Quarterly Report

For the Second Quarter of 2019

central 1

Second Quarter Highlights

Total

$14.8M

YTD: $42.8M

profit before tax

Mandatory Liquidity Pool

$9.4M

YTD: $20.0M

profit before tax

Wholesale Financial Services

$16.8M

YTD: $40.6M

profit before tax

Digital & Payment Services*

$3.8M

YTD: $6.8M

profit before tax

System Affiliates & Other*

$0.1M

YTD: $0.8M loss

profit before tax

Spending on Strategic Initiatives

$15.3M

YTD: $23.8M

Earnings per share**	Efficiency Ratio	Borrowing Multiple	Tier 1 Capital Ratio
2.9¢	77.4%	13.4:1	36.0%
YTD: 8.8¢	YTD:68.3%		

*Excluding Strategic Initiatives

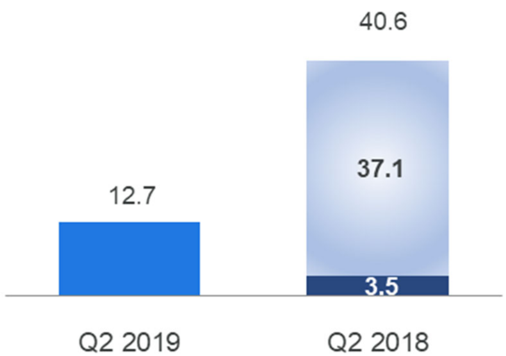
**Earnings per Share is calculated based on all classes of Shares

Financial Highlights

Second quarter highlights compared to the same period last year:

- Profit after tax of $12.7 million, compared to $3.5 million, after excluding the one-time gains of $37.1 million reported in the same period last year. This represents a return on average equity of 4.5 per cent, compared to 2.2 per cent in 2018.
- Net financial income of $28.7 million, up $15.7 million from $13.0 million.
- Assets of $17.9 billion, down 7.3 per cent from $19.3 billion.
- Tier 1 capital ratio of 36.0 per cent, compared to 37.3 per cent.

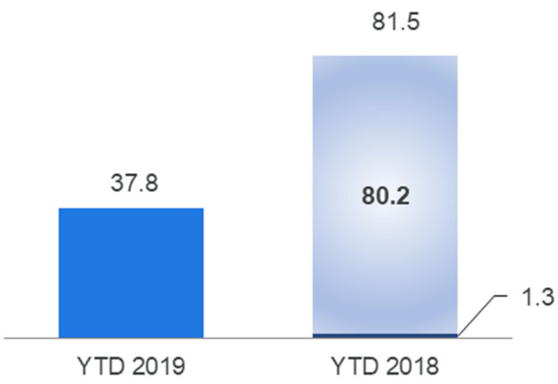
Quarterly Profit (After Tax)
(Millions of dollars)



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

- Profit after tax of $37.8 million, compared to $1.3 million, after excluding the one-time gains of $80.2 million reported in the same period last year. This represents a return on average equity of 6.9 per cent, compared to 1.5 per cent in 2018.
- Net financial income of $64.6 million, up $38.7 million from $25.9 million.

Year-to-Date Profit (After Tax)
(Millions of dollars)

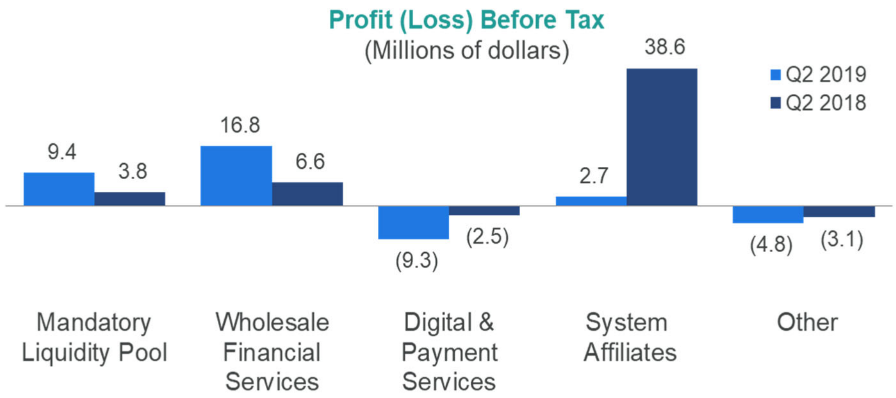


"We've had a strong second quarter. Our Treasury team has performed well, generating strong earnings, and we continue to invest in digital banking and payment solutions for our clients," said Mark Blucher, President and CEO of Central 1. "With the rollout of our full retail suite on Forge, we're creating a competitive edge for credit unions and other financial institutions. Our clients across Canada can now offer their members leading digital banking experiences. Central 1 is building momentum and making good strategic progress."

Quarterly Financial Results

Central 1's second quarter results reflected strong net financial income, up $15.7 million from the same period last year. The securities portfolio continued to show strong net realized and unrealized gains as decreasing market yields and narrowing credit spreads drove up the fair value of securities.

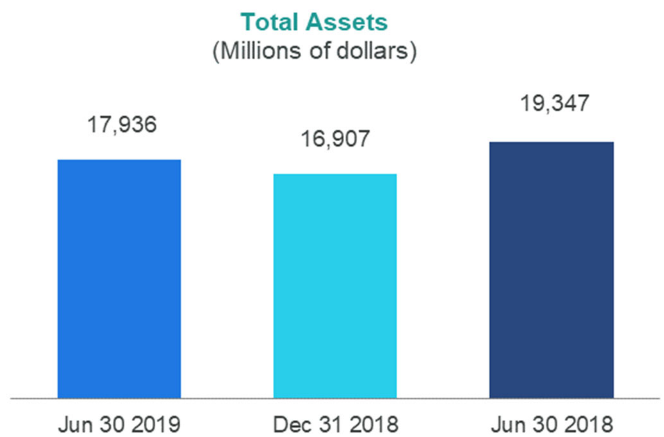
Significant investments in strategic initiatives continued throughout the second quarter of 2019, consistent with last year and Central 1's long-term strategic plan. Prior year's comparative quarter results benefited from one-time gains of $37.1 million relating to transactions surrounding Central 1's equity investments. Excluding these one-time gains, profit after tax for the second quarter of 2019 was $9.2 million higher than the same period a year ago.



The decrease in market yields and narrowing of credit spreads in the market created favourable gains within the Mandatory Liquidity Pool (MLP). These gains contributed to the $5.6 million increase in MLP's profit before tax compared to the second quarter of 2018.

The Wholesale Financial Services (WFS) portfolio showed strong net realized and unrealized gains, also benefiting from decreasing market yields and narrowing credit spreads. Net realized and unrealized gains were up $9.5 million from the same period last year. Interest margin also increased $1.0 million compared to the same period last year, due to a change in asset mix.

Digital & Payment Services continued to invest in strategic initiatives in the second quarter. These costs of $13.1 million, partially offset by increased direct banking revenue, primarily contributed to the $9.3 million loss before tax reported in the second quarter, compared to a $2.5 million loss before tax (after strategic investments of $6.9 million) in the same period last year.



Coast Capital Savings Federal Credit Union withdrew their mandatory deposits and most of their non-mandatory deposits during the fourth quarter of 2018, in connection with their continuance as a federal credit union. This withdrawal contributed to a year-over-year decrease in Central 1's total assets in addition to the fall 2018 maturity of a $450.0 million medium-term note, as well as second quarter 2019 changes including a $200.0 million redemption of subordinated debt and a $206.5 million decrease in commercial paper. These drops were mitigated by strong growth in Central 1's non-mandatory deposits reflective of liquidity in the credit union system. Overall, this decreased the size of Central 1's funding portfolio and led to the $1.4 billion decrease in total assets from June 30, 2018.

The growth in our non-mandatory deposits also largely contributed to the increased size of Central 1's funding portfolio from year-end and led to the $1.0 billion increase in total assets.

Second Quarter Highlights

Central 1 continues to deliver on strategic initiatives with digital banking, payments strategies, and expanding treasury services while also delivering on core products and services.

Central 1 is accelerating the development of the Forge Digital Banking platform (Forge) to enable their clients across Canada to create market-leading customized experiences for their customers. During the second quarter, Central 1 secured many additional Forge client commitments and have signed many new agreements giving Canadian financial institutions access to the tools and capabilities that come with the Forge platform.

Central 1’s Forge implementation activities have also begun to expand beyond their initial Champions to their first full wave of clients.

Central 1 reached additional milestones in the ongoing development of Forge with Alterna Savings and Credit Union Ltd.'s launch of their new Forge mobile app in July and First West Credit Union’s internal launch of the Forge online banking channel in August. All three channels – public website, mobile app and online banking – are now in active use by one or more of Central 1’s clients.

During the quarter, Central 1 refined its Payment Modernization strategy to align with the strategy established by Payments Canada. This will ensure that what Payments Modernization delivers will meet the needs of payment providers and Canadians.

Central 1 is continuing its transformation into a healthy, agile organization that will fuel a strong and stable credit union system and help members lead in a challenging market. In the quarter, Central 1 began their first prototype for organizational agility, gathering cross-functional groups of people to learn about the Agile way of working, discuss the business at hand and start to establish what work needs to be done.

See “Cautionary Note Regarding Forward-Looking Statements” on Page 4 of Central 1’s Management Discussion & Analysis for the quarter ended June 30, 2019.

Management's Discussion & Analysis

June 30, 2019

central 1

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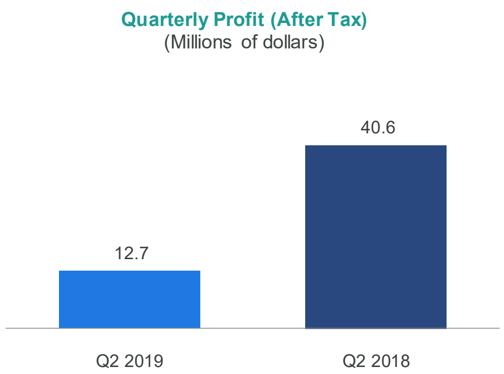
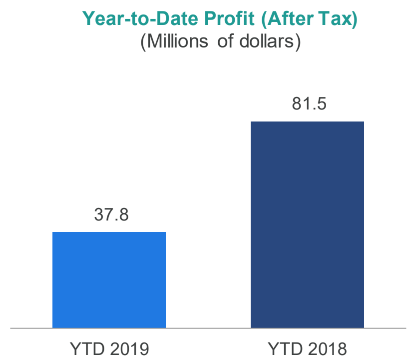
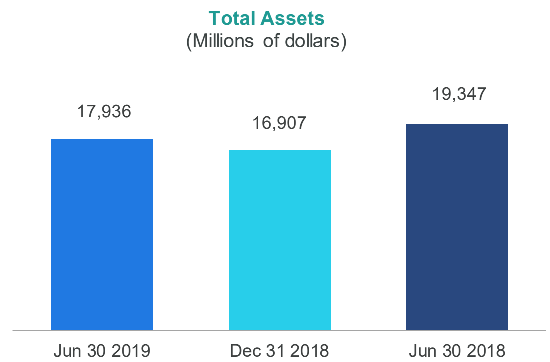
In this Management's Discussion and Analysis (MD&A), unless the context otherwise requires, references to "Central 1", "we", "us" and "our" refer to Central 1 Credit Union and its subsidiaries. This MD&A is dated August 23, 2019. The financial information included in this MD&A should be read in conjunction with our Interim Consolidated Financial Statements for the periods ended June 30, 2019 (Interim Consolidated Financial Statements), which were authorized for issue by the Board of Directors (the Board) on August 23, 2019. The results presented in this MD&A and in the Interim Consolidated Financial Statements are reported in Canadian dollars. Except as otherwise indicated, financial information included in this MD&A has been prepared in accordance with International Financial Reporting Standards (IFRS) as described in Note 2 of the Interim Consolidated Financial Statements. Additional information may be found on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

This MD&A also includes financial information about the credit union systems in British Columbia (B.C.) and Ontario. The B.C. credit union system is made up of all credit unions in B.C. except one credit union that has elected to become a federal credit union, 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 Financial Services Regulatory Authority (FSRA) 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







	For the three months ended			For the six months ended		
(Millions of dollars)	Jun 30 2019	Jun 30 2018	Change	Jun 30 2019	Jun 30 2018	Change
Income statement						
Net financial income	**$ 28.7**	$ 13.0	$ 15.7	**$ 64.6**	$ 25.9	$ 38.7
Non-financial income	**36.8**	34.5	2.3	**70.4**	66.9	3.5
Net financial and non-financial income	**65.5**	47.5	18.0	**135.0**	92.8	42.2
Non-financial expense	**35.4**	33.3	2.1	**68.4**	68.3	0.1
	30.1	14.2	15.9	**66.6**	24.5	42.1
Strategic initiatives	**(15.3)**	29.2	(44.5)	**(23.8)**	64.7	(88.5)
Profit before tax	**$ 14.8**	$ 43.4	$ (28.6)	**$ 42.8**	$ 89.2	$ (46.4)
Profit after tax	**$ 12.7**	$ 40.6	$ (27.9)	**$ 37.8**	$ 81.5	$ (43.7)

Second quarter results reflected higher net financial income, up $15.7 million from the same period last year. The securities portfolio continued to show strong net realized and unrealized gains as decreasing market yields and narrowing credit spreads drove up the fair value of securities. Strategic initiatives continued throughout the second quarter of 2019, consistent with our long-term strategic plan. Excluding one-time gains of $37.1 million in the prior year results relating to transactions surrounding our equity investments, profit after tax for the second quarter of 2019 was $9.2 million higher than the same period a year ago, driven by higher net financial income.

Similar to the second quarter results, year-to-date results reflected higher net financial income, up $38.7 million from the same period last year. Decreasing market yields and narrowing credit spreads drove up the fair value of our securities, resulting in higher net realized and unrealized gains of $32.1 million compared to a year ago in addition to asset mix changes that contributed to a stronger interest margin during 2019. Investments in our strategic initiatives in 2019 continued and net of one-time gains of $80.2 million relating to our equity investments profit after tax for the first six months of 2019 was $36.5 million higher than the same period a year ago, primarily due to higher net financial income.

	For the three months ended			For the six months ended		
	Jun 30 2019	Jun 30 2018	Change	Jun 30 2019	Jun 30 2018	Change
Selected information						
Efficiency ratio	**77.4%**	50.5%	26.9%	**68.3%**	50.0%	18.3%
Return on average assets	**0.3%**	0.8%	-0.5%	**0.4%**	0.9%	-0.5%
Return on average equity	**4.5%**	13.8%	-9.3%	**6.9%**	14.3%	-7.4%
Earnings per share *(cents)* (1)						
Basic/Diluted	**2.9**	8.5	(5.6)	**8.8**	17.9	(9.1)
Weighted average shares outstanding *(millions of dollars)*	**$ 431.1**	$ 479.4	$ (48.3)	**$ 430.5**	$ 454.7	$ (24.2)
Average assets *(millions of dollars)*	**$ 17,508.4**	$ 19,384.1	$ (1,875.7)	**$ 17,122.7**	$ 18,988.6	$ (1,865.9)

(1) Earnings per share is calculated based on all classes of shares.

	As at		
	Jun 30 2019	Dec 31 2018	Jun 30 2018
Balance sheet *(millions of dollars)*			
Total assets	**$ 17,935.8**	$ 16,907.2	$ 19,347.5
Regulatory ratios			
Tier 1 capital ratio	**36.0%**	37.0%	37.3%
Provincial capital ratio	**44.1%**	54.0%	52.3%
Borrowing multiple (times)	**13.4**	11.0	11.8
Share Information *(thousands of dollars, unless otherwise indicated)*			
Outstanding $1 par value shares			
Class A - credit unions	**$ 43,359**	$ 43,359	$ 50,000
Class B - cooperatives	**$ 5**	$ 5	$ 5
Class C - other	**$ 7**	$ 7	$ 7
Class F - credit unions	**$ 387,776**	$ 386,547	$ 435,949
Outstanding $0.01 par value shares with redemption value of $100			
Class E - credit unions	**$ 21**	$ 21	$ 25
Treasury shares	**$ (2)**	$ (2)	$ (2)

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

The change in total assets mainly correlates to the change in the size of our funding portfolios. The strong growth in our non-mandatory deposits, reflective of liquidity in the credit union system, primarily increased the size of our funding portfolio, leading to an overall increase in total assets of $1.0 billion from year-end to reach $17.9 billion at the end of June 2019.

Coast Capital Savings Federal Credit Union (Coast Capital)'s withdrawal of their mandatory deposits and most of their non-mandatory deposits during the fourth quarter of 2018, in connection with their continuance as a federal credit union, primarily led to the year-over-year decrease in the size of our funding portfolio and a corresponding decrease in our total assets. The funding portfolio was further reduced by the $450.0 million medium-term note (MTN) matured in the fall of 2018 along with the $200.0 million subordinated debt redemption and $206.5 million commercial paper decrease in the second quarter of 2019. These drops were mitigated by strong growth in our non-mandatory deposits, leading to an overall decrease of $1.4 billion in total assets from a year ago.

The withdrawal of Coast Capital's shares has driven the decrease in share capital balance. This decrease combined with the redemption of subordinated debt has led to an overall decrease in regulatory capital. This lower capital balance coupled with an increase in risk weighted assets, primarily due to a higher settlement in-transit balance with financial institutions, has resulted in a decrease in the provincial capital ratio. The borrowing multiple has increased compared to both comparative periods as a result of the lower capital balance combined with growth in non-mandatory deposits.

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.

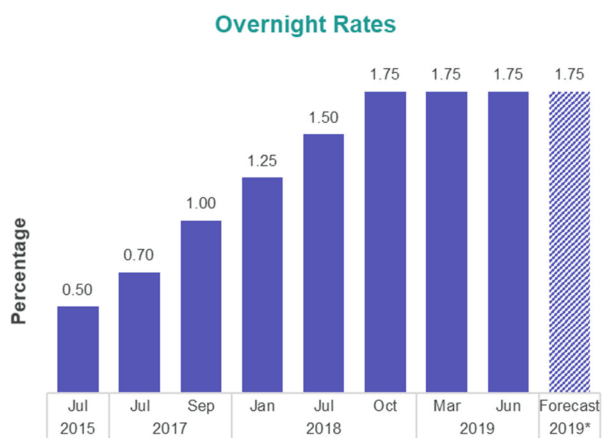
Readers are cautioned that the foregoing list is not intended to be exhaustive and other factors may adversely impact our results. We do not undertake to update forward-looking statements except as required by law.

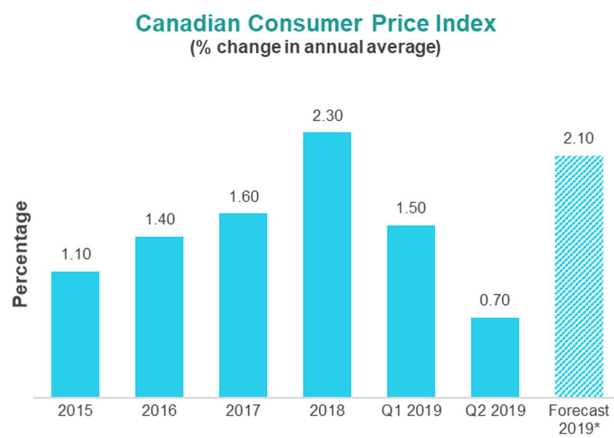
Additional information about these and other factors can be found in the Overview and Risk Review sections of our 2018 Annual Report.

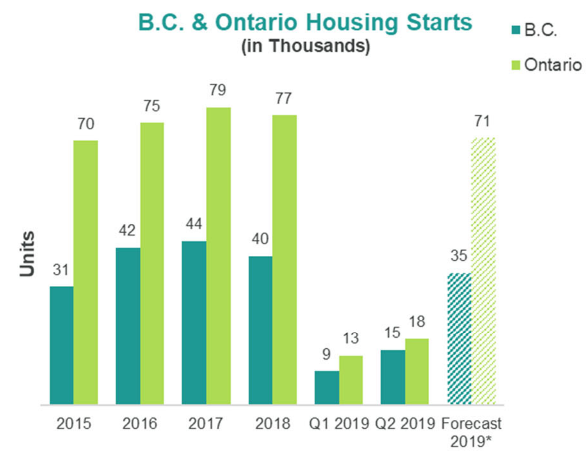
Economic Developments and Outlook

The following summaries of the economic environment and the state of financial markets offer a context for interpreting our quarterly results and provide insight into our future performance.

Economic Environment







*Forecast source: Central 1 Economics

In the United States (US), export and inventory growth outweighed weaker household spending led to strong economic growth in the first quarter. Recent data has softened, indicating economic growth returned to a more sustainable pace in the second quarter. Growth is widely expected to slow down this year as recent increases in interest rates take effect and the fiscal stimulus of tax changes and deregulation wane. After expanding at a robust 2.9 per cent last year, economic growth is forecast to slow to around 2.5 per cent in 2019.

Canada's economic growth picked up in the second quarter following two quarters of weak growth, led by stronger consumer spending and a temporary surge in energy exports. The Bank of Canada (BOC) estimates that growth in residential investment resumed with a strong rebound in housing resales and new construction activity is expected to firm up in the third quarter. Previously frothy housing markets in Ontario and British Columbia have been dampened by local tax changes, changes in mortgage guidelines and past rises in interest rates. Canada's economic growth is forecast at 1.3 per cent in 2019, down from 1.9 per cent in 2018, as global trade conflicts and related uncertainty continue to hold back activity.

Financial Markets

The BOC's Monetary Policy Report, issued in July 2019, states that escalating trade conflicts and geopolitical tensions are increasing uncertainty, slowing global economic activity and moderating growth in trade and business investment. The BOC is expected to remain on hold through this year before easing with two quarter-point rate cuts beginning in April of 2020, in response to Canada's slowing growth and growth prospects. The recent rate cut in the U.S. is expected to lead to the narrowing of the spread between Canada and U.S. which would lift the CAD over USD. Bond yields and commodity prices have declined, and many central banks are signaling shifts to a more accommodative monetary policy. Global economic growth is expected to fall to three per cent in 2019 from 3.75 per cent in 2018.

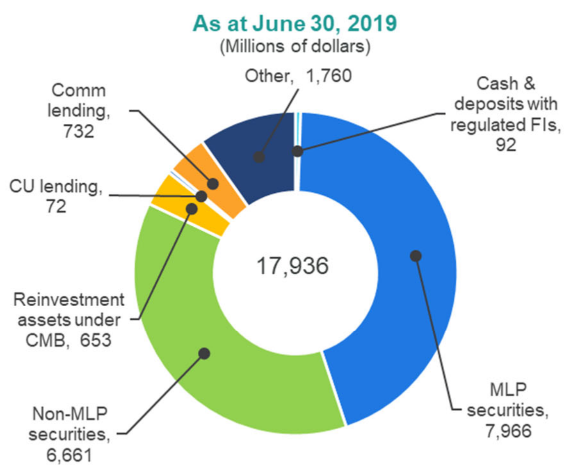
Industry Regulation

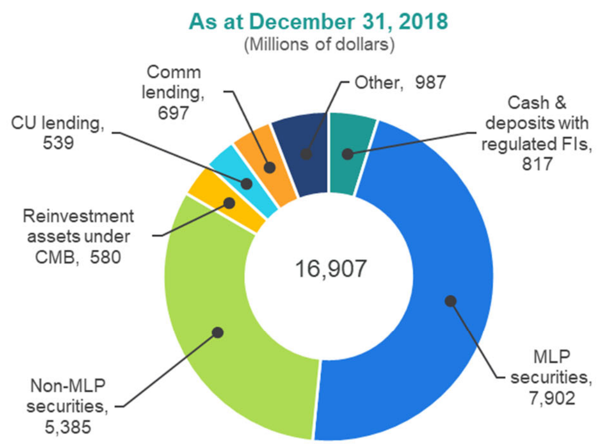
In May 2019, the Province of B.C. passed the *Financial Services Authority Act*, the legislation that transitions the current Financial Institutions Commission of B.C. into a Crown Agency, the Financial Services Authority (FSA). From May to September the FSA's focus is expected to be on administrative tasks such as appointing its Board and leadership team and establishing its operations. The Ministry continued to work with the FSA to define its regulatory powers and rule-making authority. Central 1 and B.C. credit unions are waiting for clarity regarding the new regulator, and its approach to regulation in the credit union system. As expected, the Ministry also confirmed it intends to introduce legislation to update the *Financial Institutions Act* in the fall 2019 legislative sitting.

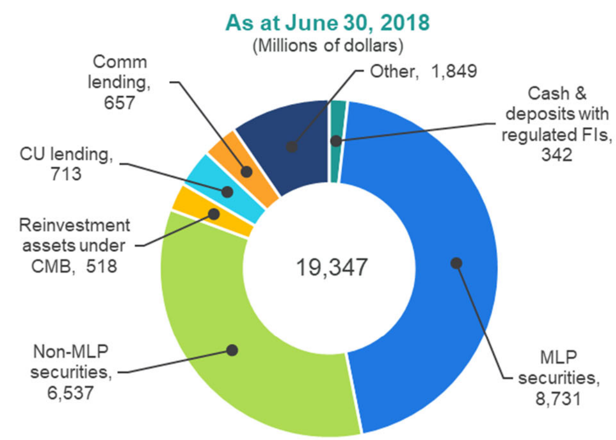
In Ontario, the new Financial Services Regulatory Authority (Ontario's new agency regulating credit unions) came into force in the second quarter. Additionally, the Ford government committed in its budget speech to proceed with modernizing the *Credit Unions and Caisses Populaires Act*, likely starting in late 2019. Credit unions see this as an opportunity to remove administrative burden and red tape.

Statement of Financial Position

Total Assets

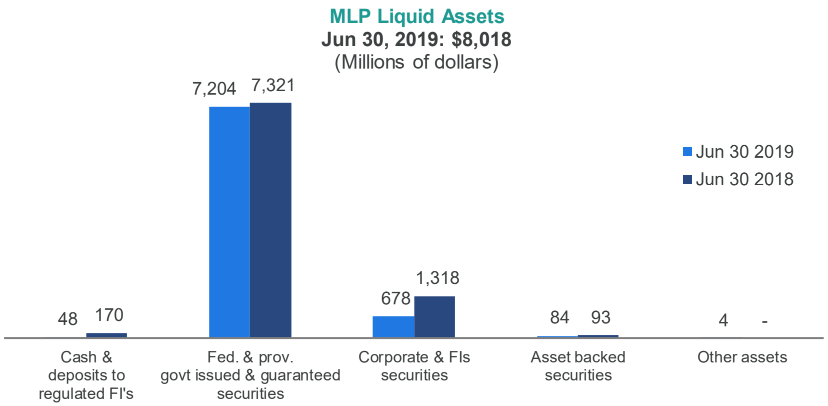


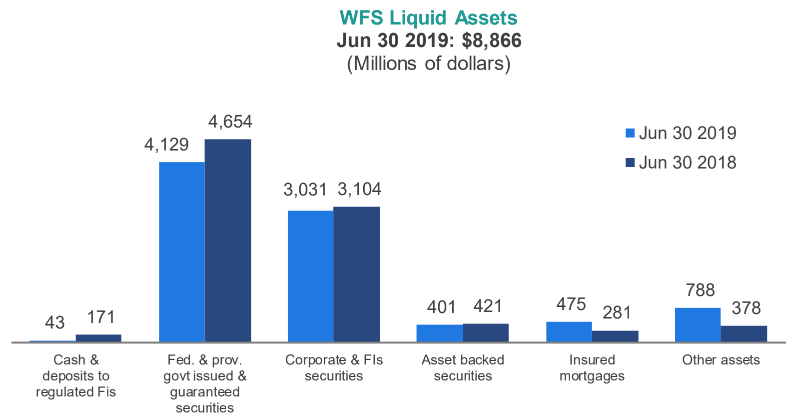




The growth in our non-mandatory deposits, which outweighed the redemption of a $200.0 million subordinated debt and a $206.5 million reduction in commercial paper issued, increased the size of our funding portfolio and led to the $1.0 billion increase in total assets from December 31, 2018.

Cash and Liquid Assets





Jun 30 2019			WFS				
(Millions of dollars)		MLP Liquid Assets	Liquid Assets	Securities Received as Collateral	Total Liquid Assets	Encumbered Assets	Unencumbered Assets*
Cash and deposits with regulated financial institutions	$	48.3	$ 43.0	$ -	$ 43.0	$ -	$ 43.0
Federal and provincial government issued and guaranteed securities		7,203.9	3,357.7	771.7	4,129.4	1,559.4	2,570.0
Corporate and financial institutions securities		677.6	3,031.0	-	3,031.0	7.6	3,023.4
Asset backed securities		84.4	400.6	-	400.6	-	400.6
Insured mortgages		-	474.5	-	474.5	-	474.5
Other assets**		3.8	787.8	-	787.8	-	787.8
Total	**$**	**8,018.0**	**$ 8,094.6**	**$ 771.7**	**$ 8,866.3**	**$ 1,567.0**	**$ 7,299.3**

*Unencumbered 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.

**Includes settlements in transit and equity investment in system affiliates which are FVTPL

Dec 31 2018			WFS				
(Millions of dollars)		MLP Liquid Assets	Liquid Assets	Securities Received as Collateral	Total Liquid Assets	Encumbered Assets	Unencumbered Assets*
Cash and deposits with regulated financial institutions	$	138.0	$ 679.2	$ -	$ 679.2	$ -	$ 679.2
Federal and provincial government issued and guaranteed securities		7,131.3	3,223.2	700.3	3,923.5	1,448.0	2,475.5
Corporate and financial institutions securities		638.9	2,154.5	-	2,154.5	37.3	2,117.2
Asset backed securities		131.5	297.9	-	297.9	-	297.9
Insured mortgages		-	241.1	-	241.1	-	241.1
Other assets**		-	80.9	-	80.9	-	80.9
Total	$	8,039.7	$ 6,676.8	$ 700.3	$ 7,377.1	$ 1,485.3	$ 5,891.8

*Unencumbered 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.

**Includes settlements in transit and equity investment in system affiliates which are FVTPL
Comparative figures have been restated.

Jun 30 2018 (Millions of dollars)		**MLP** Liquid Assets		**WFS** Liquid Assets		Securities Received as Collateral		Total Liquid Assets		Encumbered Assets		Unencumbered Assets*
Cash and deposits with regulated financial institutions	$	170.2	$	171.4	$	-	$	171.4	$	-	$	171.4
Federal and provincial government issued and guaranteed securities		7,320.9		3,424.1		1,229.4		4,653.5		1,500.0		3,153.5
Corporate and financial institutions securities		1,317.7		3,103.6		-		3,103.6		15.1		3,088.5
Asset backed securities		92.6		421.3		-		421.3		-		421.3
Insured mortgages		-		281.1		-		281.1		-		281.1
Other assets**		-		377.9		-		377.9		-		377.9
Total	$	8,901.4	$	7,779.4	$	1,229.4	$	9,008.8	$	1,515.1	$	7,493.7

*Unencumbered 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.

**Includes settlements in transit and equity investment in system affiliates which are FVTPL

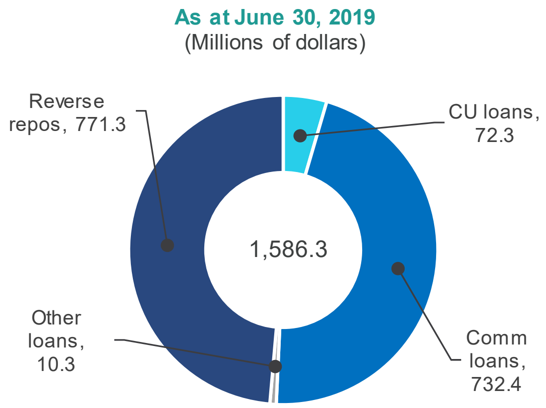
Comparative figures have been restated.

Cash and liquid assets for the MLP are managed on behalf of the credit union system. In addition, we manage our own liquidity within WFS. The liquidity management framework for WFS is designed to support the liquidity requirements for the system under non-stressed conditions and to ensure that credit unions have access to reliable and cost-effective sources of liquidity. The liquidity in WFS also supports 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.

MLP liquid assets at June 30, 2019 were largely in line with year-end. WFS' unencumbered liquid assets are defined as liquid assets less encumbered assets, which represent securities and other assets pledged as collateral. The growth in our non-mandatory deposits mitigated by lower debt securities balances contributed to the increase in the size of our funding portfolio and thus a corresponding increase in WFS' liquid assets. The encumbered assets increased slightly from the year-end as a result of increased prepayment swap volumes. Overall, WFS' unencumbered assets increased $1.4 billion from year-end driven by higher securities balance.

To fund Coast Capital's withdrawal of their mandatory deposits in the fall of 2018, corporate and financial institutions securities within the MLP were sold, resulting in a decrease of $883.4 million in MLP's liquid assets from a year ago. WFS' unencumbered assets decreased $194.4 million from June 30, 2018, consistent with the decrease in the size of our funding portfolio, led by Coast Capital's withdrawal combined with a lower debt securities balance largely offset by growth in our non-mandatory deposits.

Loans



(Millions of dollars)		Jun 30 2019		Dec 31 2018		Jun 30 2018
Loans to credit unions	$	**72.3**	$	538.8	$	712.6
Commercial loans		**732.4**		696.7		657.4
Other loans		**10.3**		8.0		8.2
		742.7		704.7		665.6
Securities acquired under reverse repurchase agreements		**771.3**		694.8		1,220.2
	$	**1,586.3**	$	1,938.3	$	2,598.4

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

We provide clearing lines of credit and short- and medium-term loans to our members. All lending activities are closely integrated and coordinated within our liquidity management framework. Clearing lines of credit, available in two currencies, are used to cover cash requirements arising from the settlement of payment transactions. Short-term loans are used by credit unions primarily for cash management purposes for short-term liquidity needs. We also participate in loan syndications with our members.

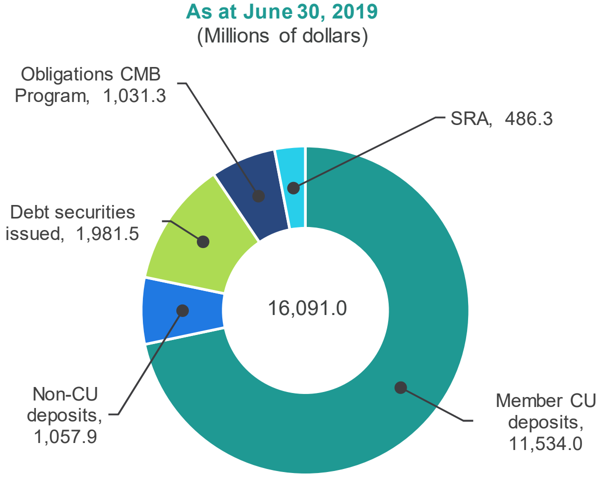
We provide short-term loans to credit unions, to meet their short-term liquidity needs. Loans to credit unions decreased $640.3 million from a year ago and $466.5 million from year-end, reflective of greater liquidity in the credit union system and therefore our higher deposits.

A focus on expanding our commercial loans business led to an increase year-over-year in that portfolio.

In line with our cash management strategy, we invest short-term liquidity into collateralized overnight loans under reverse repurchase agreements. This strategy leads to the fluctuation in the balances of securities acquired under reverse repurchase agreements quarter-over-quarter and year-over-year. Compared to a year ago, this balance was down by $448.9 million and compared to year-end, this balance was up by $76.5 million.

Overall, the total loans decreased $1.0 billion from a year ago and $352.0 million from year-end, primarily driven by greater liquidity in the credit union system, evident by the growth in our non-mandatory deposits.

Funding



(Millions of dollars)		Jun 30 2019		Dec 31 2018		Jun 30 2018
Deposits						
Mandatory deposits	**$**	**7,507.0**	$	7,553.1	$	8,369.1
Non-mandatory deposits		**4,027.0**		2,723.9		3,860.6
Deposits from member credit unions		**11,534.0**		10,277.0		12,229.7
Deposits from non-credit unions		**1,057.9**		696.4		869.7
		12,591.9		10,973.4		13,099.4
Debt securities issued						
Commercial paper issued		**507.1**		713.3		699.6
Medium-term notes issued		**1,253.1**		1,244.7		1,690.9
Subordinated liabilities		**221.3**		422.2		421.9
		1,981.5		2,380.2		2,812.4
Obligations under the Canada Mortgage Bond (CMB) Program		**1,031.3**		1,040.5		1,077.6
Securities under repurchase agreements (SRA)		**486.3**		381.0		383.0
	$	**16,091.0**	$	14,775.1	$	17,372.4

Our primary funding source is deposits from credit unions, the majority of which are required by regulation or agreement and constitutes the funding source for MLP. Additionally, credit unions deposit excess liquidity with us, which constitutes the primary funding source for WFS. Supplementary to this core deposit base are our commercial paper and MTN programs. We also use asset securitization programs as an alternative source of funding and asset/liability management (ALM) purposes.

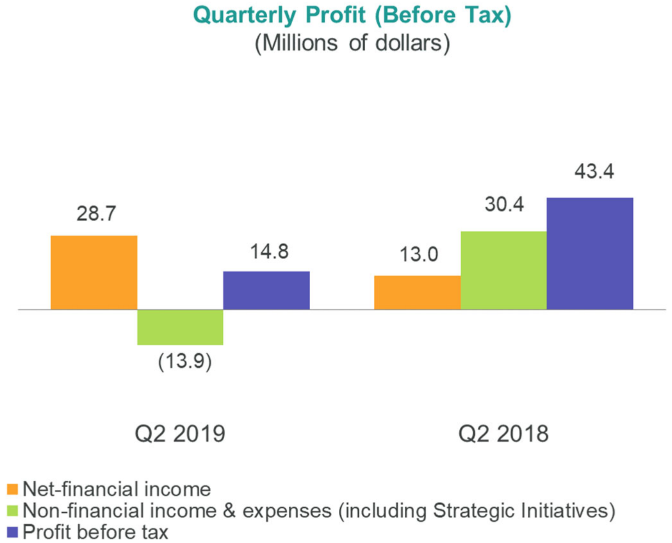
Compared to year-end, deposits from our member credit unions increased $1.3 billion driven by growth in non-mandatory deposits, reflective of the better liquidity within the credit union system. The withdrawal of Coast Capital's deposits in 2018, partially offset by the growth in our non-mandatory deposits, attributed to an overall decrease of $695.7 million in our deposits from member credit unions compared to a year ago. Excluding the Coast Capital's withdrawal, deposits from our member credit unions would have increased $1.2 billion from the prior year.

In November 2018, the $450.0 million MTN matured. During the second quarter of 2019, we redeemed $200.0 million of subordinated debt, and reduced our commercial paper facility by $206.5 million. These transactions collectively led to a year-over-year decrease of $830.9 million in the debt securities issued at the end of June 2019. The 2019 transactions resulted in a $398.7 million decrease from year-end. Total debt securities outstanding represented 12.3 per cent of our total borrowing portfolio at June 30, 2019, compared to over 16.0 per cent in both comparative periods.

We participate in direct securitization by acquiring ownership in mortgages pools and subsequently selling them into the Canada Housing Trust (CHT) under the CMB Program. We also participate in indirect securitization, acting as an administrator on behalf of credit unions in the securitization process and receiving an administrative fee. Prepayment swaps are also offered to member credit unions and have seen steady growth in volumes since inception. Direct securitization transactions are accounted for on-balance sheet while indirect securitizations and prepayment swaps are off-balance sheet. The transition from direct securitization to prepayment swap program led to a decrease in obligations under the CMB Program from both comparative periods.

Statement of Profit

Q2 2019 vs Q2 2018



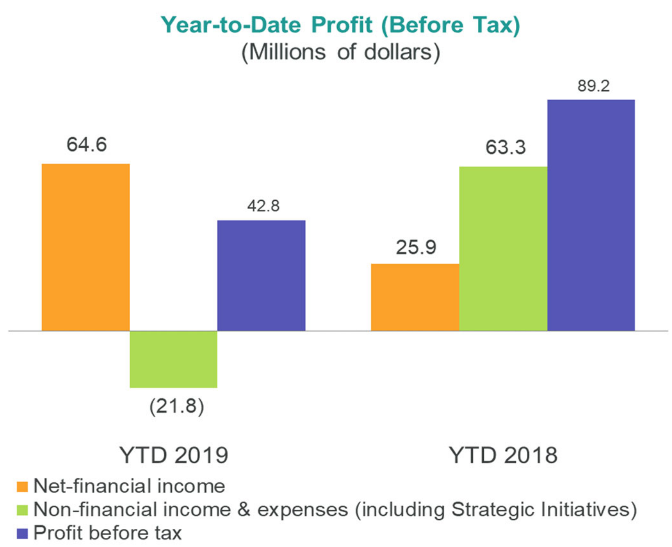
Profit is primarily generated from two sources, net financial income and non-financial income. Decreasing market yields and narrowing credit spreads led to a $15.4 million increase in net realized and unrealized gains. Overall, our second quarter net financial income was $15.7 million higher compared to the second quarter of 2018.

Investments in strategic initiatives continued throughout the second quarter of 2019, consistent with last year and our long-term strategic plan. The results for the same period last year benefited from one-time gains relating to transactions surrounding our equity investments. Excluding these one-time gains, profit after tax for the second quarter of 2019 was $9.2 million higher than the same period a year ago.

YTD 2019 vs YTD 2018

Consistent with the second quarter results, decreasing market yields and narrowing credit spreads led to a $32.1 million increase in net realized and unrealized gains. Previous change in our asset mix contributed to a stronger interest margin in 2019. Our year-to-date net financial income was $38.7 million higher compared to the same period in 2018.

Prior year's year-to-date results benefited from one-time gains relating to transactions surrounding our equity investments. Excluding these one-time gains, profit after tax for 2019 was $36.5 million higher than a year ago.

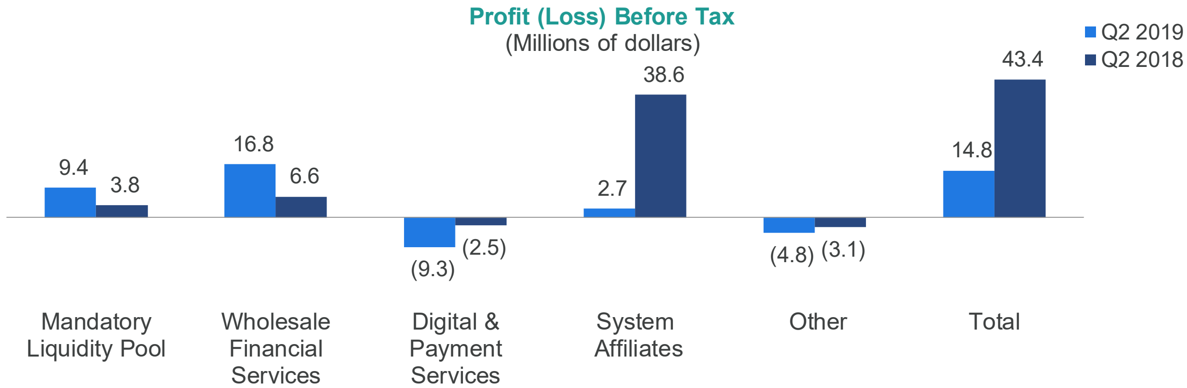


Results by Segment

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 are reported in the "Other" operating segment. The costs of Corporate Support functions are attributed to business lines as appropriate, with the remaining included in the Other operating segment.

Periodically, certain business lines and units are transferred among business segments to closely align our organizational structure with our strategic priorities. Results for prior periods are restated accordingly to conform to the current period presentation.

Q2 2019 vs Q2 2018



For the three months ended June 30, 2019 (Millions of dollars)	Mandatory Liquidity Pool	Wholesale Financial Services	Digital & Payment Services	System Affiliates	Other	Total
Net financial income (expense), including impairment on financial assets	$ 11.3	$ 17.8	$ (0.1)	$ (0.3)	$ -	**$ 28.7**
Non-financial income	(0.2)	8.1	24.0	3.0	1.9	**36.8**
Net financial and non-financial income	11.1	25.9	23.9	2.7	1.9	**65.5**
Non-financial expenses	1.7	9.1	20.1	-	4.5	**35.4**
	9.4	16.8	3.8	2.7	(2.6)	**30.1**
Strategic initiatives	-	-	(13.1)	-	(2.2)	**(15.3)**
Profit (loss) before tax	**$ 9.4**	**$ 16.8**	**$ (9.3)**	**$ 2.7**	**$ (4.8)**	**$ 14.8**

For the three months ended June 30, 2018 **(Millions of dollars)**	**Mandatory Liquidity Pool**	**Wholesale Financial Services**	**Digital & Payment Services**	**System Affiliates**	**Other**	**Total**
Net financial income (expense), including impairment on financial assets	$ 5.8	$ 7.5	$ (0.1)	$ (0.2)	$ -	$ 13.0
Non-financial income	0.1	7.5	21.0	1.7	4.2	34.5
Net financial and non-financial income	5.9	15.0	20.9	1.5	4.2	47.5
Non-financial expenses	2.1	8.4	16.5	-	6.3	33.3
	3.8	6.6	4.4	1.5	(2.1)	14.2
Strategic initiatives	-	-	(6.9)	37.1	(1.0)	29.2
Profit (loss) before tax	$ 3.8	$ 6.6	$ (2.5)	$ 38.6	$ (3.1)	$ 43.4

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

Mandatory Liquidity Pool

MLP's second quarter results reflected higher net financial income. Net realized and unrealized gains, which were up $6.8 million from the same period last year, benefited from decreasing market yields and narrowing credit spreads. The higher net financial income led to an overall increase of $5.6 million in MLP's profit before tax compared to the second quarter of 2018.

Wholesale Financial Services

Higher interest margin in the second quarter of 2019 was the result of a change in asset mix. Decreasing market yields together with narrowing credit spreads led to higher gains on financial assets which outweighed losses on financial liabilities, creating a favourable impact of $9.5 million in net realized and unrealized gains compared to the second quarter of 2018. Increases in securitization and guarantee volumes attributed to a $0.6 million increase in WFS' non-financial income, and these increases were partially offset by higher salaries and employee benefits expenses, and other administrative expenses. Combined, strong net financial income and non-financial income led to a $10.2 million increase in WFS' profit before tax compared to the second quarter of 2018.

Digital & Payment Services

During the second quarter of 2019, Digital & Payment Services continued to invest in strategic initiatives, including the development of the Forge platform and Origination Solutions. The planned investments incurred to support these strategic initiatives, partially offset by increased revenues from direct banking, led to an overall $6.8 million increase in the loss before tax for this line of business compared to the same period last year.

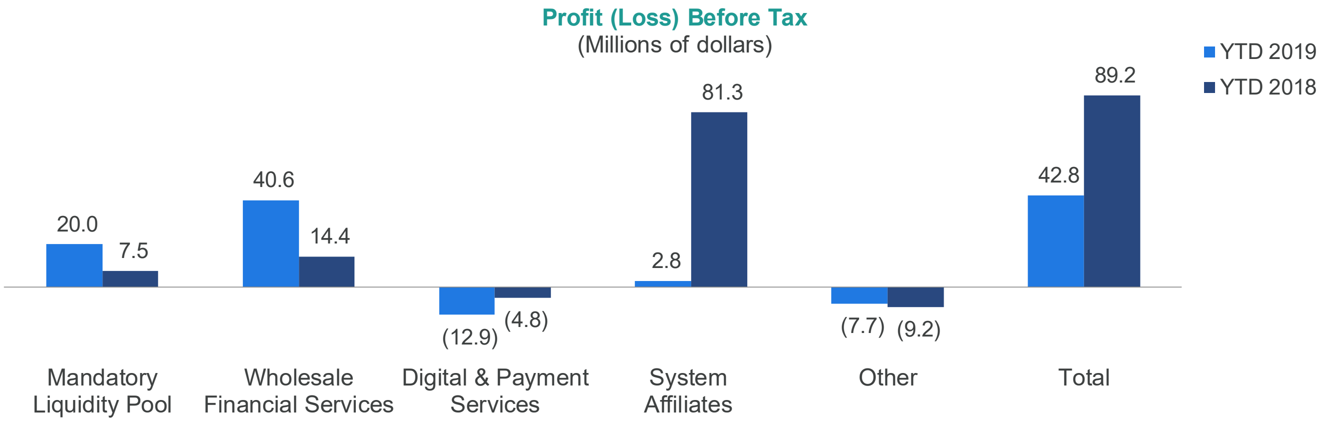
System Affiliates

System Affiliates' results in the second quarter of 2018 benefited from the one-time gains relating to our equity investments. Excluding these gains, 2019 results were $1.2 million higher, mainly due to increased income from these investments.

Other

During the second quarter, investments in our strategic initiatives continued, including the development of the new banking system. These investments primarily attributed to a $1.2 million increase in the costs incurred to support strategic initiatives compared to the same period last year. Dues levied on our members were also reduced in 2019 as we move funding of our operations to other sources. Combined, the higher spending in strategic initiatives along with lower dues revenue led to higher loss in the second quarter of 2019 in this line of business.

YTD 2019 vs YTD 2018



For the six months ended June 30, 2019 (Millions of dollars)	Mandatory Liquidity Pool	Wholesale Financial Services	Digital & Payment Services	System Affiliates	Other	Total
Net financial income (expense), including impairment on financial assets	$ 23.9	$ 42.3	$ (0.2)	$ (1.4)	$ -	**$ 64.6**
Non-financial income	(0.5)	17.0	46.2	4.2	3.5	**70.4**
Net financial and non-financial income	23.4	59.3	46.0	2.8	3.5	**135.0**
Non-financial expenses	3.4	18.7	39.2	-	7.1	**68.4**
	20.0	40.6	6.8	2.8	(3.6)	**66.6**
Strategic initiatives	-	-	(19.7)	-	(4.1)	**(23.8)**
Profit (loss) before tax	**$ 20.0**	**$ 40.6**	**$ (12.9)**	**$ 2.8**	**$ (7.7)**	**$ 42.8**

For the six months ended June 30, 2018 (Millions of dollars)	Mandatory Liquidity Pool	Wholesale Financial Services	Digital & Payment Services	System Affiliates	Other	Total
Net financial income (expense), including impairment on financial assets	$ 11.4	$ 15.6	$ (0.2)	$ (0.9)	$ -	$ 25.9
Non-financial income	0.2	15.0	40.8	3.3	7.6	66.9
Net financial and non-financial income	11.6	30.6	40.6	2.4	7.6	92.8
Non-financial expenses	4.1	16.2	32.8	1.3	13.9	68.3
	7.5	14.4	7.8	1.1	(6.3)	24.5
Strategic initiatives	-	-	(12.6)	80.2	(2.9)	64.7
Profit (loss) before tax	$ 7.5	$ 14.4	$ (4.8)	$ 81.3	$ (9.2)	$ 89.2

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

Mandatory Liquidity Pool

MLP's year-to-date results reflected higher net financial income. Net realized and unrealized gains, which were up $11.8 million from the same period last year, benefited from decreasing market yields and narrowing credit spreads. Higher net financial income led to an overall increase of $12.5 million in MLP's profit before tax compared to the first six months of 2018.

Wholesale Financial Services

Higher interest margin for the six months of 2019 was the result of a change in asset mix. Decreasing market yields and narrowing credit spreads resulted in higher gains on financial assets as well as higher losses on financial liabilities with the former outweighing the latter. This created higher net realized and unrealized gains of $21.2 million compared to the first six months of 2018. Higher foreign exchange income and commercial lending revenue, reflective of our increased focus on expanding our commercial loan portfolios, contributed to an increase of $2.0 million in WFS' non-financial income and these increases were partially offset by higher salaries and employee benefits expenses, and other administrative expenses. Combined, strong net financial income and non-financial income were reflected in a $26.2 million increase in WFS' profit before tax compared to the first six months of 2018.

Digital & Payment Services

For the first six months of 2019, Digital & Payment Services continued to invest in strategic initiatives which included the development of the Forge platform and Origination Solutions. The planned investments incurred to support these strategic initiatives, partially offset by increased revenues from direct banking, led to a $8.1 million increase in the loss before tax for this line of business compared to the same period last year.

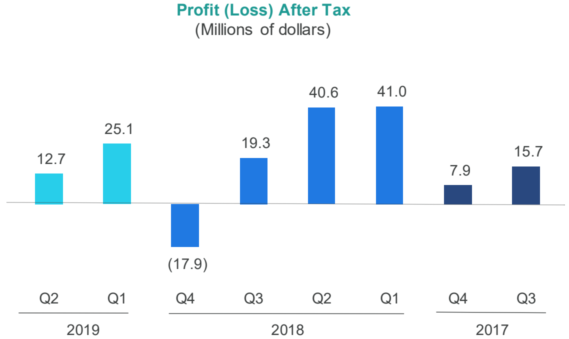
System Affiliates

System Affiliates' 2018 year-to-date results benefited from the one-time gains relating to our equity investments. Excluding these gains, System Affiliates' results were $1.7 million higher in 2019, due to increased income from these investments.

Other

In 2019, we continue to invest in our strategic initiatives, including the development of new banking system, reflected the $1.2 million increase in the costs incurred to support these initiatives from the first six months of 2018. This increase coupled with decreased dues revenue were outweighed by lower non-financial expenses, resulting in a smaller loss compared to the same period last year in this line of business.

Summary of Quarterly Results



	2019		2018				2017	
(Thousands of dollars, except as indicated)	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Interest income	**$ 90,952**	$ 89,998	$ 96,375	$ 93,713	$ 87,579	$ 78,382	$ 73,208	$ 62,781
Interest expense	**71,475**	67,562	71,641	72,683	68,650	62,220	57,171	50,407
Interest margin	**19,477**	22,436	24,734	21,030	18,929	16,162	16,037	12,374
Realized and unrealized gains (losses)	**9,293**	13,681	(19,698)	6,326	(6,128)	(3,046)	2,579	9,296
Impairment loss (recovery) on financial assets	**38**	234	217	58	(175)	183	1	(8)
	28,732	35,883	4,819	27,298	12,976	12,933	18,615	21,678
Non-financial income	**36,760**	33,644	34,270	35,164	37,233	34,786	38,620	37,656
Gains from system affiliates	**-**	-	-	2,671	37,470	43,017	-	-
	36,760	33,644	34,270	37,835	74,703	77,803	38,620	37,656
Non-financial expense	**50,675**	41,586	63,911	41,658	44,255	44,986	46,892	40,454
	(13,915)	(7,942)	(29,641)	(3,823)	30,448	32,817	(8,272)	(2,798)
Profit (loss) before tax	**14,817**	27,941	(24,822)	23,475	43,424	45,750	10,343	18,880
Income taxes (recovery)	**2,157**	2,817	(6,875)	4,145	2,866	4,760	2,463	3,182
Profit (loss)	**$ 12,660**	$ 25,124	$ (17,947)	$ 19,330	$ 40,558	$ 40,990	$ 7,880	$ 15,698
Weighted average shares outstanding *(millions)*	**431.1**	430.0	444.7	486.5	479.4	429.7	417.1	440.3
Earnings per share *(cents)* *								
Basic/Diluted	**2.9**	5.8	(4.0)	4.0	8.5	9.5	1.9	3.6

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

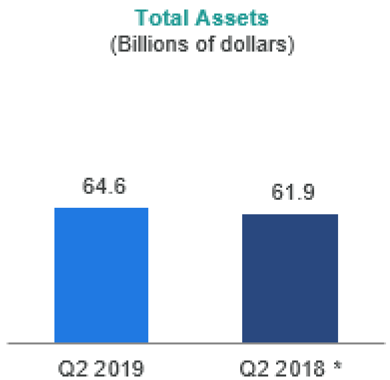
Effective January 1, 2018, we retrospectively adopted IFRS 9, *Financial Instruments*. Prior periods have not been restated. Results for the periods prior to January 1, 2018 are reported in accordance with IAS 39, *Financial Instruments:* Recognition and Measurement.

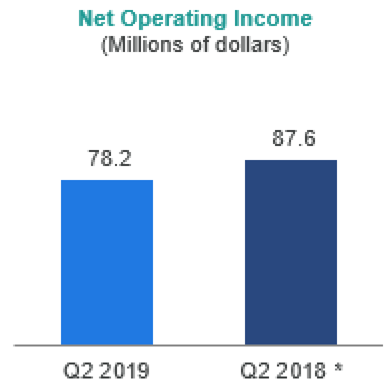
Certain compartive figures have been reclassified to conform with the current period's presentation.

The decreasing market yields and narrowing credit spreads continued to increase the fair value of securities, leading to strong net realized and unrealized gains recognized throughout 2019. Interest margin growth was seen prior to 2019 and the growth began to taper off starting the first quarter of 2019. The decrease in interest margin continued to the second quarter due to increased interest expense on financial liabilities which outweighed increased interest income on financial assets. Results in the first and second quarter of 2018 were significantly higher than other quarters, which was primarily due to one-time gains from transactions related to our equity investees.

System Performance

British Columbia





* Restated to exclude Coast Capital financial results.

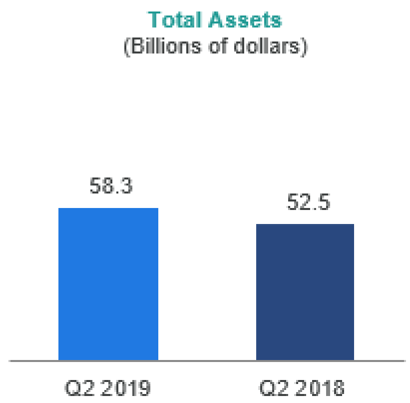
Net operating income for the second quarter of 2019 was $78.2 million, down $9.4 million or 10.7 per cent from the same period of last year. Net interest income decreased $1.2 million or 0.4 per cent over the same period of last year, driven by an 11 bps decline in net interest margin. Non-interest income increased $2.4 million or 3.6 per cent year-over-year, led by trading gains in financial instruments. Non-interest expense increased $10.3 million or 3.6 per cent, led by salaries and benefits.

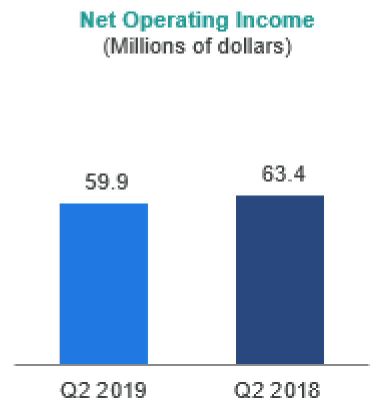
Total assets increased $2.7 billion or 4.4 per cent year-over-year to reach $64.6 billion at the end of the second quarter. Asset growth was led by a 3.5 per cent increase in personal mortgages, a 6.4 per cent increase in commercial mortgages, and a 3.6 per cent rise in cash and liquid investments. Liability growth was led by 8.9 per cent increase in non-registered term deposits and 10.0 per cent rise in registered term deposits.

The system's rate of loan delinquencies over 90 days was 0.14 per cent of total loans at the end of June 2019, down 3 bps year-over-year. Provision for credit losses as a percentage of loans was 0.29 per cent, up 1 bps from a year ago. The B.C. system's loan loss expense ratio was 0.05 per cent annualized in the second quarter of 2019, down 1 bps from a year ago.

The B.C. system's regulatory capital as a percentage of risk-weighted assets was 15.4 per cent at the end of June 2019, up 68 bps from a year ago. The aggregate liquidity ratio of the B.C. system, including that held by Central 1, was 14.9 per cent of deposit and debt liabilities, down 2 bps from a year ago.
The B.C. system's return on assets was 0.49 per cent annualized in the second quarter, down 9 bps year-over-year.

Ontario





Net operating income for the second quarter of 2019 was $59.9 million, down $3.5 million or 5.5 per cent from the same period of last year. Net interest income increased $6.7 million over the same period of last year, driven by growth in residential mortgages and commercial loans. Non-interest income increased $8.4 million or 14.6 per cent year-over-year. Non-interest expense increased $18.6 million or 7.4 per cent, driven by salaries and benefits.

Total assets increased $5.8 billion or 11.1 per cent year-over-year to reach $58.3 billion at the end of the second quarter. Asset growth was led by a 11.0 per cent increase in residential mortgages, a 6.4 per cent increase in commercial loans, a 17.2 per cent increase in cash and deposits, and a 81.8 per cent increase in investments. Liability growth was led by a 20.9 per cent increase in non-registered term deposits and a 14.2 per cent rise in registered term deposits.

The system's rate of loan delinquencies over 90 days was 0.3 per cent of total loans at the end of June 2019, up 3 bps year-over-year. Provision for credit losses as a percentage of loans was 0.28 per cent, up 5 bps from a year ago. The Ontario system's loan loss expense ratio was 0.05 per cent annualized in the second quarter of 2019, down 1 bps from a year ago.

The Ontario system's regulatory capital as a percentage of risk-weighted assets was 12.6 per cent at the end of June 2019, down 50 bps from a year ago. The aggregate liquidity ratio of the Ontario system, including that held by Central 1, was 13.9 per cent of deposit and debt liabilities, up 174 bps from a year ago. The Ontario system's return on assets was 0.42 per cent annualized in the second quarter, down 8 bps year-over-year.

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

			Notional Amount
(Millions of dollars)	Jun 30 2019	Dec 31 2018	Jun 30 2018
Interest rate contracts			
Bond forwards	**$ 120.5**	$ 136.7	$ 97.1
Futures contracts	**710.0**	890.0	800.0
Swap contracts	**33,344.1**	33,881.9	31,761.8
	34,174.6	34,908.6	32,658.9
Foreign exchange contracts			
Foreign exchange forward contracts	**249.7**	678.4	647.7
Other derivative contracts			
Equity index-linked options	**194.2**	216.2	219.9
	$ 34,618.5	$ 35,803.2	$ 33,526.5

We act as a swap intermediary between the Canada Housing Trust and member credit unions and additionally provide derivative capabilities to member credit unions to be used in the ALM of their respective balance sheets. These activities represented $8.0 billion and $22.4 billion, respectively, of the total derivative notional balances as at June 30, 2019, compared to $8.8 billion and $22.1 billion at December 31, 2018, and $9.4 billion and $20.4 billion at June 30, 2018. 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 Interim Consolidated Statement of Financial Position at fair value while the notional amounts are not 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 and General Security Agreements. Our counterparty credit exposure to our Class A member credit unions is secured by the General Security Agreements. CSA agreements are in place with all other derivatives counterparties. Under a CSA, net fair value positions are collateralized with high quality liquid securities.

Guarantees and Commitments

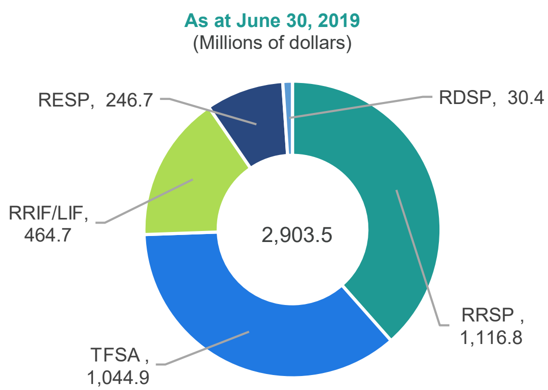
The following table presents the maximum amounts of credit that we could be required to extend if commitments were to be fully utilized, and the maximum amounts of guarantees that could be in effect if the maximum authorized amounts were transacted.

(Millions of dollars)		Jun 30 2019		Dec 31 2018		Jun 30 2018
Commitments to extend credit	**$**	**5,057.9**	$	4,526.0	$	4,476.7
Guarantees						
Financial Guarantees	**$**	**612.5**	$	480.0	$	387.0
Performance Guarantees	**$**	**910.0**	$	810.0	$	810.0
Standby letters of credit	**$**	**205.2**	$	201.1	$	192.0
Future prepayment swap reinvestment commitment	**$**	**1,265.1**	$	1,101.0	$	895.4

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, guarantees, and standby letter of credit.

Commitments to extend credit, representing undrawn commitments, increased $581.2 million from a year ago. This is reflected in the lower balance of credit union loans, as greater liquidity in the credit union system allows credit unions to pay down their debt with us. Also, while credit unions still have authorized credit available to them, higher liquidity in the credit union system lessens the need for credit unions to draw on their credit. Therefore, the commitment remains while credit union lending is lower. Guarantees increased $325.5 million due to higher transaction volumes, while standby letters of credit increased $13.2 million. Future prepayment swap reinvestment commitments increased $369.7 million as a result of our transition from direct securitization to prepayment swap program.

Assets under Administration



(Millions of dollars)		Jun 30 2019		Dec 31 2018		Jun 30 2018
Registered Retirement Savings Plans (RRSP)	**$**	**1,116.8**	$	1,071.8	$	1,123.2
Tax-Free Savings Accounts (TFSA)		**1,044.9**		934.1		895.1
Registered Retirement Income Funds/Life Income Funds (RRIF/LIF)		**464.7**		453.6		424.7
Registered Education Savings Plans (RESP)		**246.7**		234.3		231.5
Registered Disability Savings Plans (RDSP)		**30.4**		26.4		24.2
	$	**2,903.5**	$	2,720.2	$	2,698.7

Assets under Administration (AUA) mainly include government approved registered plans for tax deferral purposes, which are trusteed 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 and Class C members.

An overall increase in business from both Ontario and B.C., along with market value appreciation, contributed to an 7.6 per cent increase in total AUA from a year ago. Notable trends show that the AUA of Tax-Free Savings Accounts increased by 16.7 per cent from a year ago, reflective of its increasing popularity among investors as an alternative to the Registered Retirement Savings Plan (RRSP) which was down by 0.6 per cent. All the other registered plans also had moderate increases from a year ago largely due to increased contributions and RRIF transfers together with market value appreciation over the past year.

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 maintain capital to meet the expectations of credit rating agencies, to accommodate credit union system growth and to maintain internal capital ratios. The longer-term strategic goal is to optimize the capital usage and structure using 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 considering projected market conditions. These components are monitored and updated throughout 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.

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.

Regulatory Capital

$1,115.7 million
Tier 1 Capital

$1,231.6 million
Net Capital Base

13.4:1
Borrowing Multiple

44.1%
Provincial Capital Ratio

(Millions of dollars)	Jun 30 2019	Dec 31 2018	Jun 30 2018
Share capital	$ **431.2**	$ 429.9	$ 486.0
Retained earnings	**689.2**	652.3	694.4
Less: accumulated net after tax gain in investment property	**(4.7)**	(4.7)	(4.7)
Tier 1 capital	**1,115.7**	1,077.5	1,175.7
Subordinated debt	**221.0**	421.0	421.0
Add: accumulated net after tax gain in investment property	**4.7**	4.7	4.7
Tier 2 capital	**225.7**	425.7	425.7
Total capital	**1,341.4**	1,503.2	1,601.4
Statutory capital adjustments	**(109.8)**	(105.7)	(104.3)
Net capital base	$ **1,231.6**	$ 1,397.5	$ 1,497.1
Borrowing multiple - Consolidated	**13.4:1**	11.0:1	11.8:1
Borrowing multiple - Mandatory Liquidity Pool	**15.1:1**	15.8:1	15.7:1
Borrowing multiple - Wholesale Financial Services	**13.5:1**	10.9:1	13.4:1

In determining regulatory capital, adjustments are required to amounts reflected in our Interim Consolidated Statement of Financial Position. Deductions from capital are required for certain investments, including our substantial investments in affiliated cooperative organizations. The decrease in the net capital base as on June 30, 2019 compared to December and June 2018 was due to the redemption of $200.0 million subordinated debt during the second quarter of 2019. The computation of the provincial capital base is broadly similar to the federal regulatory capital used for borrowing multiple purposes.

FICOM requires 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. 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. In 2019, the May Class F in-cycle share call was not required as Central 1 had sufficient capital to meet its regulatory requirements. At June 30, 2019, our consolidated borrowing multiple was 13.4:1 compared to 11.0:1 at December 31, 2018, as a result of the decrease in capital combined with an increase in non-mandatory deposits.

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

Risk Review

This section of the MD&A should be read in conjunction with the Risk Review section of our 2018 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 for all financial institutions, including credit unions, from tighter margins and financial technology disruption. We also face uncertainty around Class A member credit unions choosing 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 our annual strategic planning processes.

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 second 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

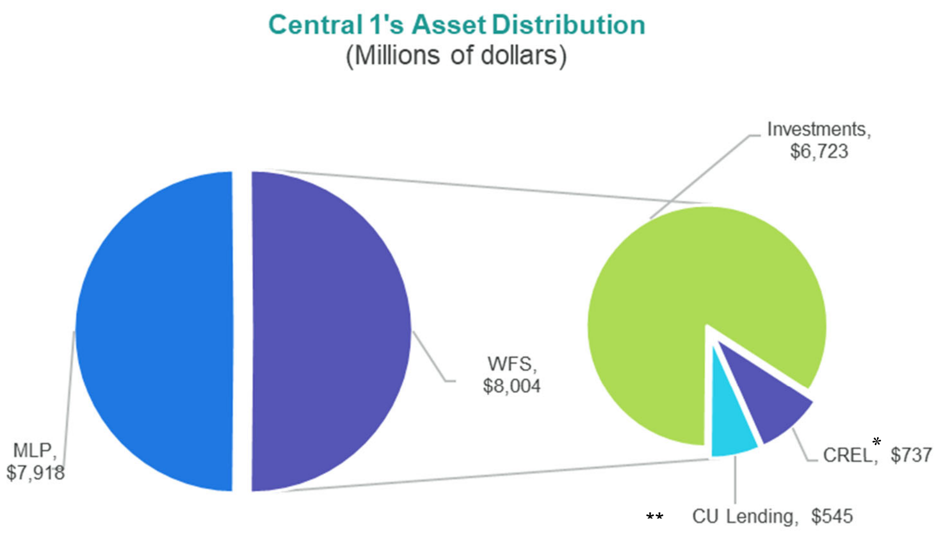
We are exposed to Credit Risk from our investment and lending activities, as well as through our role as Group Clearer and other settlement business.

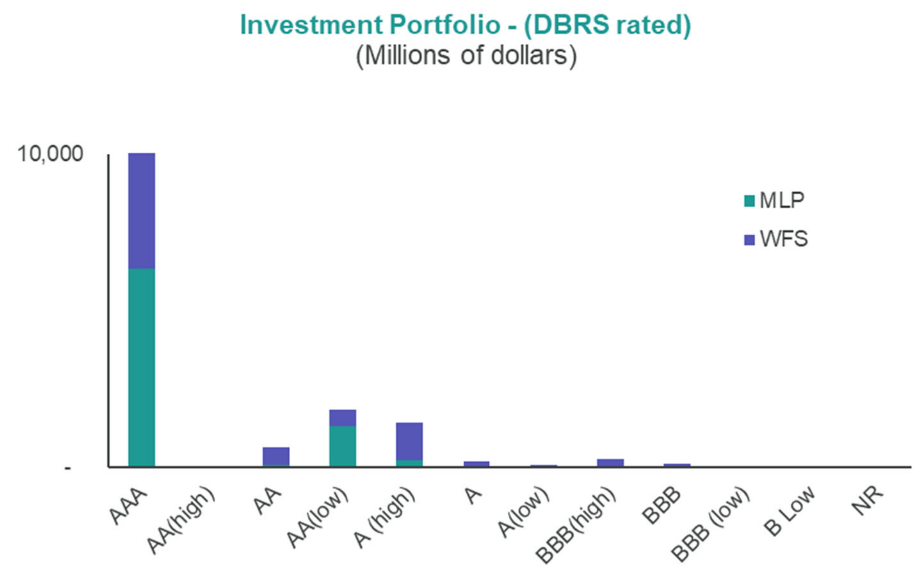
Risks are managed by:

- 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

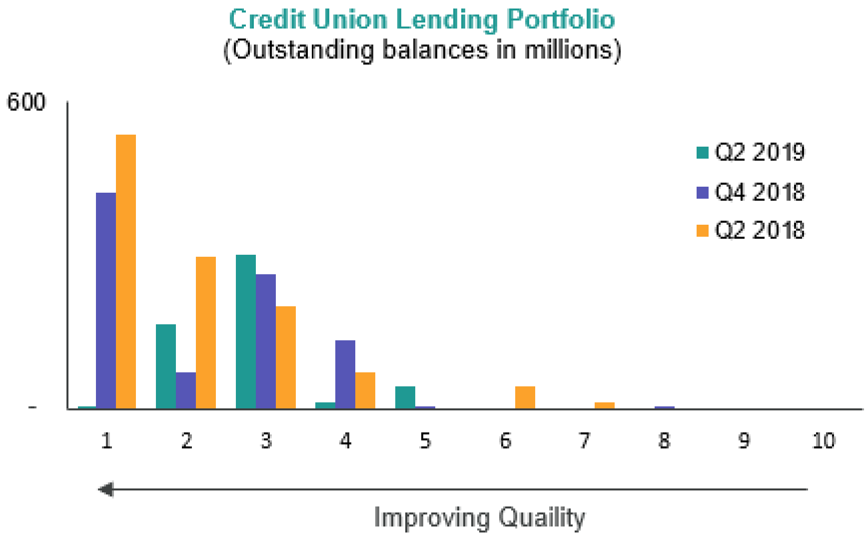
Credit risk continues to be assessed by management as low.

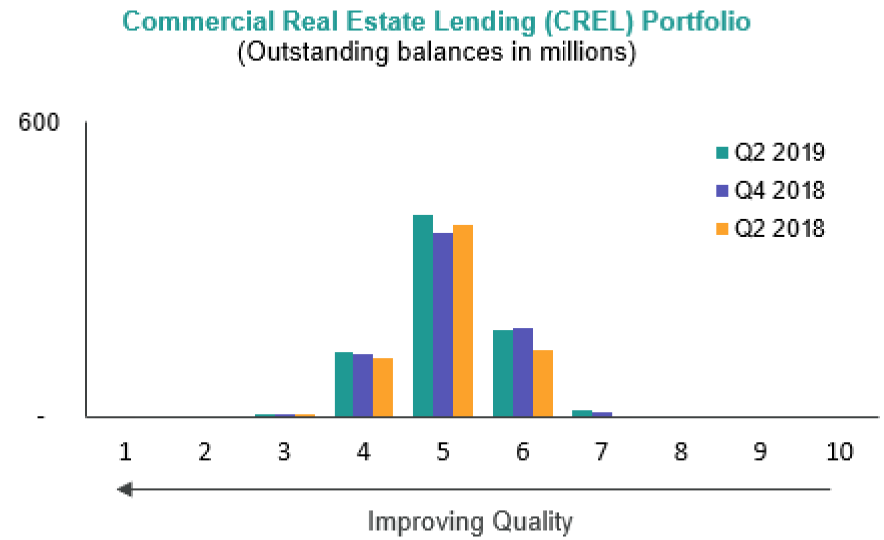
The following figure illustrates our credit exposure and risk profile based on outstanding balances in the investment portfolios held in MLP and WFS. WFS holds $0.68 billion in securities that are rated A or lower (Positions are based on notional, not market values and do not include securitization assets sold to Canada Housing Trust.).





* CREL – Commercial Real Estate Lending
** CU Lending – this includes the utilized portion of the guarantees and standby letters of credit





Credit Quality Performance

Investments Portfolio

There are no impaired investments in the portfolio. As part of our ongoing risk management activities, we perform ongoing stress tests to measure the resiliency of our credit and investment portfolios against a range of severe scenarios. The stress tests provide comfort that we continue to maintain adequate capital to withstand a range of severe economic scenarios.

Credit Union Lending (CU Lending)

Currently, there are no impaired loan facilities in the CU Lending Portfolio. A number of credit unions have been placed on the Watch List. As at June 30, 2019 there were three Ontario and one B.C. credit union classified as Watch List (risk rating 7). Two Ontario credit union were assigned Unsatisfactory risk (risk rating 8). The Watch List and Unsatisfactory accounts represented 0.22 per cent of the outstanding portfolio as at June 30, 2019. Credit union lending facilities are fully collateralized by general security agreements and outstanding loans constitute a fraction of the security value.

Commercial Real Estate Lending (CREL)

Currently, there are no impaired loans in the portfolio. The Watch List accounts represented 2.08 per cent of the outstanding portfolio balance as at June 30, 2019. The risk in the portfolio remains unchanged.

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. Our 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 that meet the pre-July 2018 BOC definitions for securities eligible to be pledged under Standing Liquidity Facility (SLF), and USD-denominated variants that meet the SLF eligibility criteria as requested by our D-SIFI requirements.

The LCR strengthened since Q4 2018 due to an increase in the stock of high-quality liquid assets, that was primarily driven by investment in the securities resulting from a general increase in non-mandatory deposits and reduction in the funded loans.

Liquidity Coverage Ratio	Q2 2019	Q1 2019	Q4 2018	Q3 2018	LTM Average	LTM High	LTM Low
Mandatory Liquidity Pool	173.2%	172.9%	170.7%	172.3%	173.5%	164.5%	164.5%
Wholesale Financial Services	187.9%	153.4%	134.2%	138.4%	145.0%	191.7%	104.6%

Wholesale Financial Services (WFS) values were recalculated from September 2018 onwards 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. Our policies detail 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 7.5 bps, or 0.075 per cent, of the current market value of MLP assets and 6 bps, or 0.06 per cent, of WFS assets. As of quarter-end, the limits were $7.99 million for MLP and $8.16 million for WFS. We complied with MLP and WFS limits during the second quarter.

(Millions of dollars)	Mandatory Liquidity Pool Q2 2019	Q1 2019	Q4 2018	Q3 2018	Last 12 Months Average	High	Low
Interest Rate VaR	**$ 1.2**	$ 0.8	$ 3.8	$ 4.4	$ 3.1	$ 4.6	$ 0.8
Credit Spread VaR	**1.5**	$ 1.3	5.1	5.5	3.9	5.8	1.1
Foreign Exchange VaR	**0.2**	$ 0.3	0.3	0.2	0.2	0.7	0.0
Diversification [1]	**(1.1)**	$ (1.0)	(4.6)	(4.6)	(3.2)	nm	nm
Total VaR	**$ 1.8**	$ 1.4	$ 4.6	$ 5.5	$ 4.0	$ 5.7	$ 1.4
Expected Shortfall	**$ 2.3**	$ 2.3	$ 5.4	$ 6.2	$ 4.8	$ 6.9	$ 2.2

(Millions of dollars)	Wholesale Financial Services Q2 2019	Q1 2019	Q4 2018	Q3 2018	Last 12 Months Average	High	Low
Interest Rate VaR	**$ 1.6**	$ 1.4	$ 1.3	$ 1.8	$ 1.6	$ 2.3	$ 1.3
Credit Spread VaR	**1.8**	$ 1.6	1.5	1.7	1.6	2.2	1.5
Foreign Exchange VaR	**2.2**	$ 2.1	2.4	2.0	2.3	3.5	1.4
Diversification [1]	**(2.5)**	$ (2.2)	(2.3)	(2.6)	(2.3)	nm	nm
Total VaR	**$ 3.1**	$ 2.9	$ 2.9	$ 2.9	$ 3.2	$ 4.4	$ 2.4
Expected Shortfall	**$ 3.3**	$ 3.4	$ 3.4	$ 3.7	$ 3.7	$ 4.8	$ 2.8

[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 negative real Fed funds rate.

(Millions of dollars)	Mandatory Liquidity Pool	Wholesale Financial Services
10-Day VaR	$ 5.6	$ 7.7
Pre-Lehman Crisis (Oct 2006-Dec 2007)	$ 10.0	$ 13.1
Lehman Crisis (Jan 2008-May 2009)	$ 17.8	$ 13.7
European Crisis (Nov 2010-Dec 2013)	$ 11.3	$ 8.3

Direction and Sources of Interest Rate Risk

We use several 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 we trade 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 foreign exchange (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 - Foreign Exchange Forwards	Net Position in Native Currency	BOC Closing Rate	CAD Equivalent
USD	$ (37.0)	$ 63.7	$ 26.7	1.3085	$ 34.9

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.

Information security risk (which includes cyber risk) is a critical risk to Central 1 due to an ever-changing threat environment which requires us to continually adapt and enhance our controls to mitigate new threats. The second quarter of 2019 saw the volume of cyber-attacks on credit union subside. There were no material losses reported during the period due to cyber-fraud. Other attacks such as phishing were still present during this period, with a notable event affecting multiple credit unions in April. We continue to invest in controls to mitigate cyber attacks and have just completed an external cyber maturity assessment that is being used to develop a multi-year cyber strategy.

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 that economic growth could turn negative, such as, softening growth, increasing risk and depressed prices. Forecasts of global growth have been revised downward, the major Canadian housing markets are retreating from highs reached in 2018 and the yield curve inverted (popularly held as a downturn indicator) in early 2019. A range of possible triggers could make matters worse, including trade tensions and regional political instability. We are tracking the current strong labor market and credit metrics to understand impacts on the 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 raise privacy and security concerns.

Accounting Matters

Critical Accounting Policies and Estimates

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, own credit risk, expected credit loss allowance, securitizations, determine if control exists over an investee, classification of financial assets, designating financial instruments in qualifying hedge relationships, income taxes, post-employment benefits and gains from system affiliates. While management makes our 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 4 of our 2018 Annual Consolidated Financial Statements.

Changes in Accounting Policies

IFRS 16 – Leases

Effective January 1, 2019, we adopted IFRS 16, *Leases.* For further details on the impacts of the adoption of IFRS 16, including the description of accounting policies selected, refer to Note 3 of our Interim Consolidated Financial Statements for the quarter ended June 30, 2019.

IFRIC 23 – Uncertainty over Income Tax Treatments

Effective January 1, 2019, we adopted International Financial Reporting Interpretations Committee (IFRIC) 23, *Uncertainty over Income Tax Treatments*. The interpretation clarifies application of recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. The adoption of this Interpretation did not have a material impact on the Interim Consolidated Financial Statements.

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 of our activities, which include our Executive Management and Vice-Presidents. Our policies and procedures for related party transactions have not changed significantly since December 31, 2018.

Details of our related party disclosures were disclosed in Note 22 of our Interim Consolidated Financial Statements for the quarter ended June 30, 2019.

Interim Consolidated Financial Statements

June 30, 2019

central 1

Interim Consolidated Statement of Financial Position (Unaudited)

(Thousands of dollars)	Notes		Jun 30 2019		Dec 31 2018
Assets					
Cash		$	**85,884**	$	811,360
Deposits with regulated financial institutions			**5,728**		6,078
Securities	5		**14,627,338**		13,286,020
Loans	6		**1,588,376**		1,939,247
Reinvestment assets under the Canada Mortgage Bond Program	5		**653,030**		580,457
Derivative assets			**59,032**		92,352
Settlements in-transit			**743,350**		32,845
Property and equipment			**24,578**		19,447
Intangible assets			**30,456**		24,659
Investments in affiliates	22		**81,326**		76,961
Current tax assets			**9,286**		7,487
Deferred tax assets			**-**		4,289
Other assets	7		**27,446**		25,967
		$	**17,935,830**	$	16,907,169
Liabilities					
Deposits	8	$	**12,591,886**	$	10,973,365
Debt securities issued	9		**1,760,191**		1,958,045
Obligations under the Canada Mortgage Bond Program	10		**1,031,313**		1,040,493
Subordinated liabilities	11		**221,299**		422,192
Obligations related to securities sold short			**126,077**		139,371
Securities under repurchase agreements			**486,344**		381,053
Derivative liabilities			**82,768**		82,880
Settlements in-transit			**447,508**		748,227
Deferred tax liabilities			**3,806**		-
Provisions			**1,714**		1,713
Other liabilities	12		**46,318**		68,890
			16,799,224		15,816,229
Equity					
Share capital	13		**431,166**		429,937
Retained earnings			**689,173**		652,343
Accumulated other comprehensive income (loss)			**6,258**		(1,489)
Reserves			**24**		26
Total equity attributable to members of Central 1			**1,126,621**		1,080,817
Non-controlling interest			**9,985**		10,123
			1,136,606		1,090,940
		$	**17,935,830**	$	16,907,169
Guarantees, commitments, contingencies and pledged assets	19				

Approved by the Directors:

"Bill Kiss"

Bill Kiss, Chairperson

"Robert Wellstood"

Robert Wellstood, Chairperson - Audit and Finance Committee

See accompanying notes to the Interim Consolidated Financial Statements

Interim Consolidated Statement of Profit (Unaudited)

(Thousands of dollars)	Notes	For the three months ended Jun 30 2019	Jun 30 2018	For the six months ended Jun 30 2019	Jun 30 2018
Interest income					
Securities		$ **77,287**	$ 74,187	$ **152,649**	$ 137,942
Deposits with regulated financial institutions		**43**	51	**86**	101
Loans		**12,707**	12,332	**25,870**	25,607
Reinvestment assets under the Canada Mortgage Bond Program		**915**	1,009	**2,345**	2,311
		90,952	87,579	**180,950**	165,961
Interest expense					
Deposits		**52,801**	46,590	**100,714**	88,010
Debt securities issued		**13,319**	14,606	**26,481**	27,988
Subordinated liabilities		**2,075**	3,136	**5,216**	6,239
Obligations under the Canada Mortgage Bond Program		**3,280**	4,318	**6,626**	8,633
		71,475	68,650	**139,037**	130,870
Interest margin		**19,477**	18,929	**41,913**	35,091
Gain (loss) on disposal of financial instruments	14	**24,694**	(13,504)	**50,866**	(18,216)
Change in fair value of financial instruments	15	**(15,401)**	7,376	**(27,892)**	9,042
Net financial income		**28,770**	12,801	**64,887**	25,917
Impairment loss (recovery) on financial assets		**38**	(175)	**272**	8
		28,732	12,976	**64,615**	25,909
Non-financial income	16	**36,760**	37,233	**70,404**	72,019
Gains from system affiliates	16	**-**	37,470	**-**	80,487
Net financial and non-financial income		**65,492**	87,679	**135,019**	178,415
Non-financial expense					
Salaries and employee benefits		**23,750**	19,940	**44,040**	40,322
Premises and equipment		**2,448**	1,825	**4,521**	3,785
Other administrative expenses	17	**24,477**	22,490	**43,700**	45,134
		50,675	44,255	**92,261**	89,241
Profit before income taxes		**14,817**	43,424	**42,758**	89,174
Income taxes		**2,157**	2,866	**4,974**	7,626
Profit		$ **12,660**	$ 40,558	$ **37,784**	$ 81,548

See accompanying notes to the Interim Consolidated Financial Statements

Interim Consolidated Statement of Comprehensive Income (Unaudited)

(Thousands of dollars)	For the three months ended Jun 30 2019	Jun 30 2018	For the six months ended Jun 30 2019	Jun 30 2018
Profit	**$ 12,660**	$ 40,558	**$ 37,784**	$ 81,548
Other comprehensive income (loss), net of tax				
Items that may be reclassified subsequently to profit				
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	**6,659**	(5)	**18,458**	78
Reclassification of realized gains to profit	**(5,093)**	(1,111)	**(8,412)**	(4,995)
Share of other comprehensive income (loss) of affiliates accounted for using the equity method	**180**	(1,914)	**378**	(1,914)
	1,746	(3,030)	**10,424**	(6,831)
Items that will not be reclassified subsequently to profit				
Net change in fair value due to change in own credit risk on financial liabilities designated under the fair value option	**(404)**	3,566	**(3,797)**	5,226
Other comprehensive income (loss), net of tax	**1,342**	536	**6,627**	(1,605)
Comprehensive income, net of tax	**$ 14,002**	$ 41,094	**$ 44,411**	$ 79,943
Income taxes (recoveries) on items that may be reclassified subsequently to profit				
Net change in fair value of debt securities at fair value through other comprehensive income	**$ 1,401**	$ (7)	**$ 3,889**	$ 12
Reclassification of realized gains to profit	**$ (1,070)**	$ (235)	**$ (1,768)**	$ (1,059)
Share of other comprehensive income of affiliates accounted for using the equity method	**$ 17**	$ 1,047	**$ 36**	$ 1,047
Income taxes (recoveries) on items that may not be reclassified subsequently to profit				
Net change in fair value due to change in own credit risk on financial liabilities designated under the fair value option	**$ (85)**	$ 757	**$ (798)**	$ 1,109

See accompanying notes to the Interim Consolidated Financial Statements

Interim Consolidated Statement of Changes in Equity (Unaudited)

(Thousands of dollars)	Share Capital	Retained Earnings	Fair Value & Affiliates Reserves	Liability Credit Reserve	Employee Benefits Reserve	Other Reserves	Equity Attributable to Members	Non-Controlling Interest	Total Equity
	Attributable to equity members								
Balance at December 31, 2018	$ 429,937	$ 652,343	$ (2,323)	$ (430)	$ 1,264	$ 26	$ 1,080,817	$ 10,123	$ 1,090,940
Changes on initial application of IFRS 16 (Note 3)		28					28		28
Restated Balance at January 1, 2019	$ 429,937	$ 652,371	$ (2,323)	$ (430)	$ 1,264	$ 26	$ 1,080,845	$ 10,123	$ 1,090,968
Total comprehensive income									
Profit		37,922					37,922	(138)	37,784
Other comprehensive income, net of tax									
Fair value reserve (securities at fair value through other comprehensive income)			10,046				10,046		10,046
Share of other comprehensive income (loss) of affiliates accounted for using the equity method			378				378		378
Liability credit reserve				(3,797)			(3,797)		(3,797)
Total comprehensive income	-	37,922	10,424	(3,797)	-	-	44,549	(138)	44,411
Transactions with owners, recorded directly in equity									
Related tax savings		(2)					(2)		(2)
Class "F" shares issued (Note 13)	1,229						1,229		1,229
Transfer from reserves		2				(2)	-		-
Total contributions from and distributions to owners	1,229	-	-	-	-	(2)	1,227	-	1,227
Reclassification of liability credit reserve on derecognition[(1)]		(1,120)		1,120			-		-
Balance at June 30, 2019	**$ 431,166**	**$ 689,173**	**$ 8,101**	**$ (3,107)**	**$ 1,264**	**$ 24**	**$ 1,126,621**	**$ 9,985**	**$ 1,136,606**

[(1)] Transfer of cumulative gain or loss on derecogntion of financial liabilities at FVTPL.

Profit attributable to:	**2019**	2018
Members of Central 1	**$ 37,922**	$ 81,615
Non-controlling interest	**(138)**	(67)
	$ 37,784	$ 81,548

Total comprehensive income attributable to:	**2019**	2018
Members of Central 1	**$ 44,549**	$ 80,010
Non-controlling interest	**(138)**	(67)
	$ 44,411	$ 79,943

See accompanying notes to the Interim Consolidated Financial Statements

Interim Consolidated Statement of Changes in Equity (Unaudited)

	Attributable to equity members									
(Thousands of dollars)	Share Capital	Contributed Surplus	Retained Earnings	Fair Value & Affiliates Reserves	Liability Credit Reserve	Employee Benefits Reserve	Other Reserves	Equity Attributable to Members	Non-Controlling Interest	Total Equity
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 3)			18,771	(8,067)	(11,789)		(2)	(1,087)		(1,087)
Restated balance of 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			81,615					81,615	(67)	81,548
Other comprehensive income (loss), net of tax										
Fair value reserve (available-for-sale financial assets)				(4,917)				(4,917)		(4,917)
Share of other comprehensive income of affiliates accounted for using the equity method				(1,914)				(1,914)		(1,914)
Liability credit reserve					5,226			5,226		5,226
Total comprehensive income	-	-	81,615	(6,831)	5,226	-	-	80,010	(67)	79,943
Transactions with owners, recorded directly in equity										
Class "E" shares redemption	(7)	(72,897)	(2,100)					(75,004)		(75,004)
Related tax savings			8,448					8,448		8,448
Net Classes "A", "B" and "C" shares issued	57,848							57,848		57,848
Preferred shares issued by subsidiary								-		-
Transfer from reserves			6				(6)	-		-
Total distributions to owners	57,841	(72,897)	6,354	-	-	-	(6)	(8,708)	-	(8,708)
Reclassification of liability credit reserve on derecognition[1]			(501)		501			-		-
Balance at June 30, 2018	$ 485,984	$ -	$ 691,210	$ 5,982	$ (6,062)	$ (1,808)	$ 3,942	$ 1,179,248	$ 10,021	$ 1,189,269

[1] Transfer of cumulative gain or loss on derecogntion of financial liabilities at FVTPL.

See accompanying notes to the Interim Consolidated Financial Statements

Interim Consolidated Statement of Cash Flows (Unaudited)

(Thousands of dollars)	Notes	For the three months ended Jun 30 2019	Jun 30 2018	For the six months ended Jun 30 2019	Jun 30 2018
Cash flows from operating activities					
Profit for the period		$ 12,660	$ 40,558	$ 37,784	$ 81,548
Adjustments for:					
Depreciation and amortization		2,138	1,973	2,296	4,071
Interest margin		(19,477)	(18,929)	(41,913)	(35,091)
Loss (gain) on disposal of financial instruments	14	(24,694)	13,504	(50,866)	18,216
Change in fair value of financial instruments	15	15,401	(7,376)	27,892	(9,042)
Impairment loss (recovery) on financial assets		38	(175)	272	8
Gains from system affiliates		-	(37,470)	-	(80,487)
Income taxes		2,157	2,866	4,974	7,626
Other items, net		-	(146)	-	119
		(11,777)	(5,195)	(19,561)	(13,032)
Change in securities		(659,899)	(90,253)	(1,211,668)	(879,893)
Change in loans		335,498	254,307	352,913	(437,897)
Change in settlements in-transit		(299,228)	(62,669)	(1,011,223)	(233,050)
Change in other assets		7,219	(1,944)	(1,526)	(12,571)
Change in deposits		1,097,373	258,380	1,548,872	1,101,170
Change in obligations related to securities sold short		(89,147)	12,485	(18,298)	95,828
Change in derivative assets and liabilities		9,408	1,524	11,848	4,618
Change in other liabilities		(14,043)	(6,156)	(14,114)	(3,475)
		375,404	360,479	(362,757)	(378,302)
Interest received		89,400	95,879	177,589	162,913
Interest paid		(84,061)	(78,261)	(131,664)	(115,665)
Income tax paid		(19)	-	(47)	(90)
Net cash from (used in) operating activities		380,724	378,097	(316,879)	(331,144)
Cash flows from investing activities					
Change in deposits with regulated financial institutions		358	(87)	358	(87)
Change in reinvestment assets under the Canada Mortgage Bond Program		2,965	87,241	(69,453)	25,910
Change in property and equipment		(678)	(219)	744	(495)
Change in intangible assets		(2,889)	(1,254)	(8,162)	(2,293)
Change in investments in affiliates		203	141,148	(3,951)	143,179
Net cash from (used in) investing activities		(41)	226,829	(80,464)	166,214
Cash flows from financing activities					
Change in debt securities issued		(212,533)	66,728	(205,610)	212,291
Change in lease liabilities		(84)	-	(179)	-
Change in obligations under the Canada Mortgage Bond Program	10	(50,348)	(124,758)	(14,998)	(109,543)
Change in subordinated liabilities		(200,000)	-	(200,000)	-
Change in securities under repurchase agreements		(8,594)	(279,398)	105,232	(117,482)
Dividends paid		-	-	(13,807)	(18,129)
Redemption of Class A shares	13	-	-	-	(378,101)
Issuance of Class F shares	13	129	10,000	1,229	435,949
Redemption of Class E shares	13	-	-	-	(53,050)
Reacquisition of treasury shares	13	-	-	-	(21,954)
Net cash used in financing activities		(471,430)	(327,428)	(328,133)	(50,019)
Increase (decrease) in cash		(90,747)	277,498	(725,476)	(214,949)
Cash - beginning of period		176,631	58,316	811,360	550,763
Cash - end of period		$ 85,884	$ 335,814	$ 85,884	$ 335,814

See accompanying notes to the Interim Consolidated Financial Statements

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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

Statement of compliance

These Interim Consolidated Financial Statements have been prepared on a condensed basis 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, 2018, with the exception of the adoption of International Financial Reporting Standard (IFRS) 16, *Leases*, 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, 2018.

The accounting policies set out above 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 16 adoption.

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

The Interim Consolidated Financial Statements were authorized for issue by the Board of Directors on August 23, 2019.

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,
- Securitizations,
- Determine if control exists over an investee,
- Classification of financial assets,
- Designating financial instruments in qualifying hedge relationships,
- Income taxes,
- Post-employee benefits, and
- Gains from system affiliates.

While management makes its best estimates and assumptions, actual results may differ from those estimates and assumptions. Details of use of estimates and judgements can be found in Note 4.

3. Change in accounting policies

The accounting policies set out below have been applied since January 1, 2019.

IFRS 16 - Leases

On January 1, 2019, Central 1 adopted IFRS 16, which replaced IAS 17, *Leases,* and related interpretations. While lessor accounting remains similar to IAS 17, IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use (ROU) asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. As such, Central 1 has changed its accounting policies for lease contracts as detailed below.

Central 1 has elected to apply the practical expedient to grandfather the assessment of which transactions are leases. This means that it applies IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and related interpretations were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 will be only applied to contracts entered into or changed on or after January 1, 2019.

Central 1 adopted IFRS 16 by applying a modified retrospective approach, under which the transition impact is recognized as an adjustment to the opening balance of retained earnings on the adoption date, with no restatement of comparative information. Accordingly, the comparative information presented in this Interim Consolidated Financial Statements does not reflect the requirements of IFRS 16.

When applying the modified retrospective approach, Central 1 used the following practical expedients on a lease-by-lease basis:

- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics,
- Account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases, and
- Use hindsight in determining the lease term if the contract contains options to extend or terminate the lease.

A. As a lessee

i. Nature of leasing activities

Central 1 has entered into lease agreements for its Mississauga and Toronto offices. The leases of both offices run for a period of 11 years from January 1, 2019, with an option to renew the lease of the Mississauga office for two further periods of five years each and that of the Toronto office for one further period of five years after the end of the contract term. The lease payments for both property leases are reset periodically to market rental rates.

Central 1 also entered into lease agreements for its IT equipment and photocopier. These leases have terms of three to five years. The lease payments are fixed over the lease term. Some of these leases are of low-value items and Central 1 has elected not to recognize ROU assets and lease liabilities for these leases.

ii. Recognition and Measurement

Under IFRS 16, Central 1 will recognize new assets and liabilities for its operating leases of office spaces, IT equipment and photocopiers on its Interim Consolidated Statement of Financial Position. On the Interim Consolidated Statement of Profit, Central 1 will recognize a depreciation charge for these ROU assets and an interest expense on lease liabilities.

a) Measurement of lease liability

Central 1 initially measures the lease liability at the present value of the lease payments that are not paid on the commencement date, discounted using Central 1's weighted average incremental borrowing rate (IBR) on that date. The IBR is the rate of interest that Central 1 would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment.

Subsequent to the initial measurement, the lease liability is measured at amortized cost by using the effective interest method. It is increased to reflect interest on the lease liability and decreased to reflect the lease payments made. It is remeasured when there is a lease modification or if Central 1 changes its assessment of whether it will exercise an extension or a termination option.

Some of Central 1's lease contracts contain lease and non-lease components. Charges paid for the right to use an asset is considered as a lease component. However, the fees for activities or costs that transfer goods or services, such as maintenance, utilities and property taxes, are non-lease components. Under IFRS 16, these fees are either excluded from the lease liability and expensed as incurred or included in the lease liability through an election to apply the practical expedient. Central 1 did not elect to apply the practical expedient to account for the lease component and associated non-lease component as a single lease component. As such, they are expensed as incurred.

b) Measurement of ROU asset

Central 1 will initially measure the ROU asset at cost on the lease commencement date which comprises of:

- The initial amount of the lease liability,
- Any lease payments made at or before the commencement date, less any lease incentive received,
- Any initial direct costs incurred by Central 1, and
- Any estimated costs to dismantle and remove the underlying asset or to restore the underlying asset to the conditions required by the lease contracts.

The ROU assets are subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful lives of the ROU assets or the end of the lease term. The estimated useful lives of the ROU assets are determined on the same basis as those of property and equipment. Subsequent to the initial measurement, Central 1 will measure the ROU assets at cost less any accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liability.

iii. Short-term leases and leases of low-value assets

On transition and subsequently, Central 1 has elected to apply recognition exemptions to short-term leases and leases of low-value items. Short-term leases are leases for which the lease term as determined under IFRS 16 is 12 months or less. Low-value items include underlying assets having a low value when they are new, even if they are material in aggregate, such as computers. These recognition exemptions allow Central 1 to continue recognize these leases as operating leases and the related lease payments as an expense on a straight-line basis over the lease term.

B. As a lessor

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 to 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.

C. Transition impact of IFRS 16 adoption

The adoption of IFRS 16 led to the recognition of an approximate $5.7 million ROU assets and $5.7 million lease liabilities on transition with the difference recognized in retained earnings.

(Thousands of dollars)		Jan 1 2019
Impact on Statement of Financial Position		
Assets		
Property and equipment	$	5,752
Total Assets	$	5,752
Liabilities		
Other liabilities	$	5,724
Equity		
Retained earnings		28
Total Liabilities and Equity	$	5,752

The following table provides a reconciliation between the aggregate lease liability recognized on January 1, 2019 and Central 1's operating lease commitments disclosed at December 31, 2018.

(Thousands of dollars)		Jan 1 2019
Operating lease commitments at December 31, 2018	$	6,089
Effect of discounting those lease commitments using Central 1's incremental borrowing rate on January 1, 2019		(1,008)
Finance lease liabilities recognized as at December 31, 2018		(1,177)
Less: Recognition exemption for:		
Short-term leases recognized on a straight-line basis as expense		(74)
Low-value leases recognized on a straight-line basis as expense		(424)
Extension (or not termination) options reasonably certain to be exercised		2,318
Lease liabilities recognized at January 1, 2019	$	5,724

IFRIC 23 – Uncertainty over Income Tax Treatments

Effective January 1, 2019 Central 1 adopted International Financial Reporting Interpretations Committee (IFRIC) 23, *Uncertainty over Income Tax Treatments.* The interpretation clarifies application of recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. The adoption of this interpretation did not have a material impact on the Interim Consolidated Financial Statements.

4. Use of estimates and judgements

The judgments made by management in applying Central 1's accounting policies and the key sources of estimation uncertainty were the same as those described in Note 4 of Central 1's Annual Audited Consolidated Financial Statements for the year ended December 31, 2018.

5. Securities

(Thousands of dollars)	Jun 30 2019	Dec 31 2018
Securities FVTPL		
Government and government guaranteed securities	**$ 6,894,126**	$ 6,787,033
Corporate and major financial institutions AA[(1)] or greater	**1,200,439**	1,001,534
Other[(2)]	**654,839**	884,179
Fair value	**$ 8,749,404**	$ 8,672,746
Amortized cost	**$ 8,679,841**	$ 8,668,069
Securities FVOCI		
Government and government guaranteed securities	**$ 3,489,048**	$ 2,986,984
Corporate and major financial institutions AA[(1)] or greater	**818,225**	451,091
Other	**1,570,661**	1,175,199
Fair value	**$ 5,877,934**	$ 4,613,274
Amortized cost	**$ 5,871,018**	$ 4,619,401
Total fair value	**$ 14,627,338**	$ 13,286,020

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

[(2)] Subsequent to the quarter end, The Co-operators Group Limited redeemed their Class C preferred shares held by Central 1 in the amount of $1.25 million.

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 Statement of Financial Position at fair value, except for those classified as amortized cost.

The following table provides a breakdown of these reinvestment assets:

(Thousands of dollars)	Jun 30 2019	Dec 31 2018
FVTPL		
Government and government guaranteed securities	**$ 639,450**	$ 580,457
Amortized cost	**$ 637,922**	$ 582,168
Amortized cost		
Assets acquired under reverse repurchase agreements	**$ 13,580**	$ -
Total reinvestment assets under the Canada Mortgage Bond Program	**$ 653,030**	$ 580,457

6. Loans

The following table presents loans that are classified as Amortized cost and FVTPL.

(Thousands of dollars)	Jun 30 2019	Dec 31 2018
Due on demand		
Credit unions	**$ 52,318**	$ 363,083
Commercial and others	**724**	941
	53,042	364,024
Term		
Credit unions	**20,000**	175,732
Commercial and others	**709,740**	673,573
Reverse repurchase agreements	**771,340**	694,772
Officers and employees	**10,287**	7,976
	1,511,367	1,552,053
	1,564,409	1,916,077
Accrued interest	**2,595**	2,446
Premium	**3,094**	3,980
	1,570,098	1,922,503
Expected credit loss	**(1,384)**	(999)
Amortized cost	**1,568,714**	1,921,504
Fair value hedge adjustment[1]	**(2,866)**	(4,660)
Carrying value	**$ 1,565,848**	$ 1,916,844
FVTPL		
Term		
Commercial and others	**$ 21,933**	$ 22,229
Accrued interest	**70**	49
Premium	**70**	81
Amortized cost	**$ 22,073**	$ 22,359
Fair value	**$ 22,528**	$ 22,403
Total loans	**$ 1,588,376**	$ 1,939,247

[1] Central 1 enters into fair value hedges to hedge the risks caused by changes in interest rates.

Loans to officers and employees bear interest at rates varying from 2.49% to 2.70%.

7. Other assets

(Thousands of dollars)		Jun 30 2019		Dec 31 2018
Investment property	$	**1,054**	$	1,108
Prepaid expenses		**13,599**		10,665
Post-employment benefits		**3,004**		3,058
Accounts receivable and other		**9,789**		11,136
	$	**27,446**	$	25,967

8. Deposits

(Thousands of dollars)		Jun 30 2019		Dec 31 2018
Deposits designated as FVTPL				
Due within three months	$	**478,279**	$	551,048
Due after three months and within one year		**1,810,221**		1,698,918
Due after one year and within five years		**4,186,496**		4,450,854
		6,474,996		6,700,820
Accrued interest		**49,783**		48,373
Amortized cost	$	**6,524,779**	$	6,749,193
Fair value	$	**6,533,386**	$	6,697,026
Deposits held at amortized cost				
Due on demand	$	**1,953,516**	$	1,421,721
Due within three months		**1,841,940**		906,640
Due after three months and within one year		**741,721**		638,720
Due after one year and within five years		**1,506,310**		1,300,688
		6,043,487		4,267,769
Accrued interest		**15,013**		8,570
Amortized cost	$	**6,058,500**	$	4,276,339
	$	**12,591,886**	$	10,973,365

9. Debt securities issued

(Thousands of dollars)		Jun 30 2019		Dec 31 2018
Amounts				
Due within three months	**$**	**498,123**	$	663,701
Due after three months and within one year		**408,610**		49,621
Due after one year and within five years		**847,497**		1,246,518
		1,754,230		1,959,840
Accrued interest		**5,422**		5,551
Amortized cost		**1,759,652**		1,965,391
Fair value hedge adjustment		**539**		(7,346)
Carrying value	**$**	**1,760,191**	$	1,958,045

At June 30, 2019, a par value of $508.3 million was outstanding under the short-term commercial paper facility (December 31, 2018 - $714.8 million).

10. Obligations under the Canada Mortgage Bond Program

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

(Thousands of dollars)		Jun 30 2019		Dec 31 2018
Amounts				
Due within one year	**$**	**448,151**	$	267,092
Due after one year and within five years		**583,432**		779,356
		1,031,583		1,046,448
Accrued interest		**518**		565
Amortized cost	**$**	**1,032,101**	$	1,047,013
Fair value	**$**	**1,031,313**	$	1,040,493

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

(Thousands of dollars)		Jun 30 2019		Dec 31 2018
FVTPL				
Total reinvestment assets under the Canada Mortgage Bond Program (see Note 5)	**$**	**639,450**	$	580,457
Assets recognized as securities		**343,959**		433,677
Fair value	**$**	**983,409**	$	1,014,134
Amortized cost				
Total reinvestment assets under the Canada Mortgage Bond Program (see Note 5)	**$**	**13,580**	$	-
Assets recognized in loans		**36,476**		30,643
Total underlying assets designated	**$**	**1,033,465**	$	1,044,777

11. Subordinated liabilities

(Thousands of dollars)		Jun 30 2019		Dec 31 2018
Series 4	**$**	**-**	$	200,000
Series 5		**21,000**		21,000
Series 6		**200,000**		200,000
Principal amount		**221,000**		421,000
Discount		**(1,035)**		(1,231)
Accrued interest		**1,334**		2,423
Amortized cost	**$**	**221,299**	$	422,192

On April 25, 2019, Central 1 redeemed $200.0 million principal amount of 2.89% Series 4 subordinated notes.

12. Other liabilities

(Thousands of dollars)		Jun 30 2019		Dec 31 2018
Post-employment benefits	**$**	**15,192**	$	15,361
Short-term employee benefits		**6,368**		8,506
Dividends payable		**-**		13,807
Unearned insurance premiums		**225**		1,061
Finance Leases		**6,733**		1,178
Accounts payable and other		**17,800**		28,977
	$	**46,318**	$	68,890

13. Share capital

Central 1 may issue an unlimited number of Class A, B, C, D, and E shares and may, at its option and with the approval of the Board of Directors, redeem its shares. There are no restrictions on the number of shares that may be held by a member shareholder. The holders of each class of share are entitled to receive dividends as declared from time to time. The Class A, B, C, and D shares have a par value of $1 per share, and the Class E shares have a par value of $0.01 per share and a redemption value of $100 per share.

Subject to certain exceptions set out in Central 1's Constitution and Rules (Rules), Class A members are entitled to cast one vote for each Class A share they hold on any matter. Each Class B or Class C shareholder is entitled to cast one vote per share on matters on which they are entitled to vote. The allocation of Class A shares is based on the assets of each credit union in proportion to the combined assets of all Class A members. This allocation is adjusted periodically to reflect changes in credit union assets.

Central 1 may issue an unlimited number of Class F shares and may redeem its shares at its option with the approval of the Board of Directors. The shares will be issued to Class A members in proportion to their share of mandatory deposits with Central 1. The holders of these shares are entitled to receive dividends as declared from time to time. The shares have a par value of $1 per share.

In the event of a liquidation, dissolution or winding-up of Central 1, the holders of Class F shares will be entitled to receive a pro-rata distribution from the available property and assets of Central 1 contained in or designated by the Board of Directors to be a part of the Mandatory Liquidity Pool (MLP) together with all declared and unpaid dividends. Any surplus, after the distribution to the holders of Class F shares, shall be distributed rateably and proportionally among the holders of Class A, B, C, D, and E shares according to the number of shares held at that time. The amount paid to a member in respect of each Class E share held by that member shall not exceed $100 per Class E share.

(Thousands of shares)	Jun 30 2019	Dec 31 2018	Jun 30 2018
Number of shares issued			
Class A - credit unions			
Balance at beginning of period	**43,359**	428,101	428,101
Issued during the period	**-**	13	-
Redeemed during the period	**-**	(384,755)	(378,101)
Balance at end of period	**43,359**	43,359	50,000
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	**2,154**	3,051	3,051
Redeemed during the period	**-**	(897)	(530)
Balance at end of period	**2,154**	2,154	2,521
Class F - credit unions			
Balance at beginning of period	**386,547**	-	-
Issued during the period	**1,229**	448,949	435,949
Redeemed during the period	**-**	(62,402)	-
Balance at end of period	**387,776**	386,547	435,949
Number of treasury shares			
Treasury shares - Class E			
Balance at beginning of period	**(264)**	(44)	(44)
Reacquired during the period	**-**	(220)	(220)
Balance at end of period	**(264)**	(264)	(264)

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 the Rules. As 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.

Class F in-cycle share calls are scheduled each May and November in accordance with Central 1's Capital Policy. In 2018, Central 1 issued 10.0 million Class F shares with a price of $1 per share on March 28, 2018 and 13.0 million Class F shares with a price of $1 per share on November 30, 2018. In 2019, the May in-cycle share call was not required as Central 1 had sufficient capital to meet its regulatory requirements.

Of the 1.2 million Class F shares with $1 per share issued during 2019, 1.1 million shares were issued to member shareholders that had elected to defer part of their Class F share issuance from the March 29, 2018 Class F share transaction. The remaining were issued to a new Class A member.

(Thousands of dollars)		Jun 30 2019		Dec 31 2018		Jun 30 2018
Amount of share capital outstanding						
Outstanding $1 par value shares						
Class A - credit unions	**$**	**43,359**	$	43,359	$	50,000
Class B - cooperatives		**5**		5		5
Class C - other		**7**		7		7
Class F - credit unions		**387,776**		386,547		435,949
Outstanding $0.01 par value shares						
Class E - credit unions		**21**		21		25
		431,168		429,939		485,986
Amount of treasury shares						
Treasury shares		**(2)**		(2)		(2)
Balance at end of period	**$**	**431,166**	$	429,937	$	485,984

14. Gain (loss) on disposal of financial instruments

(Thousands of dollars)	For the three months ended				For the six months ended			
		Jun 30 2019		Jun 30 2018		Jun 30 2019		Jun 30 2018
Realized gain (loss) on securities as at FVTPL	**$**	**18,062**	$	(15,845)	**$**	**39,698**	$	(28,739)
Realized gain on securities as at FVOCI		**6,206**		1,346		**10,226**		6,054
Reazlied gain on derivative instruments		**3,229**		894		**5,455**		3,766
Realized gain on loans as at FVTPL		**1**		-		**8**		-
Realized gain (loss) on deposits designated as at FVTPL		**(961)**		(121)		**(864)**		213
Realized gain (loss) on obligations related to securities sold short		**(1,843)**		222		**(3,657)**		490
	$	**24,694**	$	(13,504)	**$**	**50,866**	$	(18,216)

15. Change in fair value of financial instruments

(Thousands of dollars)	For the three months ended Jun 30 2019	Jun 30 2018	For the six months ended Jun 30 2019	Jun 30 2018
Securities as at FVTPL	**$ 10,066**	$ 7,218	**$ 64,141**	$ 1,654
Loans as at FVTPL	**108**	(41)	**410**	(93)
Activities under the Canada Mortgage Bond Program				
Reinvestment assets	**980**	(338)	**3,240**	(989)
Derivative instruments	**(3,340)**	(1,658)	**(12,392)**	(2,525)
Obligations under the Canada Mortgage Bond Program	**(1,345)**	1,268	**(5,927)**	2,827
Derivative instruments	**(6,941)**	649	**(19,523)**	1,534
Financial liabilities as at FVTPL				
Deposits designated as at FVTPL	**(15,278)**	123	**(56,335)**	6,899
Obligations related to securities sold short	**349**	155	**(1,506)**	(265)
	$ (15,401)	$ 7,376	**$ (27,892)**	$ 9,042

16. Non-financial income and gains from system affiliates

	For the three months ended Jun 30 2019			For the three months ended Jun 30 2018		
(Thousands of dollars)	Revenue arising from contracts with customers	Revenue arising from other sources	Total	Revenue arising from contracts with customers	Revenue arising from other sources	Total
Mandatory Liquidity Pool	**$ -**	**$ (215)**	**$ (215)**	$ -	$ 137	$ 137
Wholesale Financial Services						
Lending fees	**2,512**	**-**	**2,512**	1,920	-	1,920
Securitization fees	**2,109**	**-**	**2,109**	1,916	-	1,916
Foreign exchange income	**-**	**1,644**	**1,644**	-	2,017	2,017
Other	**1,544**	**266**	**1,810**	1,212	529	1,741
Digital & Payment Services						
Payment processing and other fees	**15,178**	**-**	**15,178**	15,668	-	15,668
Direct banking fees	**8,929**	**-**	**8,929**	8,014	-	8,014
System Affiliates						
Equity interest in affiliates	**-**	**1,338**	**1,338**	-	-	-
Income from investees	**-**	**1,671**	**1,671**	-	1,730	1,730
Gains from system affiliates	**-**	**-**	**-**	-	37,470	37,470
Other						
Membership dues	**613**	**-**	**613**	2,582	**-**	2,582
Other	**1,171**	**-**	**1,171**	1,508	**-**	1,508
	$ 32,056	**$ 4,704**	**$ 36,760**	$ 32,820	$ 41,883	$ 74,703

(Thousands of dollars)	For the six months ended Jun 30 2019			For the six months ended Jun 30 2018		
	Revenue arising from contracts with customers	Revenue arising from other sources	Total	Revenue arising from contracts with customers	Revenue arising from other sources	Total
Mandatory Liquidity Pool	**$ -**	**$ (474)**	**$ (474)**	$ -	$ 292	$ 292
Wholesale Financial Services						
Lending fees	**4,391**	**-**	**4,391**	3,557	-	3,557
Securitization fees	**4,015**	**-**	**4,015**	3,815	-	3,815
Foreign exchange income	**-**	**4,814**	**4,814**	-	3,838	3,838
Other	**3,034**	**689**	**3,723**	2,735	981	3,716
Digital & Payment Services						
Payment processing and other fees	**29,091**	**-**	**29,091**	29,637	-	29,637
Direct banking fees	**17,284**	**-**	**17,284**	16,019	-	16,019
System Affiliates						
Equity interest in affiliates	**-**	**2,391**	**2,391**	-	126	126
Income from investees	**-**	**1,772**	**1,772**	-	3,173	3,173
Gains from system affiliates	**-**	**-**	**-**	-	80,487	80,487
Other						
Membership dues	**1,225**	**-**	**1,225**	5,523	-	5,523
Other	**2,172**	**-**	**2,172**	2,323	-	2,323
	$ 61,212	**$ 9,192**	**$ 70,404**	$ 63,609	$ 88,897	$ 152,506

17. Other administrative expense

(Thousands of dollars)	For the three months ended Jun 30 2019	Jun 30 2018	For the six months ended Jun 30 2019	Jun 30 2018
Cost of sales and services	**$ 1,929**	$ 3,280	**$ 4,851**	$ 7,179
Cost of payments processing	**4,590**	4,749	**8,853**	8,453
Management information systems	**4,929**	4,596	**9,807**	9,176
Professional fees	**11,779**	7,320	**17,646**	13,756
Flow through membership dues	**-**	1,567	**-**	2,993
Business development projects	**225**	259	**412**	423
Other	**1,025**	719	**2,131**	3,154
	$ 24,477	$ 22,490	**$ 43,700**	$ 45,134

18. Segment information

For management reporting purposes, Central 1's operations and activities are organized around three key business segments: Mandatory Liquidity Pool (MLP), Wholesale Financial Services (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 (LVTS) participant, and acts as the credit union systems' financial institution connection to the Canadian payments system.

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. One of these initiatives is the development of the Forge Digital Banking Platform (Forge) using Backbase's global leading technology. The product development of the Forge Small Business and Commercial Banking products are currently underway.

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 22.

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 June 30, 2019:

(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	$ 11,322	$ 17,801	$ (97)	$ (294)	$ -	**$ 28,732**
Non-financial income	(215)	8,075	24,107	3,009	1,784	**36,760**
Net financial and other income	11,107	25,876	24,010	2,715	1,784	**65,492**
Non-financial expense	1,702	9,080	33,282	17	6,594	**50,675**
Profit (loss) before income taxes	9,405	16,796	(9,272)	2,698	(4,810)	**14,817**
Income tax expense (recovery)	1,633	3,387	(1,611)	235	(1,487)	**2,157**
Profit (loss)	**$ 7,772**	**$ 13,409**	**$ (7,661)**	**$ 2,463**	**$ (3,323)**	**$ 12,660**

The following table summarizes the segment results for the three months ended June 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	$ 5,809	$ 7,507	$ (80)	$ (260)	$ -	$ 12,976
Non-financial income	137	7,594	23,682	39,200	4,090	74,703
Net financial and other income	5,946	15,101	23,602	38,940	4,090	87,679
Non-financial expense	2,081	8,460	26,132	294	7,288	44,255
Profit (loss) before income taxes	3,865	6,641	(2,530)	38,646	(3,198)	43,424
Income tax expense (recovery)	661	2,976	(527)	(4,231)	3,987	2,866
Profit (loss)	$ 3,204	$ 3,665	$ (2,003)	$ 42,877	$ (7,185)	$ 40,558

The following table summarizes the segment results for the six months ended June 30, 2019:

(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	$ 23,849	$ 42,364	$ (205)	$ (1,393)	$ -	**$ 64,615**
Non-financial income	(474)	16,943	46,375	4,163	3,397	**70,404**
Net financial and other income	23,375	59,307	46,170	2,770	3,397	**135,019**
Non-financial expense	3,407	18,713	59,077	22	11,042	**92,261**
Profit (loss) before income taxes	19,968	40,594	(12,907)	2,748	(7,645)	**42,758**
Income tax expense (recovery)	3,468	7,547	(2,242)	239	(4,038)	**4,974**
Profit (loss)	**$ 16,500**	**$ 33,047**	**$ (10,665)**	**$ 2,509**	**$ (3,607)**	**$ 37,784**
Total assets as at Jun 30 2019	**$ 8,022,986**	**$ 9,700,438**	**$ 19,473**	**$ 128,251**	**$ 64,682**	**$ 17,935,830**
Total liabilities as at Jun 30 2019	**$ 7,527,688**	**$ 9,247,171**	**$ (11,729)**	**$ 8,822**	**$ 27,272**	**$ 16,799,224**
Total equity as at Jun 30 2019	**$ 495,298**	**$ 453,267**	**$ 31,202**	**$ 119,429**	**$ 37,410**	**$ 1,136,606**

The following table summarizes the segment results for the six months ended June 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	$ 11,360	$ 15,601	$ (156)	$ (896)	$ -	$ 25,909
Non-financial income	292	14,926	45,656	83,786	7,846	152,506
Net financial and other income	11,652	30,527	45,500	82,890	7,846	178,415
Non-financial expense	4,122	16,165	50,332	1,627	16,995	89,241
Profit (loss) before income taxes	7,530	14,362	(4,832)	81,263	(9,149)	89,174
Income tax expense (recovery)	1,308	5,429	(1,012)	3,227	(1,326)	7,626
Profit (loss)	$ 6,222	$ 8,933	$ (3,820)	$ 78,036	$ (7,823)	$ 81,548
Total assets as at Jun 30 2018	$ 8,906,446	$ 10,223,775	$ 22,490	$ 121,392	$ 73,355	$ 19,347,458
Total liabilities as at Jun 30 2018	$ 8,369,534	$ 9,784,256	$ (34,703)	$ 2,414	$ 36,688	$ 18,158,189
Total equity as at Jun 30 2018	$ 536,912	$ 439,519	$ 57,193	$ 118,978	$ 36,667	$ 1,189,269

19. Guarantees, commitments, contingencies and pledged assets

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

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.

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

(Thousands of dollars)	Jun 30 2019	Dec 31 2018
Commitments to extend credit	**$ 5,057,850**	$ 4,525,950
Guarantees		
Financial guarantees	**$ 612,500**	$ 480,000
Performance guarantees	**$ 910,000**	$ 810,000
Standby letters of credit	**$ 205,184**	$ 201,090
Future prepayment swap reinvestment commitment	**$ 1,265,133**	$ 1,100,987

Amounts utilized under these agreements representing off-balance sheet amounts for commitments to extend credit, guarantees, and standby letters of credit, respectively, on June 30, 2019 are $13.3 million, $367.4 million and $97.5 million (December 31, 2018 - $21.2 million, $471.1 million and $78.0 million).

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

Pledged assets

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

(Thousands of dollars)	Jun 30 2019	Dec 31 2018
Assets pledged to Bank of Canada & Direct Clearing Organizations[(1)(2)]	**$ 53,132**	$ 51,328
Assets pledged in relation to:		
Derivative financial instrument transactions	**25,904**	27,342
Securities lending	**4,586**	11,369
Obligations under the Canada Mortgage Bond Program	**343,959**	433,677
Reinvestment assets under the Canada Mortgage Bond Program	**653,030**	580,457
Securities under repurchase agreements	**486,344**	381,053
	$ 1,566,955	$ 1,485,226

(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. These securities are not included in the pledge assets.

20. Financial instruments – Fair value

Certain financial instruments are recognized in the Interim Consolidated Statement of Financial Position at fair value. These include derivative instruments, securities, loans, deposits with regulated financial institutions, 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 most significant assets and liabilities for which fair value is determined using valuation techniques include: deposits, derivatives, loans, equity investments, and securities within the CMB program without quoted market prices. To determine fair value, Central 1 discounts the expected cash flows using interest rates currently being offered on instruments with similar terms. For a portion of our equity investments, quoted market prices are not available, in which case we would consider using valuation techniques such as net present value, discounted cash flow, comparison with instruments where observable inputs exist, Binomial Tree option pricing model and other valuation techniques. Assumptions and inputs used in these valuation techniques include risk-free rate, benchmark interest rate, and expected price volatility.

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.

Securities, obligation related to securities sold short, derivative assets and liabilities, reinvestment assets and obligations under CMB Program are classified as Level 2 in the hierarchy with observable prices or rate inputs as compared to transaction prices, dealer quotes or vendor prices. Loans at FVTPL and equity investments in Cooperative entities and Credit Union and private equities, where inputs are unobservable, are classified as Level 3 in the hierarchy.

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) Jun 30 2019	Level 1	Level 2	Level 3	Amounts at Fair Value	Amounts at Amortized	Total Carrying Value
Financial assets						
Cash	$ -	$ -	$ -	$ -	$ 85.9	$ 85.9
Deposits with regulated financial institutions[(1)]	-	-	-	-	5.7	5.7
Securities	-	14,578.8	48.5	14,627.3	-	14,627.3
Reinvestment assets under the CMB Program	-	653.0	-	653.0	-	653.0
Loans	-	-	22.5	22.5	1,565.9	1,588.4
Derivative assets	-	59.0	-	59.0	-	59.0
Total financial assets	$ -	$ 15,290.8	$ 71.0	$ 15,361.8	$ 1,657.5	$ 17,019.3
Financial liabilities						
Deposits	$ -	$ 6,533.4	$ -	$ 6,533.4	$ 6,058.5	$ 12,591.9
Debt securities issued	-	-	-	-	1,760.2	1,760.2
Obligations under the CMB Program	-	1,031.3	-	1,031.3	-	1,031.3
Subordinated liabilities	-	-	-	-	221.3	221.3
Obligations related to securities sold short	-	126.1	-	126.1	-	126.1
Securities under repurchase agreements	-	-	-	-	486.3	486.3
Derivative liabilities	-	82.8	-	82.8	-	82.8
Total financial liabilities	$ -	$ 7,773.6	$ -	$ 7,773.6	$ 8,526.3	$ 16,299.9

(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 2018	Level 1	Level 2	Level 3	Amounts at Fair Value	Amounts at Amortized	Total Carrying Value
Financial assets	$ -	$ 13,910.8	$ 70.5	$ 13,981.3	$ 2,734.3	$ 16,715.6
Financial liabilities	$ -	$ 7,959.8	$ -	$ 7,959.8	$ 7,037.6	$ 14,997.4

(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 2018	Purchases	Disposals	Transfers	Changes in fair value of assets in profit or loss	Fair value at Jun 30 2019
Equity shares	$ 48.1	$ 0.4	$ -	$ -	$ -	**$ 48.5**
Loans	22.4	-	-	-	0.1	**22.5**
Total financial assets	$ 70.5	$ 0.4	$ -	$ -	$ 0.1	**$ 71.0**

21. 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. Class A shares are $43.4 million at June 30, 2019 after the withdrawal of Coast Capital Savings Federal Credit Union during the fourth quarter of 2018.

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 2 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 June 30, 2019 and June 30, 2018.

22. 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 30 of the Annual Audited Consolidated Financial Statements for the year ended December 31, 2018.

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)	Jun 30 2019	Dec 31 2018
Mortgage loans outstanding at the end of the period	**$ 1,797**	$ 1,580

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 Jun 30 2019	For the three months ended Jun 30 2018	For the six months ended Jun 30 2019	For the six months ended Jun 30 2018
Salaries and short-term employee benefits	**$ 1,209**	$ 774	**$ 2,293**	$ 1,391
Incentive	**1,232**	640	**1,232**	640
Post-employment benefits	**66**	52	**116**	93
Termination benefits	**576**	776	**576**	776
	$ 3,083	$ 2,242	**$ 4,217**	$ 2,900

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 Jun 30 2019	For the three months ended Jun 30 2018	For the six months ended Jun 30 2019	For the six months ended Jun 30 2018
Total remuneration	**$ 205**	$ 183	**$ 352**	$ 330

Significant subsidiaries

(% of direct ownership outstanding)	Jun 30 2019	Dec 31 2018
Central 1 Trust Company	**100%**	100%
CUPP Services Ltd.	**100%**	100%
C1 Ventures (VCC) Ltd.	**100%**	100%
0789376 B.C. Ltd.	**100%**	100%

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

Investments in affiliates

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

(% of direct ownership outstanding)	Jun 30 2019	Dec 31 2018
The CUMIS Group Limited	**27%**	27%
CU CUMIS Wealth Holdings LP	**35%**	35%
189286 Canada Inc.	**52%**	52%
Agility Forex Ltd.	**28%**	28%

In order to support Payments Canada's modernization project, Interac Corp.'s Board of Directors approved a capital call of $42.0 million at its January 31, 2019 meeting, the first tranche of a total $80.0 million capital call with the second tranche expected to occur in 2020. As Central 1 has both direct and indirect interests in Interac Corp., a commitment was required to support the capital call. During the second quarter, Central 1 satisfied its commitment under the first tranche by making a capital contribution of $3.0 million, consisting of $0.4 million for its direct interest in Interac Corp, and $2.6 million for its indirect interest in Interac Corp through 189286 Canada Inc.

Substantial investments

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

(% of direct ownership outstanding)	Jun 30 2019	Dec 31 2018
The Co-operators Group Limited	**21%**	21%
Canadian Credit Union Association	**59%**	59%