1 Credit Union

Notes to the Interim Consolidated Financial Statements (Unaudited)
Period ended September 30, 2018

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Interim Consolidated Statements of Profit (Unaudited)

| (Thousands of dollars) | Notes | For the three months ended | | For the nine months ended | |
|--|-------|----------------------------|------------------|---------------------------|------------------|
| | | Sep 30 2018 | Sep 30 2017 | Sep 30 2018 | Sep 30 2017 |
| Interest income | | | | | |
| Securities | | \$ 78,497 | \$ 50,421 | \$ 216,439 | \$ 148,830 |
| Deposits with regulated financial institutions | | 55 | 65 | 156 | 118 |
| Loans | | 13,897 | 10,515 | 39,504 | 25,788 |
| Reinvestment assets under the Canada Mortgage Bond Program | | 1,264 | 1,780 | 3,575 | 5,924 |
| | | 93,713 | 62,781 | 259,674 | 180,660 |
| Interest expense | | | | | |
| Debt securities issued | | 15,400 | 7,548 | 43,388 | 20,450 |
| Deposits | | 50,268 | 35,145 | 138,278 | 99,625 |
| Subordinated liabilities | | 3,190 | 3,149 | 9,429 | 9,315 |
| Obligations under the Canada Mortgage Bond Program | | 3,825 | 4,565 | 12,458 | 14,118 |
| | | 72,683 | 50,407 | 203,553 | 143,508 |
| Interest margin | | 21,030 | 12,374 | 56,121 | 37,152 |
| Loss on disposal of financial instruments | 20 | (11,737) | (5,418) | (29,953) | (2,665) |
| Change in fair value of financial instruments | 21 | 18,063 | 14,714 | 27,105 | 20,342 |
| Net financial income | | 27,356 | 21,670 | 53,273 | 54,829 |
| Impairment loss (recovery) on financial assets | 10 | 58 | (8) | 66 | (121) |
| | | 27,298 | 21,678 | 53,207 | 54,950 |
| Non-financial income | 22 | 35,164 | 37,656 | 107,183 | 111,269 |
| Gains from system affiliates | 22 | 2,671 | - | 83,158 | - |
| Net financial and non-financial income | | 65,133 | 59,334 | 243,548 | 166,219 |
| Non-financial expense | | | | | |
| Salaries and employee benefits | | 19,040 | 19,547 | 59,362 | 57,653 |
| Premises and equipment | | 1,820 | 2,320 | 5,605 | 6,170 |
| Other administrative expenses | 23 | 20,798 | 18,587 | 65,932 | 53,774 |
| | | 41,658 | 40,454 | 130,899 | 117,597 |
| Profit before income taxes | | 23,475 | 18,880 | 112,649 | 48,622 |
| Income taxes | | 4,145 | 3,182 | 11,771 | 7,858 |
| Profit | | \$ 19,330 | \$ 15,698 | \$ 100,878 | \$ 40,764 |

See accompanying notes to the Interim Consolidated Financial Statements

Interim Consolidated Statements of Comprehensive Income (Unaudited)

| (Thousands of dollars) | For the three months ended | | For the nine months ended | |
|--|----------------------------|-------------|---------------------------|-------------|
| | Sep 30 2018 | Sep 30 2017 | Sep 30 2018 | Sep 30 2017 |
| Profit | \$ 19,330 | \$ 15,698 | \$ 100,878 | \$ 40,764 |
| 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 | (1,468) | n/a | (1,390) | n/a |
| Net change in fair value of available-for-sale assets ² | n/a | 4,103 | n/a | 9,064 |
| Reclassification of realized (gains) losses to profit or loss ³ | (578) | (3,603) | (5,573) | (6,880) |
| Share of the other comprehensive loss of affiliates accounted for using the equity method ⁴ | (521) | (256) | (2,435) | (22) |
| | (2,567) | 244 | (9,398) | 2,162 |
| 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 | (3,261) | n/a | 1,965 | n/a |
| Other comprehensive income (loss), net of tax | (5,828) | 244 | (7,433) | 2,162 |
| Comprehensive income, net of tax | \$ 13,502 | \$ 15,942 | \$ 93,445 | \$ 42,926 |
| 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 | \$ (310) | n/a | \$ (298) | n/a |
| ² Net change in fair value of available-for-sale assets | n/a | \$ 1,005 | n/a | \$ 2,128 |
| ³ Reclassification of realized (gains) losses to profit or loss | \$ (112) | \$ (872) | \$ (1,171) | \$ (1,615) |
| ⁴ Share of the other comprehensive income (loss) of affiliates accounted for using the equity method | \$ (1,151) | \$ (5) | \$ (104) | \$ 5 |
| Income taxes 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 | \$ (696) | n/a | \$ 413 | n/a |

Central 1 Credit Union

Notes to the Interim Consolidated Financial Statements (Unaudited)
Period ended September 30, 2018

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Interim Consolidated Statements of Changes in Equity (Unaudited)

| (Thousands of dollars) | Attributable to equity members | | | | | | | | Non-Controlling Interest | Total Equity |
|--|--------------------------------|---------------------|-------------------|------------------------------------|--------------------------|---------------------------|-----------------|--------------------------------|--------------------------|---------------------|
| | Share Capital | Contributed Surplus | Retained Earnings | Fair Value and Affiliates Reserves | Liability Credit Reserve | Employee Benefits Reserve | Other Reserves | Equity Attributable to 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 5) | | | 18,771 | (8,067) | (11,789) | | (2) | (1,087) | | (1,087) |
| Restated balance at January 1, 2018 | \$ 428,143 | \$ 72,897 | \$ 603,742 | \$ 12,813 | \$ (11,789) | \$ (1,808) | \$ 3,948 | \$ 1,107,946 | \$ 10,088 | \$ 1,118,034 |
| Total comprehensive income | | | | | | | | | | |
| Profit | | | 100,884 | | | | | 100,884 | (6) | 100,878 |
| Other comprehensive income (loss), net of tax | | | | | | | | | | |
| Fair value reserve (securities at fair value through other comprehensive income) | | | | (6,963) | | | | (6,963) | | (6,963) |
| Share of the other comprehensive income (loss) of affiliates accounted for using the equity method | | | | (2,435) | | | | (2,435) | | (2,435) |
| Liability credit reserve | | | | | 1,965 | | | 1,965 | | 1,965 |
| Total comprehensive income | - | - | 100,884 | (9,398) | 1,965 | - | - | 93,451 | (6) | 93,445 |
| Transactions with owners, recorded directly in equity | | | | | | | | | | |
| Class "E" shares redemption or reacquisition (Note 19) | (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 19) | 57,848 | | | | | | | 57,848 | | 57,848 |
| Transfer from reserves | | | 37 | | | | (37) | - | | - |
| Total contributions from and distributions to owners | 57,841 | (72,897) | 6,385 | - | - | - | (37) | (8,708) | - | (8,708) |
| Reclassification of liability credit reserve on derecognition⁽¹⁾ | | | 212 | | (212) | | | - | | - |
| Balance at September 30, 2018 | \$ 485,984 | \$ - | \$ 711,223 | \$ 3,415 | \$ (10,036) | \$ (1,808) | \$ 3,911 | \$ 1,192,689 | \$ 10,082 | \$ 1,202,771 |

⁽¹⁾ Transfer of cumulative gain or loss on derecognition of financial liabilities at FVTPL.

Profit attributable to:

| | 2018 | 2017 |
|--------------------------|-------------------|------------------|
| Members of Central 1 | \$ 100,884 | \$ 40,772 |
| Non-controlling interest | (6) | (8) |
| | \$ 100,878 | \$ 40,764 |

Total comprehensive income attributable to:

| | | |
|--------------------------|------------------|------------------|
| Members of Central 1 | \$ 93,451 | \$ 42,934 |
| Non-controlling interest | (6) | (8) |
| | \$ 93,445 | \$ 42,926 |

Central 1 Credit Union

Notes to the Interim Consolidated Financial Statements (Unaudited)
Period ended September 30, 2018

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Interim Consolidated Statements of Changes in Equity (Unaudited)

| (Thousands of dollars) | Attributable to equity members | | | | | | | | Non-Controlling Interest | Total Equity |
|---|--------------------------------|---------------------|-------------------|------------------------------------|---------------------------|----------------|--------------------------------|-----------|--------------------------|--------------|
| | Share Capital | Contributed Surplus | Retained Earnings | Fair Value and Affiliates Reserves | Employee Benefits Reserve | Other Reserves | Equity Attributable to Members | | | |
| Balance at January 1, 2017 | \$ 416,996 | \$ 87,901 | \$ 552,782 | \$ 16,280 | \$ (3,161) | \$ 4,034 | \$ 1,074,832 | \$ 10,043 | \$ 1,084,875 | |
| Total comprehensive income | | | | | | | | | | |
| Profit | | | 40,772 | | | | 40,772 | (8) | 40,764 | |
| Other comprehensive income (loss), net of tax | | | | | | | | | | |
| Fair value reserve (available-for-sale financial assets) | | | | 2,184 | | | 2,184 | | 2,184 | |
| Share of the other comprehensive income of affiliates accounted for using the equity method | | | | (22) | | | (22) | | (22) | |
| Total comprehensive income | - | - | 40,772 | 2,162 | - | - | 42,934 | (8) | 42,926 | |
| Transactions with owners, recorded directly in equity | | | | | | | | | | |
| Dividends to members | | | (16,864) | | | | (16,864) | | (16,864) | |
| Related tax savings | | | 3,206 | | | | 3,206 | | 3,206 | |
| Net Classes "A", "B" and "C" shares issued | (6,001) | | | | | | (6,001) | | (6,001) | |
| Transfer from reserves | | | 91 | | | (91) | - | | - | |
| Total distributions to owners | (6,001) | - | (13,567) | - | - | (91) | (19,659) | - | (19,659) | |
| Balance at September 30, 2017 | \$ 410,995 | \$ 87,901 | \$ 579,987 | \$ 18,442 | \$ (3,161) | \$ 3,943 | \$ 1,098,107 | \$ 10,035 | \$ 1,108,142 | |

See accompanying notes to the Interim Consolidated Financial Statements

Central 1 Credit Union

Notes to the Interim Consolidated Financial Statements (Unaudited)
Period ended September 30, 2018

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Interim Consolidated Statements of Cash Flows (Unaudited)

| (Thousands of dollars) | Notes | For the three months ended | | For the nine months ended | |
|--|-------|----------------------------|-------------|---------------------------|-------------|
| | | Sep 30 2018 | Sep 30 2017 | Sep 30 2018 | Sep 30 2017 |
| Cash flows from operating activities | | | | | |
| Profit for the period | | \$ 19,330 | \$ 15,698 | \$ 100,878 | \$ 40,764 |
| Adjustments for: | | | | | |
| Depreciation and amortization | | 1,984 | 1,867 | 6,055 | 5,330 |
| Interest margin | | (21,030) | (12,374) | (56,121) | (37,152) |
| Loss on disposal of financial instruments | | 11,737 | 5,418 | 29,953 | 2,665 |
| Change in fair value of financial instruments | | (18,063) | (14,714) | (27,105) | (20,342) |
| Impairment loss (recovery) on financial assets | | 58 | (8) | 66 | (121) |
| Gain from system affiliates | | (2,671) | - | (83,158) | - |
| Income taxes | | 4,145 | 3,182 | 11,771 | 7,858 |
| Other items, net | | 25,099 | 6,231 | 9,172 | (10,752) |
| | | 20,589 | 5,300 | (8,489) | (11,750) |
| Change in securities | | (14,947) | 24,362 | (894,840) | 365,139 |
| Change in settlements in-transit | | (88,006) | (146,397) | (321,056) | (341,959) |
| Change in loans | | 132,125 | (99,265) | (305,772) | (811,452) |
| Change in deposits | | (542,506) | (166,166) | 558,664 | 2,357 |
| Change in obligations related to securities sold short | | 152,359 | 95,857 | 248,187 | 28,769 |
| Change in derivative assets and liabilities | | 5,705 | 2,457 | 10,323 | 3,872 |
| | | (334,681) | (283,852) | (712,983) | (765,024) |
| Interest received | | 88,787 | 55,298 | 251,700 | 169,064 |
| Interest paid | | (55,986) | (41,338) | (171,651) | (126,883) |
| Income tax paid | | 85 | 11 | (5) | (34) |
| Net cash used in operating activities | | (301,795) | (269,881) | (632,939) | (722,877) |
| Cash flows from investing activities | | | | | |
| Change in deposits with regulated financial institutions | | - | - | (87) | (31) |
| Change in reinvestment assets under the Canada Mortgage Bond Program | | (78,176) | (107,214) | (52,266) | (165,074) |
| Change in property and equipment | | (123) | (696) | (618) | (3,310) |
| Change in intangible assets | | (793) | (1,015) | (3,086) | (11,983) |
| Change in investments in affiliates | | (447) | - | 142,732 | - |
| Net cash from (used in) investing activities | | (79,539) | (108,925) | 86,675 | (180,398) |
| Cash flows from financing activities | | | | | |
| Change in debt securities issued | 17 | (30,390) | 19,923 | 181,901 | 173,836 |
| Change in obligations under the Canada Mortgage Bond Program | 17 | 21,444 | 24,186 | (88,099) | 4,046 |
| Change in securities under repurchase agreements | 17 | 210,630 | 221,421 | 93,148 | 344,419 |
| Dividends paid | 17 | - | (5,000) | (18,129) | (18,580) |
| Issuance of Class F shares | 19 | - | - | 435,949 | - |
| Redemption of Class A shares | 19 | - | (30,001) | (378,101) | (6,001) |
| Redemption of Class E shares | 19 | - | - | (53,050) | - |
| Reacquisition of treasury shares | 19 | - | - | (21,954) | - |
| Net cash from financing activities | | 201,684 | 230,529 | 151,665 | 497,720 |
| Decrease in cash | | (179,650) | (148,277) | (394,599) | (405,555) |
| Cash - beginning of period | | 335,814 | 229,850 | 550,763 | 487,128 |
| Cash - end of period | | \$ 156,164 | \$ 81,573 | \$ 156,164 | \$ 81,573 |

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 include Central 1 and its subsidiaries.

Central 1 is the partner of choice for financial, digital banking and payment products and services for more than 300 financial institutions across Canada, including its member credit unions in British Columbia (B.C.) and Ontario. The performance of the British Columbia credit union system and that of Central 1's member credit unions in Ontario (collectively referred to herein as the Ontario credit union system) 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 on January 1, 2018 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 at 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 at FVTPL and classified as amortized cost under IFRS 9. For the comparative period, "Deposits" represent deposits previously designated as at 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, with the exception of IFRS 9 and 15 adoption.

The Interim Consolidated Financial Statements were authorized for issue by the Board of Directors on November 22, 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,
- Pension and post-retirement benefits, and
- Gains from system affiliates.

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 6.

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 September 30, 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 as 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.

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

All other financial assets are classified as measured as at FVTPL.

Central 1 classifies its financial liabilities as measured at amortized cost or 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 that would otherwise be required by the contract.

Financial assets and financial liabilities designated as at FVTPL are recorded in the Interim Consolidated Statement of Financial Position at fair value. For assets designated as at FVTPL, changes in fair value are recognized in the Interim Consolidated Statement of Profit. For liabilities designated as 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 and are not subsequently reclassified to the Interim Consolidated Statement of Profit upon derecognition/extinguishment of the liabilities. Instead, these changes are reclassified from AOCI to retained earnings 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 e.g. 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 financial 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 sales 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 as 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, 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 for 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 at FVTPL.

(b) Securities

Securities in the Interim Consolidated Statement of Financial Position consist of:

- Debt and equity instruments mandatorily measured as at FVTPL or designated as at FVTPL.
- Debt instruments measured as at FVOCI.

Debt instruments measured as at FVTPL

Debt instruments measured as 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 as at FVTPL

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

Debt instruments measured as at FVOCI

Debt instruments are measured as 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 as at FVOCI are recorded in OCI, unless the instrument is designated in a fair value hedge relationship, in which case 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 instruments are recognized in profit or loss.

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

ECL on debt instruments measured as 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 instruments.

(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 period ended September 30, 2018.

(d) Impairment on 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 ECL on the following financial assets that are not measured as 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 as 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 as 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 occurs (excluding missed payments cured within a contractually allowed grace period), as defined in credit agreements and indentures;
- a bankruptcy filing or legal receivership is entered 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 effective 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 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 on 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 generates revenue primarily from providing innovative products and services to its members and clients including credit union lending, access to securitization vehicles, digital banking technologies and payments processing solutions. Other sources of revenue include dues collected from providing advertising and marketing services for its members. 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 providing credit union lending and access to securitization vehicles.

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. The performance obligations are satisfied and revenues are recognized over time. 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 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 satisfied 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 providing innovative digital banking technologies and payment processing solutions.

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 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.

Operating Dues

As a trade association, Central 1 collects dues from credit union members to fund certain services such as Government Relations & Corporate Secretary, economics, communication, strategic and people solutions. These value-added services give member credit unions access to a wealth of expertise, while remaining affordable through economies of scale. The assessment of operating dues funded functions is determined annually based on an operating dues budget which is subsequently approved by the Board of Directors and credit union members in the Annual General Meeting. The services are rendered over time and

performance obligations are satisfied in the same manner; therefore, monthly recognition is appropriate.

Marketing Program Dues

Central 1 collects dues, as part of the B.C. and Ontario Marketing Programs, 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. The dues resolutions are reviewed and approved by Central 1's Board of Directors and then by the member credit unions by vote at each Annual General Meeting. Central 1 engages third party vendors to perform these services. As such, performance obligations are satisfied over time as marketing activities are provided.

Marketing Revenues

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. The standard marketing service contracts are one-off work requests and the annual research package consists of multiple reports delivered. The performance obligations relating to standard marketing service contracts and the annual research package are satisfied upon completion of the contracts and delivery of the goods. Therefore, revenue is recognized at a point in time based on the right to invoice.

4. New accounting standards and interpretations not yet adopted

Conceptual Framework for Financial Reporting

On March 29, 2018, the IASB issued the revised *Conceptual Framework for Financial Reporting* (Conceptual Framework) which describes the objective of, and the concepts for, general purpose financial reporting. The purpose of the Conceptual Framework is to assist preparers of financial statements to develop consistent accounting policies when no IFRS Standard (Standard) applies to a particular transaction or other event, or when a Standard allows a choice of accounting policy. The Conceptual Framework is not a Standard and does not override any Standard or any requirement in a Standard.

As the revised Conceptual Framework is effective for Central 1 on

January 1, 2020, we are currently assessing the impact of adoption.

Amendments to IAS 19, Employee Benefits

On February 1, 2018, the IASB issued amendments to IAS 19 which clarify that on plan amendments, curtailments or settlements of a defined benefit plan, updated actuarial assumptions are used to determine the current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating gain or loss on any settlement of the defined benefit plan. The amendments apply for plan amendments, curtailments or settlements that occur on or after January 1, 2019, or the date on which they are first applied with earlier application permitted.

Central 1 intends to adopt the amendments to IAS 19 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the amendments has not yet been determined.

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16, Leases, which will replace IAS 17, Leases, and related interpretations. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard, and lessors continue to classify leases as finance or operating leases.

Central 1 is required to adopt IFRS 16 for its annual periods beginning on or after January 1, 2019 and will adopt a modified retrospective approach to recognize any transition impact as an adjustment to the opening balance of retained earnings on the adoption date, with no restatement of comparative information. Central 1 plans to apply the practical expedient to grandfather the assessment of which transactions are leases. This means that its will apply IFRS 16 to leases previously identified in accordance with IAS 17 and related interpretations.

For leases in which Central 1 is a lessee, new assets and liabilities for the required operating leases will be recognized. Previously, Central 1 recognized operating lease expense on a straight-line basis over the term of the leases, and recognized assets and liabilities only to the extent that

there was a timing difference between actual lease payments and the lease expense recognized. Under IFRS 16, Central 1 will recognize a depreciation charge for right-of-use asset and interest expense on lease liabilities.

As a lessor, Central 1 leases out its investment property. Central 1 is not required to make an adjustment on transition to IFRS 16 for leases in which it acts as a lessor. As such, Central 1 will continue classify the leases of investment property as operating leases because they do not transfer substantially all of the risks and rewards incidental to the ownership of the property.

Central 1 is continuing to review its lease contracts that fall within the scope of IFRS 16 and to assess the impact on its consolidated financial statements, including the additional disclosure requirements.

5. Transition impact of IFRS 9 adoption

On January 1, 2018, Central 1 adopted IFRS 9 prospectively and did not restate comparative periods. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9. 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.

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 as 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 | 8,893,609 |
| | 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 | | \$ 17,836,384 |
| 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 | 35,408 |
| Total financial liabilities | | \$ 16,894,736 | | \$ 16,894,048 |

⁽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

Central 1 Credit Union

Notes to the Interim Consolidated Financial Statements (Unaudited)
Period ended September 30, 2018

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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 | (584) | | | | 8,889,608 |
| 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 repurchase agreement | 592,231 | | | | | | 592,231 |
| Other assets | 295,098 | | | | | | 295,098 |
| | \$ 18,068,900 | \$ - | \$ (584) | \$ - | \$ (605) | \$ - | \$ 18,067,711 |
| 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 | 480,953 | | | | | (102) | 480,851 |
| | \$ 16,949,779 | \$ - | \$ - | \$ - | \$ - | \$ (102) | \$ 16,949,677 |
| Equity | | | | | | | |
| Share capital | 428,143 | | | | | | 428,143 |
| Retained earnings ⁽⁵⁾ | 584,971 | 10,321 | (584) | 14,290 | (1,058) | (4,198) | 603,742 |
| 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) |
| | \$ 1,119,121 | \$ - | \$ (584) | \$ - | \$ (605) | \$ 102 | \$ 1,118,034 |

⁽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 at FVTPL based on the assessment of business model and contractual cash flows. In the third quarter of 2018, an immaterial adjustment was made to the opening balance sheet relating to the adoption of IFRS 9.
- debt securities of \$17.5 million for securitization activities previously classified as available-for-sale were reclassified as at 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 as at FVTPL upon adoption of IFRS 9.

⁽⁴⁾ Reclassification of cumulative changes in Central 1's own credit risk on deposits classified as at 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 equity. The impact primarily 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 | | (584) |
| Income tax expense/recovery ⁽¹⁾ | | 102 |
| 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) | \$ | 603,742 |

⁽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) | | | IAS 39 | | Transition | | IFRS 9 | | | |
|--|-----------|------------|-------------|-----------|-------------|----------|------------|---------|---------|---------|
| | Specific | Collective | Impairment | Allowance | Adjustments | | ECL | Stage 1 | Stage 2 | Stage 3 |
| | Allowance | Allowance | Dec 31 2017 | | | | Jan 1 2018 | | | |
| 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 | | |

6. 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.

Expected credit loss

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 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. 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.

Note 10 details the impairment or recovery impact of ECL on Central 1's financial assets

Gains from system affiliates

The transactions surrounding Central 1's equity investees in 2018 resulted in a significant impact on Central 1's Consolidated Interim Financial Statements. Management estimates and judgements were made to determine the fair values for Qtrade Canada Inc. (Qtrade), and Northwest & Ethical Investments LP (NEI) in the Aviso transaction. These judgements included assessing the applicability of valuation approaches for Central 1 and selecting the ranges of the fair values for Qtrade and NEI. Actual results may differ materially from these estimates and judgements. Refer to Notes 22 and 28 for more information.

7. Securities

| (Thousands of dollars) | | Sep 30 2018 | Dec 31 2017 |
|---|----|--------------------|--------------------|
| Securities FVTPL | | | |
| Government and government guaranteed securities | \$ | 6,450,520 | \$ 6,000,006 |
| Corporate and major financial institutions AA ⁽¹⁾ or greater | | 2,409,759 | 1,492,034 |
| Other | | 333,813 | 1,397,705 |
| Fair value | \$ | 9,194,092 | \$ 8,889,745 |
| Amortized cost | \$ | 9,260,123 | \$ 8,943,209 |
| Securities FVOCI | | | |
| Government and government guaranteed securities | \$ | 4,264,579 | \$ 4,476,928 |
| Corporate and major financial institutions AA ⁽¹⁾ or greater | | 1,123,908 | 283,169 |
| Other | | 673,266 | 758,077 |
| Fair value | \$ | 6,061,753 | \$ 5,518,174 |
| Amortized cost | \$ | 6,057,667 | \$ 5,463,833 |
| | \$ | 15,255,845 | \$ 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) | Sep 30 2018 | | Dec 31 2017 | |
|---|-------------|---------|-------------|---------|
| FVTPL | | | | |
| Government and government guaranteed securities | \$ | 590,308 | \$ | 409,571 |
| Amortized cost | \$ | 594,386 | \$ | 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 | \$ | 4,869 | \$ | 228 |
| Total reinvestment assets under the Canada Mortgage Bond Program | \$ | 595,177 | \$ | 545,247 |

8. Derivative instruments

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

| (Thousands of dollars) | Sep 30 2018 | | Dec 31 2017 | |
|------------------------------------|-------------|------------|-------------|-----------|
| | Asset | Liability | Asset | Liability |
| Interest rate contracts | | | | |
| Bond forwards | \$ 11 | \$ 349 | \$ 74 | \$ 234 |
| Futures contracts | - | (138) | 11 | 122 |
| Swap contracts | 198,580 | 183,550 | 153,555 | 135,897 |
| Options purchased | - | - | 309 | - |
| Options written | - | - | - | 304 |
| | 198,591 | 183,761 | 153,949 | 136,557 |
| Foreign exchange contracts | | | | |
| Forward contracts | 5,443 | 6,592 | 2,984 | 2,477 |
| Other | | | | |
| Equity index-linked options | 8,697 | 8,693 | 11,370 | 11,363 |
| Total fair value before adjustment | 212,731 | 199,046 | 168,303 | 150,397 |
| Adjustment for offsetting | (85,527) | (85,527) | (66,464) | (66,464) |
| Fair value | \$ 127,204 | \$ 113,519 | \$ 101,839 | \$ 83,933 |

The amounts that have been pledged and received as collateral are \$37.4 million and \$25.1 million, respectively, as at September 30, 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) | | | Sep 30 2018 | | Dec 31 2017 | |
|------------------------|-------|---|-------------|-------|-------------|-------|
| | Asset | | Liability | | Asset | |
| Swap contracts | \$ | - | \$ | 7,265 | \$ | 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 Interim Consolidated Statements of Profit.

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

| (Thousands of dollars) | For the three months ended | | For the nine months ended | |
|--|----------------------------|-------------|---------------------------|-------------|
| | Sep 30 2018 | Sep 30 2017 | Sep 30 2018 | Sep 30 2017 |
| Change in the fair value on hedging derivatives | \$ (2,572) | \$ (995) | \$ (4,109) | \$ (1,335) |
| Fair value hedge adjustment on loans and medium-term notes | 2,614 | 1,072 | 4,531 | 1,203 |
| Hedge ineffectiveness recorded in profit | \$ 42 | \$ 77 | \$ 422 | \$ (132) |

9. Loans

The following table presents loans that are classified as amortized cost under IFRS 9 and loans and receivables measured at amortized cost under IAS 39. The loans that were classified as at FVTPL under IAS 39 retain the same classification under IFRS 9.

| (Thousands of dollars) | Sep 30 2018 | | Dec 31 2017 | |
|--|-------------|-----------|-------------|-----------|
| Due on demand | | | | |
| Credit unions | \$ | 926,354 | \$ | 728,449 |
| Commercial and others | | 6,158 | | 1,406 |
| | | 932,512 | | 729,855 |
| Term | | | | |
| Credit unions | | 95,744 | | 53,832 |
| Commercial and others | | 663,053 | | 622,392 |
| Reverse repurchase agreements | | 756,404 | | 591,944 |
| Officers and employees | | 8,110 | | 7,937 |
| Residential mortgages | | - | | 139,870 |
| | | 1,523,311 | | 1,415,975 |
| | | 2,455,823 | | 2,145,830 |
| Accrued interest | | 2,442 | | 2,671 |
| Premium | | 5,142 | | 8,897 |
| | | 2,463,407 | | 2,157,398 |
| Expected credit loss | | (1,291) | | (527) |
| Amortized cost | | 2,462,116 | | 2,156,871 |
| Fair value hedge adjustment ⁽¹⁾ | | (6,709) | | (6,261) |
| Carrying value | \$ | 2,455,407 | \$ | 2,150,610 |
| FVTPL | | | | |
| Term | | | | |
| Commercial and others | \$ | 10,948 | \$ | 11,225 |
| Accrued interest | | 36 | | 35 |
| Premium | | 87 | | 104 |
| Amortized cost | \$ | 11,071 | \$ | 11,364 |
| Fair value | \$ | 10,983 | \$ | 11,449 |
| Total loans | \$ | 2,466,390 | \$ | 2,162,059 |

⁽¹⁾ Central 1 enters into fair value hedges to hedge the risks caused by changes in interest rates. See Note 8 for detailed information on hedge accounting.

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

10. Expected Credit Loss

| (Thousands of dollars) | For the three months ended Sep 30 2018 | | | | |
|---|--|---------------|---------------|-----------|--------------|
| | Stage 1 | Stage 2 | Stage 3 | Total | |
| ECL on financial assets at amortized cost | | | | | |
| Balance at June 30, 2018 | \$ 880 | \$ 52 | \$ 384 | \$ | 1,316 |
| Impairment loss (recovery) on financial assets | (129) | 104 | - | | (25) |
| Balance at September 30, 2018 | \$ 751 | \$ 156 | \$ 384 | \$ | 1,291 |
| ECL on financial assets at FVOCI ⁽¹⁾ | | | | | |
| Balance at June 30, 2018 | \$ 279 | \$ - | \$ - | \$ | 279 |
| Impairment loss on financial assets | 83 | - | - | | 83 |
| Balance at September 30, 2018 | \$ 362 | \$ - | \$ - | \$ | 362 |
| Total ECL | | | | | |
| Balance at June 30, 2018 | \$ 1,159 | \$ 52 | \$ 384 | \$ | 1,595 |
| Impairment loss (recovery) on financial assets | (46) | 104 | - | | 58 |
| Balance at September 30, 2018 | \$ 1,113 | \$ 156 | \$ 384 | \$ | 1,653 |

⁽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.

| (Thousands of dollars) | For the nine months ended Sep 30 2018 | | | | |
|---|---------------------------------------|--------------|-----------|------------|-----------------|
| | Stage 1 | | Stage 2 | | Total |
| ECL on financial assets at amortized cost | | | | | |
| Balance at January 1, 2018 | \$ | 667 | \$ | 31 | \$ 1,132 |
| Impairment loss (recovery) on financial assets | | 84 | | 125 | (50) 159 |
| Balance at September 30, 2018 | \$ | 751 | \$ | 156 | \$ 1,291 |
| ECL on financial assets at FVOCI ⁽¹⁾ | | | | | |
| Balance at January 1, 2018 | \$ | 425 | \$ | 30 | \$ 455 |
| Impairment recovery on financial assets | | (63) | | (30) | - (93) |
| Balance at September 30, 2018 | \$ | 362 | \$ | - | \$ 362 |
| Total ECL | | | | | |
| Balance at January 1, 2018 | \$ | 1,092 | \$ | 61 | \$ 1,587 |
| Impairment loss (recovery) on financial assets | | 21 | | 95 | (50) 66 |
| Balance at September 30, 2018 | \$ | 1,113 | \$ | 156 | \$ 1,653 |

⁽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 |

11. Other assets

| (Thousands of dollars) | Sep 30 2018 | Dec 31 2017 |
|-------------------------------|------------------|------------------|
| Investment property | \$ 1,135 | \$ 1,216 |
| Prepaid expenses | 8,936 | 9,956 |
| Post-employment benefits | 2,972 | 3,085 |
| Accounts receivable and other | 10,377 | 15,636 |
| | \$ 23,420 | \$ 29,893 |

Contract balances

| (Thousands of dollars) | Sep 30 2018 | Jan 1 2018 |
|---|------------------|------------------|
| Receivables arising from contracts with customers | | |
| Trade receivables | \$ 9,458 | \$ 12,615 |
| Contract assets | 774 | 2,861 |
| Total contract assets | \$ 10,232 | \$ 15,476 |
| Total contract liabilities | \$ 3,842 | \$ 3,192 |

12. Deposits

| (Thousands of dollars) | Sep 30 2018 | Dec 31 2017 |
|--|---------------|---------------|
| Deposits designated as FVTPL | | |
| Due within three months | \$ 756,592 | \$ 1,788,615 |
| Due after three months and within one year | 1,808,725 | 1,704,206 |
| Due after one year and within five years | 4,743,022 | 5,103,429 |
| Due after five years | - | 350 |
| | 7,308,339 | 8,596,600 |
| Accrued interest | 53,671 | 44,622 |
| Amortized cost | \$ 7,362,010 | \$ 8,641,222 |
| Fair value | \$ 7,252,890 | \$ 8,561,503 |
| Deposits held at amortized cost | | |
| Due on demand | \$ 1,368,482 | \$ 1,577,881 |
| Due within three months | 1,930,706 | 79,739 |
| Due after three months and within one year | 679,501 | 805,077 |
| Due after one year and within five years | 1,299,157 | 968,315 |
| | 5,277,846 | 3,431,012 |
| Accrued interest | 11,189 | 5,880 |
| Amortized cost | \$ 5,289,035 | \$ 3,436,892 |
| | \$ 12,541,925 | \$ 11,998,395 |

13. Obligations related to securities sold short

| (Thousands of dollars) | Sep 30 2018 | Dec 31 2017 |
|------------------------|-------------|-------------|
| Amortized cost | \$ 342,475 | \$ 95,819 |
| Fair value | \$ 341,249 | \$ 95,503 |

14. Debt securities issued

| (Thousands of dollars) | Sep 30 2018 | Dec 31 2017 |
|--|--------------|--------------|
| Amounts | | |
| Due within three months | \$ 1,103,589 | \$ 805,034 |
| Due after three months and within one year | 19,886 | 481,473 |
| Due after one year and within five years | 1,246,209 | 896,469 |
| | 2,369,684 | 2,182,976 |
| Accrued interest | 8,065 | 5,209 |
| Amortized cost | 2,377,749 | 2,188,185 |
| Fair value hedge adjustment ⁽¹⁾ | (14,342) | (9,535) |
| Carrying value | \$ 2,363,407 | \$ 2,178,650 |

⁽¹⁾ Central 1 enters into fair value hedges to hedge the risk caused by changes in interest rates. See Note 8 for detailed information on hedge accounting.

Central 1 has established \$200.0 million of unsecured credit facilities with a major Canadian bank. The unsecured facilities rank equally with the outstanding notes and deposits. At September 30, 2018 and December 31, 2017, the amounts outstanding were \$96.8 million and \$117.4 million, respectively.

At September 30, 2018, a par value of \$674.8 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 the 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 the 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.

15. 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) | Sep 30 2018 | Dec 31 2017 |
|--|--------------|--------------|
| Amounts | | |
| Due within one year | \$ 160,877 | \$ 213,156 |
| Due after one year and within five years | 947,243 | 982,886 |
| | 1,108,120 | 1,196,042 |
| Accrued interest | 4,134 | 966 |
| Amortized cost | \$ 1,112,254 | \$ 1,197,008 |
| Fair value | \$ 1,099,269 | \$ 1,190,108 |

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

| (Thousands of dollars) | Sep 30 2018 | Dec 31 2017 |
|---|--------------|--------------|
| FVTPL | | |
| Total reinvestment assets under the Canada Mortgage Bond Program (see Note 7) | \$ 595,177 | \$ 545,247 |
| Assets recognized as securities | 474,075 | 519,193 |
| Fair value | \$ 1,069,252 | \$ 1,064,440 |
| Amortized cost | | |
| Assets recognized in loans | \$ 36,818 | \$ 130,933 |
| Total underlying assets designated | \$ 1,106,070 | \$ 1,195,373 |

16. Subordinated liabilities

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

| (Thousands of dollars) | Sep 30 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 | (1,338) | (1,646) |
| Accrued interest | 5,377 | 2,411 |
| Amortized cost | \$ 425,039 | \$ 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 the 90-day Bankers' Acceptance rate 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 the 90-day Bankers' Acceptance rate plus 10 basis points, payable quarterly until July 6, 2021. Central 1 has the option to redeem the outstanding notes in whole or in part on or after July 6, 2021, subject to regulatory approval.

On October 14, 2016, Central 1 issued \$200.0 million principal amount of Series 6 subordinated notes due October 14, 2026. The notes bear interest at a fixed rate of 3.06%, payable semi-annually, until, but excluding October 14, 2021, and thereafter at a floating rate based on the 90-day Bankers' Acceptance rate 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.

17. Changes in liabilities arising from financing activities

The following table summarizes the changes in liabilities arising from financing activities for the nine months ended September 30, 2018 and September 2017:

| (Thousands of dollars) | Dec 31 2017 | Cash flow changes | Non-cash changes | | Sep 30 2018 |
|--|--------------|-------------------|--------------------|----------|--------------|
| | | | Fair value changes | Other | |
| Debt securities issued | \$ 2,178,650 | \$ 181,901 | \$ - | \$ 2,856 | \$ 2,363,407 |
| Obligations under the CMB Program | 1,190,108 | (88,099) | (6,084) | 3,344 | 1,099,269 |
| Subordinated liabilities | 421,765 | - | - | 3,274 | 425,039 |
| Securities under repurchase agreements | 500,472 | 93,148 | - | 98 | 593,718 |
| Dividends payable | 18,129 | (18,129) | - | - | - |
| Balance at end of period | \$ 4,309,124 | \$ 168,821 | \$ (6,084) | \$ 9,572 | \$ 4,481,433 |

| (Thousands of dollars) | Dec 31 2016 | Cash flow changes | Non-cash changes | | Sep 30 2017 |
|--|--------------|-------------------|--------------------|-----------|--------------|
| | | | Fair value changes | Other | |
| Debt securities issued | \$ 1,490,730 | \$ 173,836 | \$ - | \$ (164) | \$ 1,664,402 |
| Obligations under the CMB Program | 1,236,058 | 4,046 | (17,500) | 4,240 | 1,226,844 |
| Subordinated liabilities | 421,406 | - | - | 3,209 | 424,615 |
| Securities under repurchase agreements | 298,416 | 344,419 | - | 232 | 643,067 |
| Dividends payable | 13,580 | (18,580) | - | 16,864 | 11,864 |
| Balance at end of period | \$ 3,460,190 | \$ 503,721 | \$ (17,500) | \$ 24,381 | \$ 3,970,792 |

18. Other liabilities

| (Thousands of dollars) | Sep 30 2018 | Dec 31 2017 |
|------------------------------|-------------|-------------|
| Post-employment benefits | \$ 22,536 | \$ 22,503 |
| Short-term employee benefits | 7,325 | 6,548 |
| Dividends payable | - | 18,129 |
| Unearned insurance premiums | 611 | 1,138 |
| Accounts payable and other | 20,122 | 17,967 |
| | \$ 50,594 | \$ 66,285 |

19. 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 nine months ended Sep 30 2018 | Sep 30 2017 | For the year ended Dec 31 2017 |
|--|--|-------------|-----------------------------------|
| Number of shares issued | | | |
| Class A - credit unions | | | |
| Balance at beginning of period | 428,101 | 416,952 | 416,952 |
| Issued during the period | - | 24,000 | 41,149 |
| Redeemed during the period | (378,101) | (30,001) | (30,000) |
| Balance at end of period | 50,000 | 410,951 | 428,101 |
| Class B - co-operatives | | | |
| Balance at beginning and end of period | 5 | 5 | 5 |
| Class C - other | | | |
| Balance at beginning and end of period | 7 | 7 | 7 |
| Class E - credit unions | | | |
| Balance at beginning of period | 3,051 | 3,157 | 3,157 |
| Redeemed during the period | (530) | - | (106) |
| Balance at end of period | 2,521 | 3,157 | 3,051 |
| Class F - credit unions | | | |
| Balance at beginning of period | - | - | - |
| Issued during the period | 435,949 | - | - |
| Balance at end of period | 435,949 | - | - |
| 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 Constitution and 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.

On May 31, 2018, Central 1 issued 10.0 million Class F shares with a price of \$1 per share through an in-cycle share call in accordance with Central 1's Capital Policy.

| (Thousands of dollars) | Sep 30 2018 | Sep 30 2017 | Dec 31 2017 |
|--|----------------|----------------|----------------|
| Amount of share capital outstanding | | | |
| Outstanding \$1 par value shares | | | |
| Class A - credit unions | \$ 50,000 | \$ 410,951 | \$ 428,101 |
| Class B - cooperatives | 5 | 5 | 5 |
| Class C - other | 7 | 7 | 7 |
| Class F - credit unions | 435,949 | - | - |
| Outstanding \$0.01 par value shares | | | |
| Class E - credit unions | 25 | 32 | 31 |
| | 485,986 | 410,995 | 428,144 |
| Amount of treasury shares | | | |
| Treasury shares | (2) | - | (1) |
| Balance at end of period | \$ 485,984 | \$ 410,995 | \$ 428,143 |

The dividend amounts are as follows:

| (Thousands of dollars) | For the nine months ended Sep 30 2018 | For the nine months ended Sep 30 2017 | For the year ended Dec 31 2017 |
|--|--|--|-----------------------------------|
| Dividend payable, balance at beginning of period | \$ 18,129 | \$ 13,580 | \$ 13,580 |
| Declared during the period ⁽¹⁾ | - | 16,864 | 23,129 |
| Paid during the period | (18,129) | (18,580) | (18,580) |
| Dividend payable, balance at the end of period | \$ - | \$ 11,864 | \$ 18,129 |

⁽¹⁾ Starting 2018, dividends for all Classes of shares will only be accrued once declared by Central 1's Board of Directors.

20. Loss on disposal of financial instruments

| (Thousands of dollars) | For the three months ended | | For the nine months ended | |
|--|----------------------------|-------------|---------------------------|-------------|
| | Sep 30 2018 | Sep 30 2017 | Sep 30 2018 | Sep 30 2017 |
| Net loss on disposal of securities as at FVTPL | \$ (13,593) | \$ (10,406) | \$ (42,332) | \$ (8,325) |
| Net gain on disposal of securities as at FVOCI | 612 | 4,467 | 6,666 | 8,496 |
| Net gain (loss) on disposal of derivative instruments | 96 | (1,080) | 3,862 | (1,728) |
| Net gain (loss) on disposal of deposits designated as at FVTPL | (120) | 165 | 93 | (3,459) |
| Net gain on disposal of obligations related to securities sold short | 1,268 | 1,436 | 1,758 | 2,351 |
| | \$ (11,737) | \$ (5,418) | \$ (29,953) | \$ (2,665) |

21. Change in fair value of financial instruments

| (Thousands of dollars) | For the three months ended | | For the nine months ended | |
|--|----------------------------|-------------|---------------------------|-------------|
| | Sep 30 2018 | Sep 30 2017 | Sep 30 2018 | Sep 30 2017 |
| Securities as at FVTPL | \$ (16,120) | \$ (32,208) | \$ (14,467) | \$ (61,194) |
| Loans | (78) | (68) | (171) | (217) |
| Activities under the Canada Mortgage Bond Program | | | | |
| Reinvestment assets | (1,400) | (2,514) | (2,389) | (3,841) |
| Derivative instruments | 2,836 | 1,892 | 311 | 1,847 |
| Obligations under the Canada Mortgage Bond Program | 3,257 | 9,250 | 6,084 | 17,500 |
| Derivative instruments | 8,168 | (3,183) | 9,703 | (3,358) |
| Financial liabilities as at FVTPL | | | | |
| Deposits designated as at FVTPL | 20,225 | 41,497 | 27,124 | 69,912 |
| Obligations related to securities sold short | 1,175 | 48 | 910 | (307) |
| | \$ 18,063 | \$ 14,714 | \$ 27,105 | \$ 20,342 |

22. Non-financial income

| (Thousands of dollars) | For the three months ended | | | | For the nine months ended | | | |
|-----------------------------------|---|---|-----------|-------------|---|---|------------|-------------|
| | Sep 30 2018 | | | Sep 30 2017 | Sep 30 2018 | | | Sep 30 2017 |
| | Revenue arising from contracts with customers | Revenue arising from other sources | Total | Total | Revenue arising from contracts with customers | Revenue arising from other sources | Total | Total |
| Mandatory Liquidity Pool | \$ - | \$ (132) | \$ (132) | \$ (224) | \$ - | \$ 160 | \$ 160 | \$ (425) |
| Wholesale Financial Services | | | | | | | | |
| Lending fees | 2,015 | - | 2,015 | 1,586 | 5,573 | - | 5,573 | 4,526 |
| Securitization fees | 1,939 | - | 1,939 | 1,840 | 5,754 | - | 5,754 | 5,511 |
| Foreign exchange income | - | 1,462 | 1,462 | 1,260 | - | 5,300 | 5,300 | 4,060 |
| Other | 2,586 | 447 | 3,033 | 2,243 | 5,816 | 1,428 | 7,244 | 6,581 |
| Digital & Payment Services | | | | | | | | |
| Payment processing and other fees | 15,127 | - | 15,127 | 13,123 | 44,764 | - | 44,764 | 40,334 |
| Direct banking fees | 7,999 | - | 7,999 | 8,635 | 24,018 | - | 24,018 | 22,979 |
| System Affiliates | | | | | | | | |
| Equity interest in affiliates | - | - | - | 4,891 | - | 126 | 126 | 10,166 |
| Income from investees | - | 539 | 539 | 285 | - | 3,712 | 3,712 | 3,679 |
| Other | | | | | | | | |
| Membership dues | 2,929 | - | 2,929 | 3,234 | 8,452 | - | 8,452 | 9,553 |
| Litigation settlement | - | - | - | - | - | - | - | 1,135 |
| Other | 253 | - | 253 | 783 | 2,080 | - | 2,080 | 3,170 |
| | \$ 32,848 | \$ 2,316 | \$ 35,164 | \$ 37,656 | \$ 96,457 | \$ 10,726 | \$ 107,183 | \$ 111,269 |

Gains from system affiliates

| (Thousands of dollars) | For the three months ended | | | | For the nine months ended | | | |
|---------------------------------|---|---|----------|-------------|---|---|-----------|-------------|
| | Sep 30 2018 | | | Sep 30 2017 | Sep 30 2018 | | | Sep 30 2017 |
| | Revenue arising from contracts with customers | Revenue arising from other sources | Total | Total | Revenue arising from contracts with customers | Revenue arising from other sources | Total | Total |
| CUMIS transaction (Note 28) | \$ - | \$ 3,113 | \$ 3,113 | \$ - | \$ - | \$ 26,438 | \$ 26,438 | \$ - |
| Interac restructuring (Note 28) | - | - | - | - | - | 19,343 | 19,343 | - |
| Aviso transaction (Note 28) | - | (442) | (442) | - | - | 37,377 | 37,377 | - |
| | \$ - | \$ 2,671 | \$ 2,671 | \$ - | \$ - | \$ 83,158 | \$ 83,158 | \$ - |

23. Other administrative expense

| (Thousands of dollars) | For the three months ended | | For the nine months ended | |
|--------------------------------|----------------------------|-------------|---------------------------|-------------|
| | Sep 30 2018 | Sep 30 2017 | Sep 30 2018 | Sep 30 2017 |
| Cost of sales and services | \$ 3,411 | \$ 3,307 | \$ 10,590 | \$ 12,009 |
| Cost of payments processing | 4,034 | 3,704 | 12,487 | 11,263 |
| Management information systems | 4,693 | 3,686 | 13,869 | 10,646 |
| Professional fees | 6,051 | 4,942 | 19,807 | 11,430 |
| Flow through membership dues | 1,567 | 1,713 | 4,560 | 4,624 |
| Business development projects | 303 | 246 | 726 | 838 |
| Other | 739 | 989 | 3,893 | 2,964 |
| | \$ 20,798 | \$ 18,587 | \$ 65,932 | \$ 53,774 |

24. 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 system-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 systems 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 A members' non-mandatory deposits augmented by capital market funding and deposits from non-Class A members.

WFS fosters the credit union system'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 operates the Group Clearer settlement function. As a Group Clearer under the rules of the Payments Canada, Central 1 is a Large Value Transfer System participant, and acts as the credit union systems' 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, economics, strategic 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 solutions that allow 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.

Certain strategic initiatives relating to digital banking and payments solutions are included in this segment.

System Affiliates

This segment includes Central 1's investments in equity shares of system-related entities other than the wholly owned subsidiaries. For those entities over which Central 1 has significant influence, Central 1 uses the equity method to account for its share of income in these entities. Details of the entities that we have substantial investments in or significant influence over are described in Note 28.

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, other than ones included in Digital & Payments Services, 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.

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. The costs of Corporate Support functions are attributed to business lines as appropriate, with the remaining included in 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 more 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 September 30, 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 | \$ 10,325 | \$ 17,325 | \$ (93) | \$ (259) | \$ - | \$ 27,298 |
| Non-financial income | (132) | 8,449 | 23,126 | 3,210 | 3,182 | 37,835 |
| Net financial and other income | 10,193 | 25,774 | 23,033 | 2,951 | 3,182 | 65,133 |
| Non-financial expense | 2,160 | 8,540 | 23,756 | 457 | 6,745 | 41,658 |
| Profit (loss) before income taxes | 8,033 | 17,234 | (723) | 2,494 | (3,563) | 23,475 |
| Income tax expense | 1,395 | 466 | 47 | 423 | 1,814 | 4,145 |
| Profit (loss) | \$ 6,638 | \$ 16,768 | \$ (770) | \$ 2,071 | \$ (5,377) | \$ 19,330 |

The following table summarizes the segment results for the three months ended September 30, 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 | \$ 7,182 | \$ 15,637 | \$ (65) | \$ (1,076) | \$ - | \$ 21,678 |
| Non-financial income | (224) | 6,929 | 21,758 | 5,176 | 4,017 | 37,656 |
| Net financial and other income | 6,958 | 22,566 | 21,693 | 4,100 | 4,017 | 59,334 |
| Non-financial expense | 2,007 | 6,666 | 20,376 | 121 | 11,284 | 40,454 |
| Profit (loss) before income taxes | 4,951 | 15,900 | 1,317 | 3,979 | (7,267) | 18,880 |
| Income tax expense (recovery) | 1,097 | 3,024 | 208 | 225 | (1,372) | 3,182 |
| Profit (loss) | \$ 3,854 | \$ 12,876 | \$ 1,109 | \$ 3,754 | \$ (5,895) | \$ 15,698 |

The following table summarizes the segment results for the nine months ended September 30, 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 | \$ 21,685 | \$ 32,926 | \$ (249) | \$ (1,155) | \$ - | \$ 53,207 |
| Non-financial income | 160 | 23,871 | 68,782 | 86,996 | 10,532 | 190,341 |
| Net financial and other income | 21,845 | 56,797 | 68,533 | 85,841 | 10,532 | 243,548 |
| Non-financial expense | 6,282 | 24,828 | 74,089 | 2,084 | 23,616 | 130,899 |
| Profit (loss) before income taxes | 15,563 | 31,969 | (5,556) | 83,757 | (13,084) | 112,649 |
| Income tax expense (recovery) | 2,703 | 5,894 | (965) | 3,650 | 489 | 11,771 |
| Profit (loss) | \$ 12,860 | \$ 26,075 | \$ (4,591) | \$ 80,107 | \$ (13,573) | \$ 100,878 |
| Total assets at September 30, 2018 | \$ 9,057,786 | \$ 9,915,908 | \$ 21,759 | \$ 123,702 | \$ 75,820 | \$ 19,194,975 |
| Total liabilities at September 30, 2018 | \$ 8,518,161 | \$ 9,460,630 | \$ (34,664) | \$ 3,172 | \$ 44,905 | \$ 17,992,204 |
| Total equity at September 30, 2018 | \$ 539,625 | \$ 455,278 | \$ 56,423 | \$ 120,530 | \$ 30,915 | \$ 1,202,771 |

The following table summarizes the segment results for the nine months ended September 30, 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 | \$ 18,320 | \$ 40,011 | \$ (205) | \$ (3,176) | \$ - | \$ 54,950 |
| Non-financial income | (425) | 20,678 | 63,313 | 13,845 | 13,858 | 111,269 |
| Net financial and other income | 17,895 | 60,689 | 63,108 | 10,669 | 13,858 | 166,219 |
| Non-financial expense | 6,032 | 20,564 | 61,215 | 1,519 | 28,267 | 117,597 |
| Profit (loss) before income taxes | 11,863 | 40,125 | 1,893 | 9,150 | (14,409) | 48,622 |
| Income tax expense (recovery) | 2,255 | 6,483 | 288 | 359 | (1,527) | 7,858 |
| Profit (loss) | \$ 9,608 | \$ 33,642 | \$ 1,605 | \$ 8,791 | \$ (12,882) | \$ 40,764 |
| Total assets at September 30, 2017 | \$ 8,449,490 | \$ 8,986,126 | \$ 20,742 | \$ 190,766 | \$ 65,218 | \$ 17,712,342 |
| Total liabilities at September 30, 2017 | \$ 7,946,242 | \$ 8,527,420 | \$ (3,100) | \$ 147,981 | \$ (14,343) | \$ 16,604,200 |
| Total equity at September 30, 2017 | \$ 503,248 | \$ 458,706 | \$ 23,842 | \$ 42,785 | \$ 79,561 | \$ 1,108,142 |

25. Guarantees, commitments and contingencies

Central 1 is a Group Clearer under the rules of the Payments Canada and acts as the credit union systems' 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) | Sep 30 2018 | | Dec 31 2017 | |
|--|-------------|-----------|-------------|-----------|
| Commitments to extend credit | \$ | 4,131,696 | \$ | 4,327,871 |
| Guarantees | | | | |
| Financial guarantees | \$ | 378,284 | \$ | 367,500 |
| Performance guarantees | \$ | 810,000 | \$ | 810,000 |
| Standby letters of credit | \$ | 198,511 | \$ | 187,910 |
| Future prepayment swap reinvestment commitment | \$ | 940,065 | \$ | 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 September 30, 2018 are \$41.6 million, \$409.3 million and \$94.9 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) | Sep 30 2018 | Dec 31 2017 |
|--|--------------|--------------|
| Assets pledged to Bank of Canada & Direct Clearing Organizations ⁽¹⁾⁽²⁾ | \$ 51,673 | \$ 57,206 |
| Assets pledged in relation to: | | |
| Derivative financial instrument transactions | 37,370 | 19,828 |
| Securities lending | 5,765 | 10,496 |
| Obligations under the Canada Mortgage Bond Program | 474,075 | 604,105 |
| Reinvestment assets under the Canada Mortgage Bond Program | 595,177 | 545,247 |
| Securities under repurchase agreements | 593,718 | 500,472 |
| | \$ 1,757,778 | \$ 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.

26. 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 at 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 approximates 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:

| (Millions of dollars) Sep 30 2018 | Level 1 | | Level 2 | | Level 3 | | Amounts at Fair Value | Amounts at Amortized Cost ⁽¹⁾ | Total Carrying Value |
|---|---------|---|---------|----------|---------|------|--------------------------|--|-------------------------|
| Financial assets | | | | | | | | | |
| Cash | \$ | - | \$ | - | \$ | - | \$ | 156.2 | 156.2 |
| Deposits with regulated financial institutions ⁽¹⁾ | | - | | - | | - | | 6.0 | 6.0 |
| Securities | | - | | 15,208.1 | | 47.8 | 15,255.9 | - | 15,255.9 |
| Reinvestment assets under the CMB Program | | - | | 595.2 | | - | 595.2 | - | 595.2 |
| Derivative assets | | - | | 127.2 | | - | 127.2 | - | 127.2 |
| Loans | | - | | - | | 11.0 | 11.0 | 2,455.4 | 2,466.4 |
| Total financial assets | \$ | - | \$ | 15,930.5 | \$ | 58.8 | 15,989.3 | 2,617.6 | 18,606.9 |
| Financial liabilities | | | | | | | | | |
| Deposits | \$ | - | \$ | 7,252.9 | \$ | - | 7,252.9 | 5,289.0 | 12,541.9 |
| Obligations related to securities sold short | | - | | 341.2 | | - | 341.2 | - | 341.2 |
| Derivative liabilities | | - | | 113.5 | | - | 113.5 | - | 113.5 |
| Debt securities issued | | - | | - | | - | - | 2,363.4 | 2,363.4 |
| Obligations under the CMB Program | | - | | 1,099.3 | | - | 1,099.3 | - | 1,099.3 |
| Subordinated liabilities | | - | | - | | - | - | 425.0 | 425.0 |
| Provisions | | - | | - | | - | - | 1.8 | 1.8 |
| Securities under repurchase agreements | | - | | - | | - | - | 593.7 | 593.7 |
| Total financial liabilities | \$ | - | \$ | 8,806.9 | \$ | - | 8,806.9 | 8,672.9 | 17,479.8 |

⁽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.

| (Millions 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 |

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

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 Sep 30 2018 | | | | |
|------------------------|------------------------------|------|-----------|-----------|-----------|--|----|------------------------------|----|-------|----|------|
| Equity shares | \$ | 9.9 | \$ | 4.1 | \$ | - | \$ | 32.1 | \$ | 1.7 | \$ | 47.8 |
| Loans | | 11.4 | | - | | - | | - | | (0.4) | | 11.0 |
| Total financial assets | \$ | 21.3 | \$ | 4.1 | \$ | - | \$ | 32.1 | \$ | 1.3 | \$ | 58.8 |

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

| (Millions of dollars) | Fair Value | | Carrying Value | | Unrealized Gain (Loss) | |
|---|-------------|-------------|----------------|-------------|------------------------|-------------|
| | Sep 30 2018 | Dec 31 2017 | Sep 30 2018 | Dec 31 2017 | Sep 30 2018 | Dec 31 2017 |
| Assets | | | | | | |
| Cash | \$ 156.2 | \$ 550.8 | \$ 156.2 | \$ 550.8 | \$ - | \$ - |
| Deposits with regulated financial institutions ⁽¹⁾ | 6.0 | 6.0 | 6.0 | 6.0 | - | - |
| Securities FVTPL | 9,194.1 | 8,889.7 | 9,194.1 | 8,889.7 | - | - |
| Securities FVOCI | 6,061.8 | 5,518.2 | 6,061.8 | 5,518.2 | - | - |
| Loans ⁽²⁾ | 2,466.2 | 2,165.3 | 2,466.4 | 2,162.1 | (0.2) | 3.2 |
| Reinvestment assets under the CMB Program | 595.2 | 545.2 | 595.2 | 545.2 | - | - |
| Derivative assets | 127.2 | 101.8 | 127.2 | 101.8 | - | - |
| Liabilities | | | | | | |
| Deposits designated as FVTPL | 7,252.9 | 8,561.5 | 7,252.9 | 8,561.5 | - | - |
| Deposits held at amortized cost ⁽¹⁾ | 5,294.5 | 3,445.0 | 5,289.0 | 3,436.9 | (5.5) | (8.1) |
| Obligations related to securities sold short | 341.2 | 95.5 | 341.2 | 95.5 | - | - |
| Derivative liabilities | 113.5 | 83.9 | 113.5 | 83.9 | - | - |
| Debt securities issued ⁽¹⁾ | 2,348.6 | 2,176.0 | 2,363.4 | 2,178.7 | 14.8 | 2.7 |
| Obligations under the CMB Program | 1,099.3 | 1,190.1 | 1,099.3 | 1,190.1 | - | - |
| Subordinated liabilities ⁽¹⁾ | 422.9 | 423.3 | 425.0 | 421.8 | 2.1 | (1.5) |
| Securities under repurchase agreements | 593.7 | 500.5 | 593.7 | 500.5 | - | - |
| Total | | | | \$ | 11.2 | \$ (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.

27. 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 includes, but is 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 capital from the remaining outstanding number of Class A shares of \$50.0 million will provide regulatory capital to support strategic and operational initiatives over Central 1's planning cycle. As part of this transaction, Central 1 also redeemed or reacquired approximately 750 thousand Class E shares with an aggregate value of \$75.0 million, which reduced Central 1's regulatory capital. On May 31, 2018 an additional 10.0 million Class F shares were issued at a price of \$1 per share.

| | Mandatory Liquidity Pool | | Wholesale Financial Services |
|---------------------------------------|--------------------------|-----------|------------------------------|
| (Thousands of dollars) | | | |
| Class A Shares | | | |
| Balance at December 31 2017 | \$ | 428,101 | \$ - |
| Issued during the period | | - | 50,000 |
| Redeemed during the period | | (428,101) | - |
| Balance at September 30, 2018 | \$ | - | \$ 50,000 |
| Class F Shares | | | |
| Balance at December 31 2017 | \$ | - | \$ - |
| Issued during the period | | 435,949 | - |
| Balance at September 30, 2018 | \$ | 435,949 | \$ - |
| Class E Shares ⁽¹⁾ | | | |
| <i>Contributed Surplus</i> | | | |
| Balance at December 31 2017 | \$ | - | \$ 72,897 |
| Redeemed/reacquired during the period | | - | (72,897) |
| Balance at September 30, 2018 | \$ | - | \$ - |

⁽¹⁾ Of the \$75.0 million Class E shares redeemed or reacquired on March 29, 2018, \$72.9 million 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 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 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 September 30, 2018 and September 30, 2017.

28. 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.

| (Thousands of dollars) | Sep 30 2018 | Dec 31 2017 |
|---|-------------|-------------|
| Mortgage loans outstanding at the end of the period | \$ 1,594 | \$ 364 |

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

The following table presents the compensation to key management personnel:

| (Thousands of dollars) | For the three months ended | | For the nine months ended | |
|---|----------------------------|-------------|---------------------------|-------------|
| | Sep 30 2018 | Sep 30 2017 | Sep 30 2018 | Sep 30 2017 |
| Salaries and short-term employee benefits | \$ 978 | \$ 554 | \$ 2,369 | \$ 1,987 |
| Incentive | 34 | - | 675 | 1,217 |
| Post-employment benefits | 33 | 35 | 126 | 136 |
| Termination benefits | (48) | 1,187 | 727 | 1,187 |
| | \$ 997 | \$ 1,776 | \$ 3,897 | \$ 4,527 |

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

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

Transactions with Board of Directors

| (Thousands of dollars) | For the three months ended | | For the nine months ended | |
|------------------------|----------------------------|-------------|---------------------------|-------------|
| | Sep 30 2018 | Sep 30 2017 | Sep 30 2018 | Sep 30 2017 |
| Total remuneration | \$ 157 | \$ 188 | \$ 487 | \$ 530 |

Significant subsidiaries

| (% of direct ownership outstanding) | Sep 30 2018 | Dec 31 2017 |
|-------------------------------------|-------------|-------------|
| Central 1 Trust Company | 100% | 100% |
| CUPP Services Ltd. | 100% | 100% |
| C1 Ventures (VCC) Ltd. | 100% | n/a |
| 0789376 B.C. Ltd. | 100% | 100% |

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

On May 8, 2018, C1 Ventures (VCC) Ltd. (CVCC) was incorporated under the laws of British Columbia, with principal activities including investing in start-up/emerging companies. CVCC is a wholly owned subsidiary of Central 1 with a total issued share capital of \$1.5 million shares with no par value.

On June 22, 2018, CVCC invested \$1.5 million in Agility Forex Ltd. (Agility) in exchange for 28.0% ownership of Agility. Agility is a Vancouver-based fintech company that provides online foreign currency exchange services. CVCC also holds 108,889 non-transferable warrants from Agility. These warrants give CVCC an option to purchase 108,889 Series 2 Class A Preferred shares, and are exercisable on or before the earlier of: i) September 15, 2021; ii) 24 months from Agility listing its shares on a stock exchange; and iii) a change of control of Agility.

0789376 B.C. Ltd. (the Company) was incorporated on April 26, 2007 under the laws of British Columbia and is a wholly owned subsidiary of Central 1. The Company had been inactive until October 27, 2017 when Central 1 redeemed or reacquired 150,000 Class E Shares from its member credit unions for an aggregate value of \$15.0 million, of which 43,991 Class E shares were reacquired by Central 1 through the Company pursuant to the exercise of Put Options in respect of these Class E shares by a number of Ontario credit unions. On March 29, 2018, Central 1 also redeemed or reacquired 750 thousand Class E Shares for an aggregate value of \$75.0 million, of which 219,566 Class E shares were reacquired by Central 1 through the Company pursuant to the exercise of Put Options. As at September 30, 2018, the Company still held these shares.

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 outstanding) | Sep 30 2018 | Dec 31 2017 |
|-------------------------------------|-------------|-------------|
| Credential Financial Inc. | n/a | 26% |
| Northwest & Ethical Investments LP | n/a | 26% |
| The CUMIS Group Limited | 27% | 27% |
| CU CUMIS Wealth Holdings LP | 35% | n/a |
| 189286 Canada Inc. | 52% | 52% |
| Agility Forex Ltd. | 28% | n/a |

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.

The Co-operators Group Limited acquired the insurance operations of The CUMIS Group Limited (CUMIS), an affiliate of Central 1. This transaction closed on March 31, 2018 resulting in Central 1 recognizing a gain of \$26.2 million on its Interim Consolidated Statements of Profit for the nine months ended September 30, 2018. Subsequent to the closing of the transaction, Central 1 still holds 27.0% ownership interest in CUMIS and continues to apply the equity method to account for its investment in CUMIS.

On April 1, 2018, the transaction to combine the businesses of Credential Financial Inc. (CFI), Qtrade Canada Inc. (Qtrade), and Northwest & Ethical Investments LP (NEI) was closed to form Aviso Wealth Inc (Aviso). At the closing of this transaction, Aviso is 100% owned by Aviso Wealth LP which was formed as a limited partnership between Desjardins Financial Holdings Inc. and CU CUMIS Wealth Holdings LP (Holdings LP), each a 50.0% partner. Before the formation of Aviso, Central 1 held 26.0% direct ownership in each of CFI and NEI and 13.5% indirect ownership in CFI through CUMIS. When Aviso was formed, Central 1 transferred its direct investments in CFI and NEI in exchange for a 34.68% direct ownership in Holdings LP. As a 50.0% shareholder of CFI, CUMIS also transferred its investment in CFI in exchange for a 33.3% direct ownership in Holdings LP, of which Central 1 indirectly holds 9.0% through CUMIS. This transaction resulted in Central 1 recognizing a gain of \$37.4 million. Central 1 exercises significant influence over Holdings LP and thus uses the equity method to account for its investment in Holdings LP.

Substantial investments

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

| (% of direct ownership outstanding) | Sep 30 2018 | Dec 31 2017 |
|-------------------------------------|-------------|-------------|
| The Co-operators Group Limited | 21% | 21% |
| Canadian Credit Union Association | 59% | 59% |

29. Subsequent event

Subsequent to the quarter-end, Coast Capital Savings Credit Union (Coast Capital) received regulatory approval to continue as a federal credit union, effective November 1, 2018. In connection with this approval, Coast Capital has withdrawn all of their mandatory deposits held with Central 1 which totalled \$1.2 billion and reduced their non-mandatory deposits by \$18.1 million. In addition, their Class A, E and F shares were redeemed for an aggregate redemption price of \$105.6 million and Class B shares were issued to Coast Capital at an aggregate price of \$100.