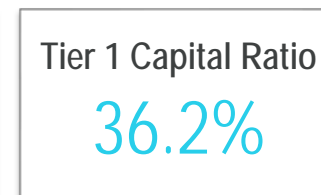
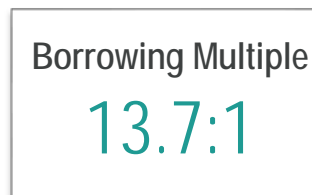
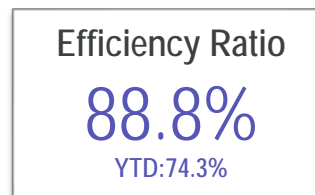
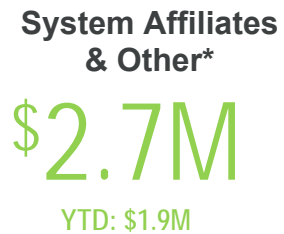
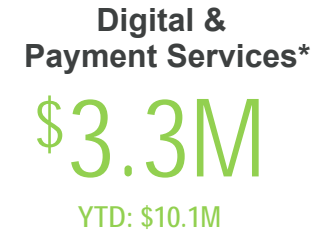


# Quarterly Report

For the Third Quarter of 2019

## Third Quarter Highlights

(line of business results shown are profit before tax)



\*Excluding Strategic Initiatives

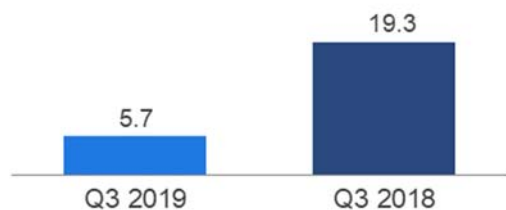
\*\*Earnings per Share is calculated by dividing profit after tax by the average number of all classes of shares outstanding

## Financial Results Highlights

**Third quarter 2019** compared to the same period last year:

- Profit after tax of \$5.7 million (profit before tax of \$6.2 million), compared to a very strong third quarter 2018 profit after tax of \$19.3 million.
- Return on average equity (ROE) of 2.0 per cent, compared to 6.4 per cent.
- Net financial income of \$17.8 million, down 34.8 per cent from \$27.3 million.
- Assets of \$18.4 billion, down 4.2 per cent from \$19.2 billion.
- Tier 1 capital ratio of 36.2 per cent, compared to 35.3 per cent.

**Quarterly Profit After Tax**  
(Millions of dollars)



**Year-to-date 2019** compared to the same period last year:

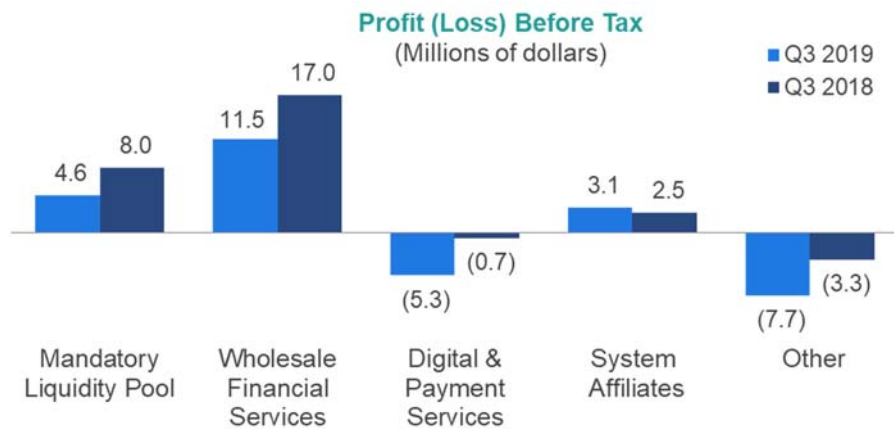
- Despite a softer third quarter in 2019 compared to the same period in 2018, the strong first half of 2019 has resulted in year-to-date profit after tax of \$43.5 million, compared to \$18.0 million in 2018 (excluding the one-time gains of \$82.9 million). This represents a ROE of 5.2 per cent, compared to 3.1 per cent in 2018.
- Net financial income of \$82.4 million, up 54.9 per cent from \$53.2 million.

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



*“Our third quarter results continue to demonstrate the strength and stability of our organization,” said Mark Blucher, President and CEO of Central 1. “We are seeing significant outcomes throughout the organization as we accelerate our strategic priorities and investments. Wholesale Financial Services continues to provide clients access to new and innovative products, and we are collaborating with credit unions across the country to transform the banking experience in Canada with our Forge Digital Banking Platform.”*

## Quarterly Financial Results



Central 1 Credit Union's (Central 1) third quarter results reflected a decline in net financial income, down \$9.5 million from the same period last year. A change in asset mix in the third quarter led to lower net realized and unrealized gains from the same period last year. Interest margin also declined by \$2.7 million from a very strong third quarter in 2018, attributable to the inverted yield curve limiting the ability to earn margin on new securities.

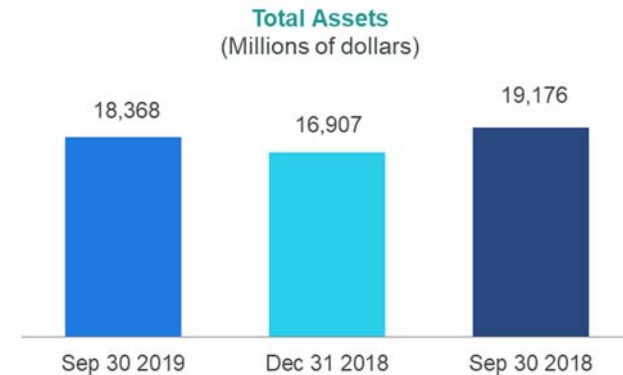
Investments in strategic initiatives continued throughout the third quarter of 2019, consistent with last year and Central 1's long-term strategic plan, increasing non-financial expense by \$7.8 million.

The Mandatory Liquidity Pool (MLP)'s third quarter results were down \$4.2 million in net financial income. The reduced size of the funding portfolios, mainly the result of Coast Capital Savings Federal Credit Union's (Coast Capital) withdrawal in 2018, along with Central 1's credit union members shifting to deposits with shorter durations in the third quarter, led to a lower interest margin and higher net realized and unrealized losses. Overall, MLP's profit before tax declined \$3.4 million compared to the third quarter of 2018.

A change in Wholesale Financial Services' (WFS) asset mix in the third quarter led to a \$4.7 million decrease in net realized and unrealized gains from strong third quarter results last year. This decrease was partially offset by higher foreign exchange income and lending revenues, which resulted in an overall decrease of \$5.5 million in WFS' profit before tax.

Digital & Payment Services continued to invest in strategic initiatives in the third quarter. These costs of \$8.6 million, partially offset by higher direct banking revenue, contributed to the loss before tax of \$5.3 million compared to a loss before tax of \$0.7 million in the same period last year.

The impact of these movements decreased Central 1's profit after tax by \$13.6 million from the same period last year.



Coast Capital's withdrawal of its deposits during the fourth quarter of 2018, along with debt securities that matured and were not reissued during the past twelve months, decreased the size of Central 1's funding portfolio by \$0.8 billion from September 30, 2018, and a corresponding year-over-year decrease in Central 1's total assets. These reductions were mitigated by strong growth in Central 1's non-mandatory deposits, reflective of liquidity in the credit union system.

Compared to December 31, 2018, the growth in our non-mandatory deposits contributed to Central 1's funding portfolio and led to the \$1.5 billion increase in total assets.

### Third Quarter Highlights

Development of the *Forge Digital Banking Platform (Forge)* continues to accelerate. The full *Forge* retail suite comprising of a public website, a mobile app and online banking capabilities are now in active use across Canada. First West Credit Union was the first to debut all three channels and launches with credit unions have accelerated, with several slated in the coming months. Approximately 115 clients are now committed to using *Forge* and almost 2 million Canadians will have access to *Forge* through their financial institutions.

Central 1 now has 48 credit unions across Atlantic Canada using Central 1's *FX Notes Plus*, a product that offers currency and drafts through home and branch delivery to enhance the cash services of these credit unions. WFS launched its newest product, *International Transfers*, enabling Canadians to easily move money internationally any time through online banking with their credit unions.

On November 21, the Board of Directors of Central 1 approved the submission of an implementation plan to B.C. Financial Services Authority (BCFSA) to legally segregate the B.C. and Ontario MLPs into contractual trusts by December 31, 2020. Under the implementation plan, Central 1, as trustee and investment manager, will continue to hold and manage the funds exclusively for credit unions under terms established by the regulators and B.C. and Ontario member credit unions. As at September 30, 2019, Central 1 had approximately \$18.4 billion of assets, of which the MLPs for both B.C. and Ontario represent approximately 44.0 per cent in aggregate. Central 1 will submit the implementation plan for review and acceptance by the BCFSA.

# Management's Discussion & Analysis

September 30, 2019

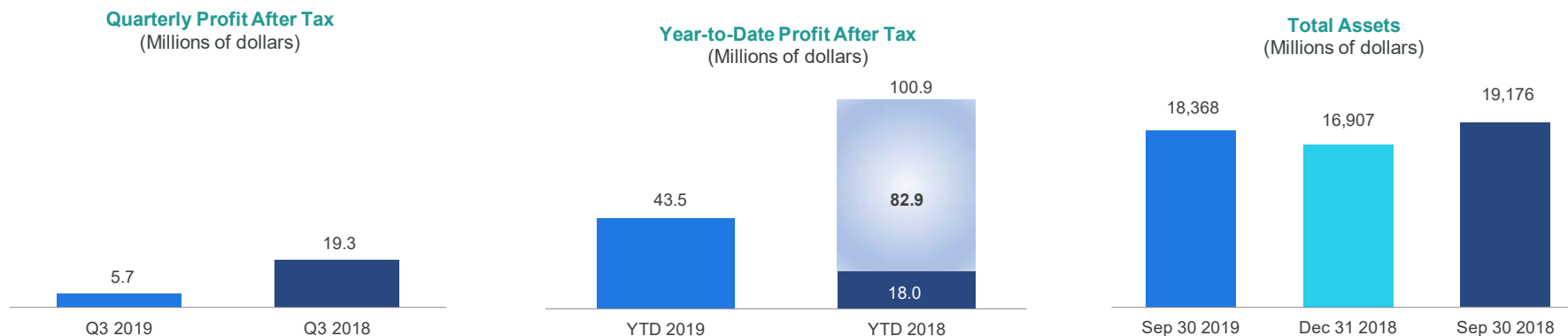
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In this Management's Discussion and Analysis (MD&A), unless the context otherwise requires, references to "Central 1", "we", "us" and "our" refer to Central 1 Credit Union and its subsidiaries. This MD&A is dated November 21, 2019. The financial information included in this MD&A should be read in conjunction with our Interim Consolidated Financial Statements for the periods ended September 30, 2019 (Interim Consolidated Financial Statements), which were authorized for issue by the Board of Directors (the Board) on November 21, 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](http://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 B.C. Financial Services Authority (BCFSA) (formerly, the Financial Institutions Commission of British Columbia) 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



(Millions of dollars)	For the three months ended			For the nine months ended		
	Sep 30 2019	Sep 30 2018	Change	Sep 30 2019	Sep 30 2018	Change
<b>Income statement</b>						
Net financial income	\$ 17.8	\$ 27.3	\$ (9.5)	\$ 82.4	\$ 53.2	\$ 29.2
Non-financial income	37.6	34.0	3.6	107.9	100.8	7.1
Net financial and non-financial income	55.4	61.3	(5.9)	190.3	154.0	36.3
Non-financial expense	33.3	31.9	1.4	101.6	100.2	1.4
	22.1	29.4	(7.3)	88.7	53.8	34.9
Strategic initiatives	(15.9)	(5.9)	(10.0)	(39.7)	58.8	(98.5)
<b>Profit before tax</b>	\$ 6.2	\$ 23.5	\$ (17.3)	\$ 49.0	\$ 112.6	\$ (63.6)
<b>Profit after tax</b>	\$ 5.7	\$ 19.3	\$ (13.6)	\$ 43.5	\$ 100.9	\$ (57.4)

Overall, profit after tax for the third quarter of 2019 was \$13.6 million lower than the same period a year ago, led by lower net financial income and investments in our strategic initiatives. Net financial income decreased \$9.5 million from the same period last year. A shift in asset mix in the third quarter led to lower net realized and unrealized gains from the same period last year. Interest margin also declined by \$2.7 million from very strong third quarter in 2018, attributable to the inverted yield curve limiting the ability to earn margin on new securities. Strategic initiatives continued throughout the third quarter of 2019, consistent with last year and our long-term strategic plan.

Excluding the one-time gains of \$82.9 million relating to our equity investments in 2018, year-to-date profit after tax was \$25.5 million higher than the same period last year. Higher net financial income in the earlier portion of the year, up \$29.2 million from the same period last year, contributed to this increase. Decreasing market yields and narrowing credit spreads during the first half of 2019 drove up the fair value of our securities, resulting in higher net realized and unrealized gains of \$25.2 million compared to the same period a year ago. The 2018 interest rate hikes continued to have a positive impact on interest margin in 2019, resulting in a year-over-year increase of \$4.2 million, despite a softer third quarter in 2019. Investments in our strategic initiatives increased by \$15.6 million compared to the same period last year.



	For the three months ended			For the nine months ended		
	Sep 30 2019	Sep 30 2018	Change	Sep 30 2019	Sep 30 2018	Change
<b>Selected information</b>						
Efficiency ratio	88.8%	64.0%		74.3%	53.7%	
Return on average assets	0.1%	0.4%		0.3%	0.7%	
Return on average equity	2.0%	6.4%		5.2%	11.6%	
<b>Earnings per share (cents)<sup>(1)</sup></b>						
Basic/Diluted	1.3	4.0	(2.7)	10.1	21.7	(11.6)
<b>Weighted average shares outstanding (millions of dollars)</b>	\$ 431.2	\$ 486.5	\$ (55.3)	\$ 430.7	\$ 465.4	\$ (34.7)
<b>Average assets (millions of dollars)</b>	\$ 17,280.2	\$ 19,384.1	\$ (2,104.0)	\$ 17,176.1	\$ 19,087.9	\$ (1,911.8)

<sup>(1)</sup> Earnings per share is calculated based on all classes of shares

In 2019 we continue to invest in strategic initiatives, consistent with our long-term strategic plan. These investments for the credit union system result in a higher efficiency ratio compared to the same period last year.

	Sep 30 2019		Dec 31 2018		As at Sep 30 2018
<b>Balance sheet</b> <i>(millions of dollars)</i>					
Total assets	\$	18,367.9	\$	16,907.2	\$ 19,175.6
<b>Regulatory ratios</b>					
Tier 1 capital ratio		36.2%		37.3%	35.3%
Provincial capital ratio		44.3%		54.5%	49.4%
Borrowing multiple (times)		13.7		11.0	11.5
<b>Share Information</b> <i>(thousands of dollars, unless otherwise indicated)</i>					
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, increased the size of our funding portfolio and led to an overall increase in total assets of \$1.5 billion from the 2018 year-end to reach \$18.4 billion at the end of September 2019.

Coast Capital Savings Federal Credit Union's (Coast Capital) withdrawal of its mandatory deposits and most of its non-mandatory deposits during the fourth quarter of 2018, in connection with its continuance as a federal credit union, 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 maturity of a \$450.0 million medium-term note (MTN) in the fall of 2018, and the \$200.0 million subordinated debt redemption and decrease of \$206.5 million in commercial paper in 2019. These drops were partially mitigated by strong growth in our non-mandatory deposits, leading to an overall decrease of \$0.8 billion in total assets from a year ago.

The redemption of Coast Capital's shares resulted in a decrease in our share capital balance. This decrease, combined with the redemption of subordinated debt, 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 payments settlement in-transit balance with other financial institutions, resulted in a decrease in the provincial capital ratio. The borrowing multiple increased compared to both comparative periods as a result of this lower capital balance combined with growth in non-mandatory deposits.

Despite the impact from Coast Capital's withdrawal and lower external borrowings, we have continued to be in compliance with all regulatory capital requirements.

### 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 Factors That May Affect Future Results 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



In the United States, second quarter GDP came in at two per cent as personal consumption and government expenditures increases were offset by declines in exports, inventory spending, and fixed investments. This slowdown is expected to continue into the third quarter, but data suggests that growth is still to come as the recent rate cuts by the federal reserve continue to work their way through the economy. The revised forecast has the U.S. economy growing at 2.1 per cent for 2019.

Canada's economy is on a slowing growth trajectory heading into 2020. Following a temporary surge in second quarter 2019 GDP, growth will slow to two per cent in the third quarter and to less than two per cent in 2020. The slowing global economy, lower commodity prices, and the uncertainty surrounding trade policy are negatively impacting more economies, including those in North America, resulting in an additional policy stimulus being applied. This stimulus will help the housing market and consumer spending and help to avoid an outright recession.

### Financial Markets

The Bank of Canada's (BOC) Monetary Policy Report, issued October 2019, states that trade conflicts continue to weaken the world economy. Central banks around the world have eased monetary policy since the second quarter with the U.S. cutting rates three times. Markets are expecting further monetary policy easing in the coming months. Throughout the year, the BOC held off on rate cuts for fear of accelerating the growth of household debt, but one and possibly two quarter-point rate cuts are expected in 2020. U.S. yields remain low as investor appetite switched to high quality assets and yield curves in both Canada and the U.S. were inverted in the third quarter of 2019. Equity prices and credit spreads have not changed much from their second quarter levels, likely reflecting the effects of additional monetary policy stimulus. The Canadian dollar appreciated against world currencies but is stable against the U.S. dollar. Global economic growth is expected to slow to below three per cent in 2019 from 3.75 per cent in 2018.

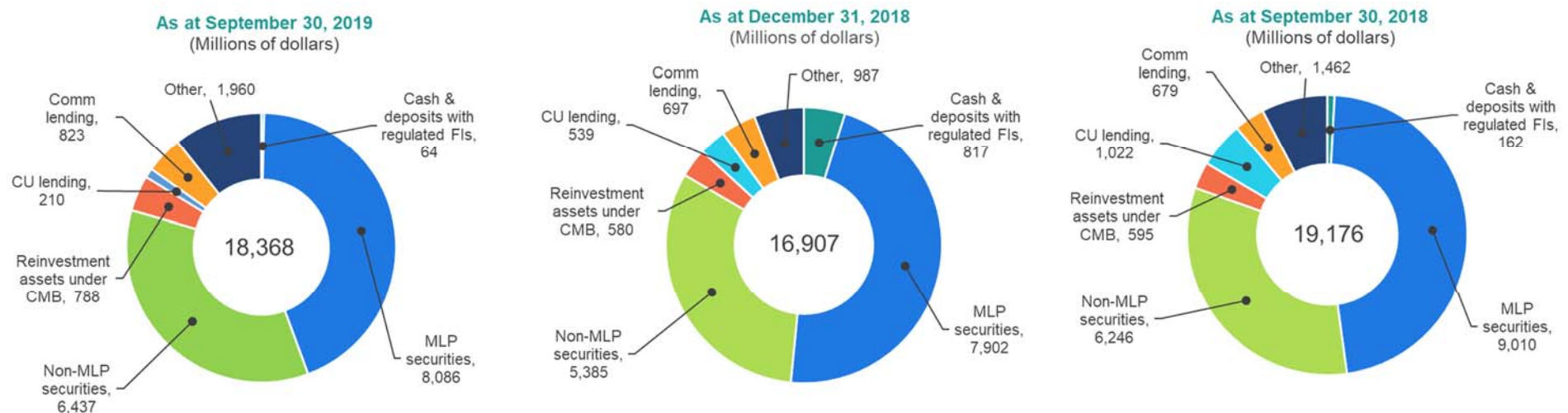
## Industry Regulation

On November 1, 2019, the Financial Institutions Commission of British Columbia (FICOM) transitioned its operations and regulatory authorities to the B.C. Financial Services Authority (BCFSA) which replaced FICOM as B.C.'s new regulator of credit unions, insurance companies, trust companies, mortgage brokers and pension plans. The BCFSA also replaced FICOM as administrator of the Credit Union Deposit Insurance Corporation. Over the summer, the B.C. Ministry of Finance (the Ministry) completed drafting the updated *Financial Institutions Act* legislation, which was introduced in the Legislature the week of October 21, 2019. As signaled earlier by the Ministry, the legislative framework is broad, and the Ministry continues to indicate that most of the changes for which credit unions advocated will be detailed in regulations, to be developed through the rest of 2019 and 2020. This suggests there is an opportunity to continue to engage with the government on this topic, and to ensure credit union perspectives are front and center as detailed regulations are considered.

In Ontario, the Ministry of Finance concluded its review of the *Mortgage Brokers, Lenders and Administrators Act* (MBLAA) in September 2019. The Ministry of Finance upheld the exemption for Ontario credit unions who carry out commercial real estate lending from having to register under the MBLAA and indicated the legislation will contemplate further exemptions from registration for financial institutions with sufficient sophistication and regulatory oversight. Additionally, the Ministry of Finance held a stakeholder consultation regarding updating the *Credit Unions and Caisses Populaires Act* and has started discussions with the credit union system and other stakeholders regarding potential revisions to the legislation. New legislation is likely to be introduced in either the spring or fall legislative sittings in 2020.

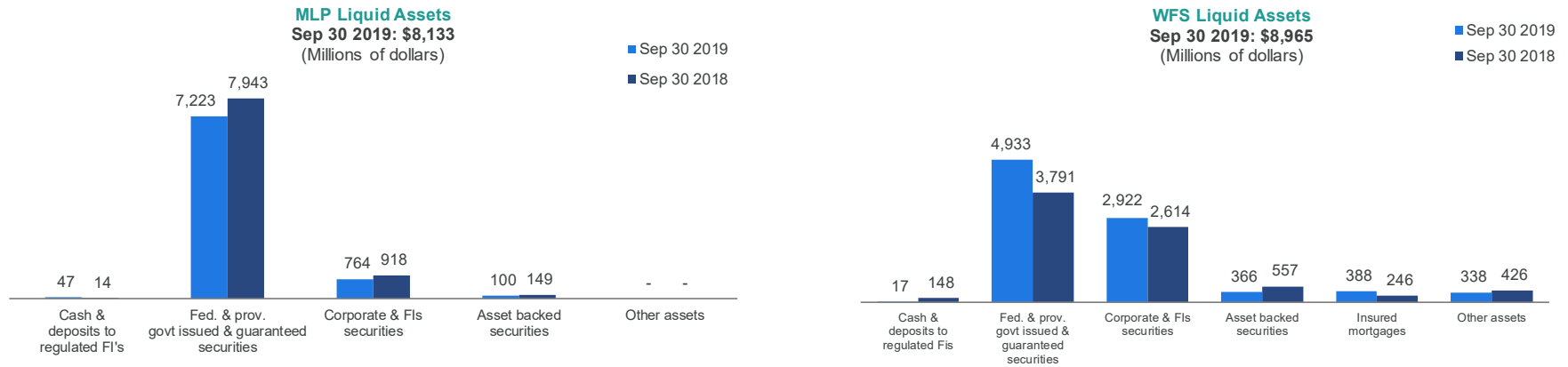
## Statement of Financial Position

### Total Assets



The growth in our non-mandatory deposits exceeded the impact associated with the redemption of the \$200.0 million subordinated debt and the \$206.5 million reduction in commercial paper which were undertaken to maximize the efficiency of our balance sheet. This increased our funding portfolio and led to the \$1.5 billion increase in total assets from December 31, 2018.

## Cash and Liquid Assets



Sep 30 2019 (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	\$ 46.7	\$ 17.1	\$ -	\$ 17.1	\$ -	\$ 17.1
Federal and provincial government issued and guaranteed securities	7,222.6	3,501.4	1,431.8	4,933.2	2,016.1	2,917.1
Corporate and financial institutions securities	763.5	2,922.4	-	2,922.4	10.5	2,911.9
Asset backed securities	100.0	365.6	-	365.6	-	365.6
Insured mortgages	-	388.3	-	388.3	-	388.3
Other assets**	-	338.3	-	338.3	-	338.3
<b>Total</b>	<b>\$ 8,132.8</b>	<b>\$ 7,533.1</b>	<b>\$ 1,431.8</b>	<b>\$ 8,964.9</b>	<b>\$ 2,026.6</b>	<b>\$ 6,938.3</b>

\*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 (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	\$ 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	37.2	2,117.3
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
<b>Total</b>	<b>\$ 8,039.7</b>	<b>\$ 6,676.8</b>	<b>\$ 700.3</b>	<b>\$ 7,377.1</b>	<b>\$ 1,485.2</b>	<b>\$ 5,891.9</b>

\*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.

Sep 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	\$ 14.0	\$ 147.9	\$ -	\$ 147.9	\$ -	\$ 147.9
Federal and provincial government issued and guaranteed securities	7,942.9	3,025.0	765.9	3,790.9	1,729.8	2,061.1
Corporate and financial institutions securities	918.0	2,614.0	-	2,614.0	28.0	2,586.0
Asset backed securities	149.2	556.6	-	556.6	-	556.6
Insured mortgages	-	246.2	-	246.2	-	246.2
Other assets**	-	426.2	-	426.2	-	426.2
<b>Total</b>	<b>\$ 9,024.1</b>	<b>\$ 7,015.9</b>	<b>\$ 765.9</b>	<b>\$ 7,781.8</b>	<b>\$ 1,757.8</b>	<b>\$ 6,024.0</b>

\*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

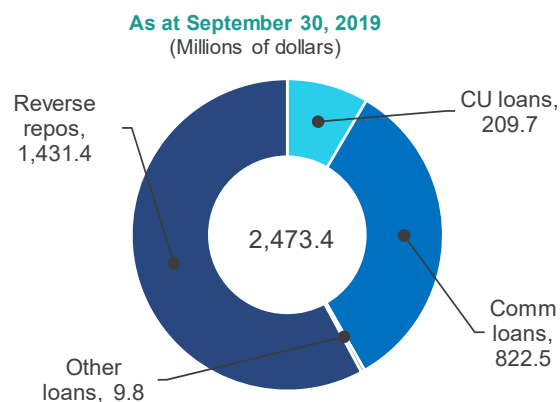
Comparative figures have been restated.

Cash and liquid assets for the Mandatory Liquidity Pool (MLP) are managed on behalf of the credit union system. In addition, we manage our own liquidity within Wholesale Financial Services (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 September 30, 2019 were largely in line with year-end. WFS' unencumbered liquid assets are defined as total liquid assets less encumbered assets which represent securities pledged as collateral. The growth in our non-mandatory deposits, lessened by lower debt securities, contributed to the increase in our funding portfolio, and a corresponding increase in WFS' liquid assets. Encumbered assets increased by \$0.5 billion from year-end primarily due to increased repurchase agreement transactions, and WFS' unencumbered assets increased \$1.0 billion from year-end driven by higher securities.

To fund Coast Capital's withdrawal of its mandatory deposits in the fall of 2018, corporate and financial institutions securities within the MLP were liquidated, resulting in a decrease of \$0.9 billion in MLP's liquid assets from a year ago. WFS' unencumbered assets increased \$0.9 billion from September 30, 2018, mainly driven by the increase in securities and loans supported by growth in our non-mandatory deposits.

## Loans



(Millions of dollars)	Sep 30 2019	Dec 31 2018	Sep 30 2018
Loans to credit unions	\$ 209.7	\$ 538.8	\$ 1,022.1
Commercial loans	822.5	696.7	680.2
Other loans	9.8	8.0	8.1
	832.3	704.7	688.3
Reverse repurchase agreements	1,431.4	694.8	756.4
	\$ 2,473.4	\$ 1,938.3	\$ 2,466.8

\*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 which is categorized as commercial loans in our Consolidated Statement of Financial Position.

Loans to credit unions decreased significantly by \$812.4 million from a year ago and \$329.1 million from year-end, reflective of greater liquidity in the credit union system and evidenced by an increase in our non-mandatory deposits from credit unions.

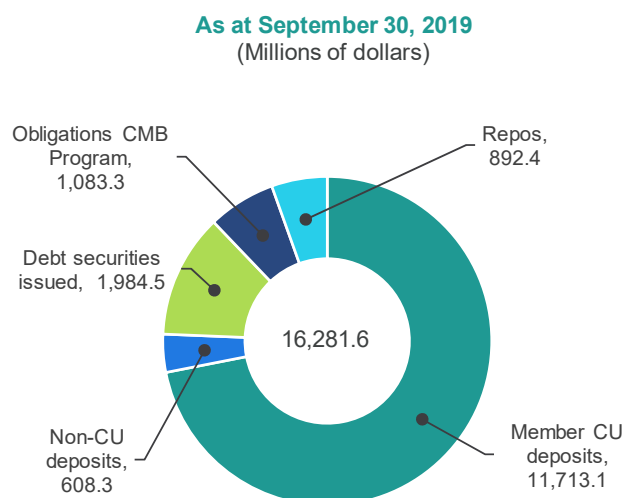
A focus on expanding our commercial loans business led to year-over-year increases in the commercial loan portfolio.

In line with our cash management strategy, we invest short-term liquidity into collateralized loans under reverse repurchase agreements. This strategy led to the fluctuation in the balances of reverse repurchase agreements year-over-year. This balance was up \$675.0 million from a year ago and \$736.6 million from year-end.

Overall, the increases in commercial loans and reverse repurchase agreements, which outweighed the impact from lower credit union loans, led to an increase of \$535.1 million in total loans from year-end as well as a slight increase from a year ago.



## Funding



(Millions of dollars)	Sep 30 2019	Dec 31 2018	Sep 30 2018
<b>Deposits</b>			
Mandatory deposits	\$ 7,631.8	\$ 7,553.1	\$ 8,516.6
Non-mandatory deposits	4,081.3	2,723.9	3,355.6
Deposits from member credit unions	11,713.1	10,277.0	11,872.2
Deposits from non-credit unions	608.3	696.4	669.7
	<b>12,321.4</b>	10,973.4	12,541.9
<b>Debt securities issued</b>			
Commercial paper issued	507.0	713.3	673.5
Medium-term notes issued	1,254.6	1,244.7	1,689.9
Subordinated liabilities	222.9	422.2	425.0
	<b>1,984.5</b>	2,380.2	2,788.4
Obligations under the Canada Mortgage Bond (CMB) Program	1,083.3	1,040.5	1,099.3
Securities under repurchase agreements	892.4	381.0	593.7
	<b>\$ 16,281.6</b>	\$ 14,775.1	\$ 17,023.3

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, MTN programs and subordinated debt issuances. We also use asset securitization programs as an alternative source of funding and asset/liability management (ALM) purposes. We also borrow funds under repurchase agreements to meet our short-term liquidity needs.

Compared to year-end, deposits from our member credit unions increased \$1.4 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, led to an overall decrease of \$159.1 million in our deposits from member credit unions from a year ago. Excluding Coast Capital's withdrawal, deposits from our member credit unions would have increased \$1.5 billion.

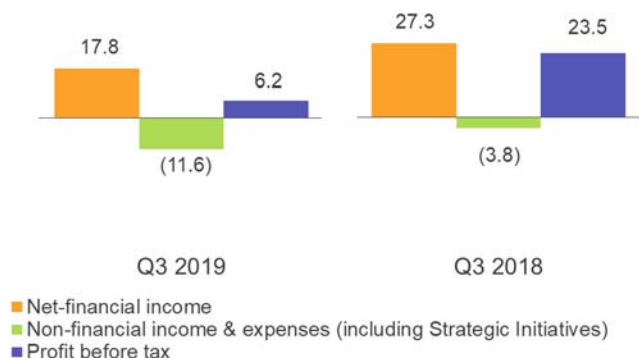
In November 2018, a \$450.0 million MTN matured. In 2019, we redeemed \$200.0 million of subordinated debt, and reduced our commercial paper facility by \$206.5 million. These transactions collectively led to a year-over-year decrease of \$0.8 billion in the debt securities issued at the end of September 2019. The 2019 transactions alone resulted in a \$0.4 billion decrease from year-end. Total debt securities issued represented 12.2 per cent of our total borrowing portfolio at September 30, 2019, compared to over 16.0 per cent in both comparative periods.

We participate in direct securitization by acquiring ownership in mortgage pools and subsequently selling them in the near future into the Canada Housing Trust under the Canada Mortgage Bond Program. Repurchase agreements are used to reduce exposure to market risks as assets await securitization. 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. Securities under repurchase agreements increased \$298.7 million from September 30, 2018 and \$511.4 million compared to year-end as more assets were purchased under repurchase agreements from member credit unions.



## Statement of Profit

Quarterly Profit Before Tax  
(Millions of dollars)



### Q3 2019 vs Q3 2018

A change in asset mix led to a decrease of \$7.0 million in net realized and unrealized gains from a very strong third quarter last year. Interest margin also decreased by \$2.7 million compared to a very strong third quarter in 2018 attributable to the inverted yield curve limiting the ability to earn margin on new securities. Combined, net financial income decreased \$9.5 million from the same period last year.

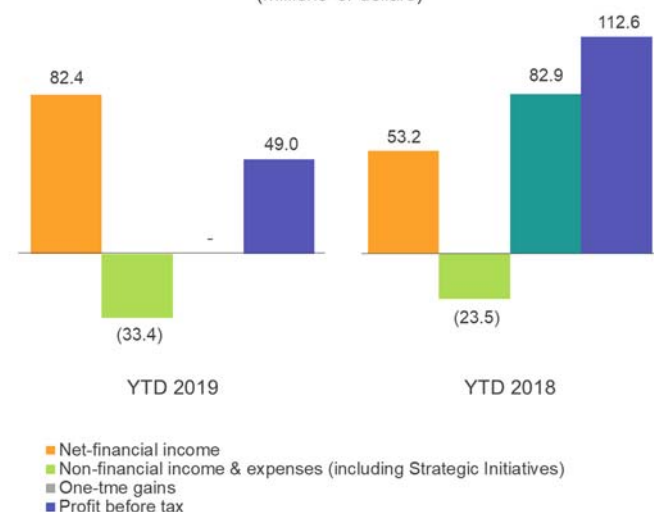
Investments in strategic initiatives continued throughout the third quarter of 2019, consistent with last year and our long-term strategic plan. These resulted in an overall decline of \$17.3 million in our third quarter profit before tax compared to a year ago.

### YTD 2019 vs YTD 2018

Prior year's results benefited from one-time gains relating to transactions surrounding our equity investments. Excluding these one-time gains, profit before tax was \$19.3 million higher than a year ago. Year-to-date results reflected \$29.2 million higher net financial income compared to the same period in 2018, despite softer third quarter results in 2019. Decreasing market yields and narrowing credit spreads, during the first half of 2019, resulted in a year-over-year increase of \$25.2 million in net realized and unrealized gains. Prior year's results also benefited from higher interest rates which continued to contribute to a \$4.2 million increase in interest margin for the first nine months of 2019.

Investments in our strategic initiatives in 2019 continued, with an increase of \$15.6 million invested in these initiatives compared to the same period last year.

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

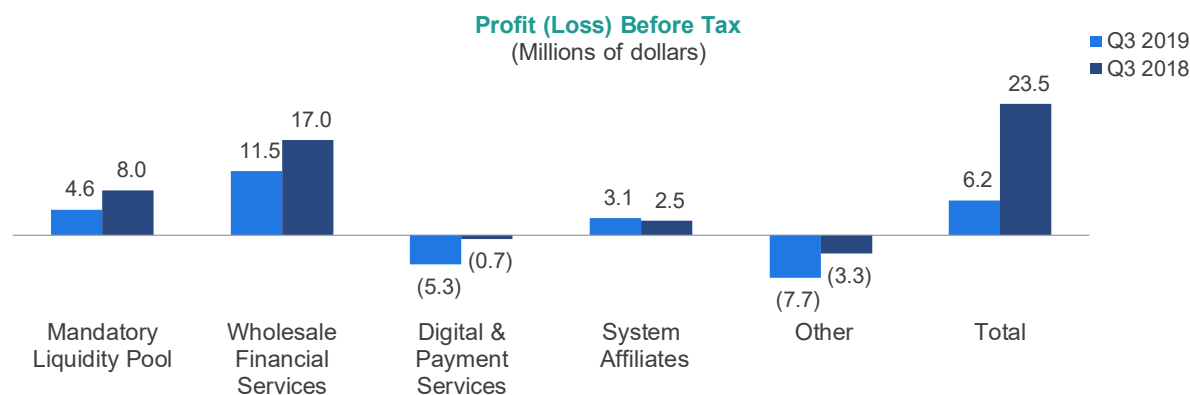


## Results by Segment

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.

### Q3 2019 vs Q3 2018



### For the three months ended September 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	\$	6.1	\$	11.8	\$	(0.1)	\$	-	\$	17.8
Non-financial income		0.2		8.9		23.6		3.1		37.6
Net financial and non-financial income		6.3		20.7		23.5		3.1		55.4
Non-financial expenses		1.7		9.2		20.2		-		33.3
		4.6		11.5		3.3		3.1		22.1
Strategic initiatives		-		-		(8.6)		-		(15.9)
Profit (loss) before tax	\$	4.6	\$	11.5	\$	(5.3)	\$	3.1	\$	6.2

**For the three months ended September 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	\$	10.3	\$	17.3	\$	(0.1)	\$	(0.2)	\$	27.3
Non-financial income		(0.1)		7.7		21.7		0.5		34.0
Net financial and non-financial income		10.2		25.0		21.6		0.3		61.3
Non-financial expenses		2.2		8.0		15.8		0.5		31.9
		8.0		17.0		5.8		(0.2)		29.4
Strategic initiatives		-		-		(6.5)		2.7		(5.9)
Profit (loss) before tax	\$	8.0	\$	17.0	\$	(0.7)	\$	2.5	\$	23.5

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

***Mandatory Liquidity Pool***

MLP's third quarter results saw a decline in net financial income by \$4.2 million from the same period last year. The reduced size of the funding portfolios as a result of Coast Capital's 2018 withdrawal, along with credit union members shifting to deposits with shorter durations to earn higher returns from the inverted yield curve, led to a lower interest margin and higher net realized and unrealized losses within the MLP portfolio. Overall, MLP reported a profit before tax that was down \$3.4 million from the third quarter of 2018.

***Wholesale Financial Services***

A change in WFS' asset mix in the third quarter resulted in a decrease of \$4.7 million in net realized and unrealized gains from the strong third quarter last year. WFS also saw a lower interest margin in the current quarter primarily from the inverted yield curve limiting the ability to earn margin on new securities. Slightly offsetting these reductions were higher fees revenue in the lending business and higher foreign exchange income, resulting in an overall decrease of \$5.5 million in WFS' profit before tax.

***Digital & Payment Services***

During the third quarter of 2019, Digital & Payment Services continued to invest in strategic initiatives, including the development of the *Forge Digital Banking Platform (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 \$4.6 million increase in the loss before tax compared to the same period last year.

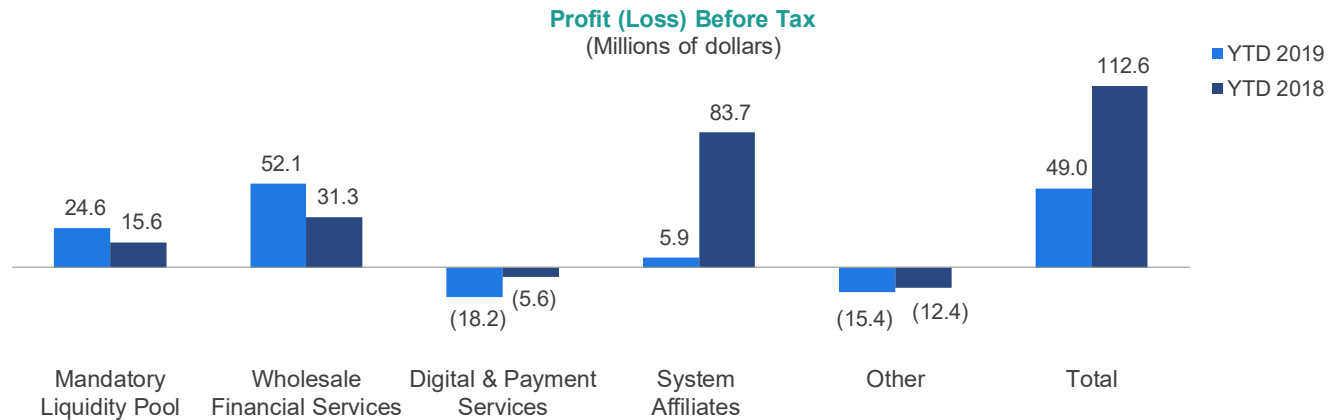
***System Affiliates***

System Affiliates' results in the third quarter of 2018 benefited from an upward adjustment to our one-time gains relating to the equity investments recognized in the first two quarters. Excluding this adjustment, 2019 results were \$3.3 million higher than the third quarter of 2018 due to increased income from these investments.

***Other***

During the third quarter, investments in our strategic initiatives continued, including the development of a new banking system. These investments contributed to a \$5.2 million increase compared to the same period last year. Dues levied on our members were also reduced in 2019, and combined with higher spending in strategic initiatives led to a higher loss for this segment in the third quarter of 2019.

## YTD 2019 vs YTD 2018



### For the nine months ended September 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	\$	30.0	\$	54.1	\$	(0.3)	\$	(1.4)	\$ -	\$ 82.4
Non-financial income		(0.3)		25.8		69.8		7.3	5.3	107.9
Net financial and non-financial income		29.7		79.9		69.5		5.9	5.3	190.3
Non-financial expenses		5.1		27.8		59.4		-	9.3	101.6
		24.6		52.1		10.1		5.9	(4.0)	88.7
Strategic initiatives		-		-		(28.3)		-	(11.4)	(39.7)
Profit (loss) before tax	\$	24.6	\$	52.1	\$	(18.2)	\$	5.9	\$ (15.4)	\$ 49.0

### For the nine months ended September 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	\$	21.7	\$	32.9	\$	(0.2)	\$	(1.2)	\$ -	\$ 53.2
Non-financial income		0.2		22.6		62.4		3.8	11.8	100.8
Net financial and non-financial income		21.9		55.5		62.2		2.6	11.8	154.0
Non-financial expenses		6.3		24.2		48.7		1.8	19.2	100.2
		15.6		31.3		13.5		0.8	(7.4)	53.8
Strategic initiatives		-		-		(19.1)		82.9	(5.0)	58.8
Profit (loss) before tax	\$	15.6	\$	31.3	\$	(5.6)	\$	83.7	\$ (12.4)	\$ 112.6

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 realized and unrealized gains, up \$10.4 million from the same period last year, which benefited from decreasing market yields and narrowing credit spreads in most of the period. Partially offsetting these gains was a \$2.1 million decrease in interest margin as a result of Coast Capital's withdrawal of its mandatory deposits in 2018. Combined, MLP's profit before tax increased \$9.0 million from the same period last year driven by a higher net financial income.

### ***Wholesale Financial Services***

WFS saw a year-over-year increase of \$21.2 million in net financial income for the nine months ended September 30, 2019, despite softer third quarter results in 2019. Decreasing market yields and narrowing credit spreads, during the first half of 2019, resulted in an increase of \$16.5 million in net realized and unrealized gains. The 2018 interest rate increases continued to positively impact WFS' interest margin in 2019, resulting in a comparative \$4.9 million increase for the period.

Our recent focus on expanding the commercial lending portfolios resulted in higher fees revenue. Greater liquidity in the credit union system allows credit unions to pay down their debt with us, which led to an increase in the undrawn commitments to extend credit to credit union members. This resulted in increased standby lending fees. Together with higher foreign exchange income, which benefited from a stronger U.S. dollar, these contributed positively to WFS' non-financial income. Partially offsetting these increases were higher salaries and employee benefits expenses, and collective impact of these movements increased WFS' profit before tax by \$20.8 million.

### ***Digital & Payment Services***

In 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 \$12.6 million increase in the loss before tax compared to the same period last year.

### ***System Affiliates***

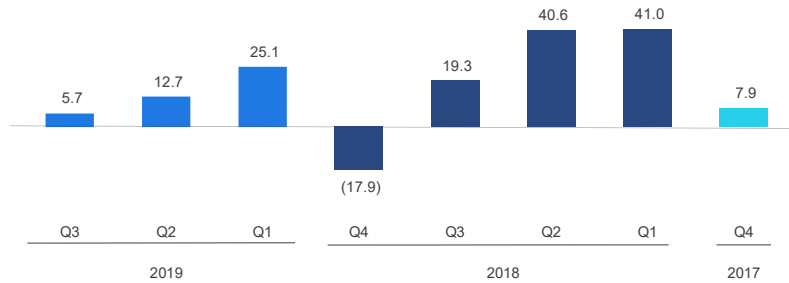
System Affiliates' 2018 year-to-date results benefited from one-time gains relating to our equity investments. Excluding these gains, System Affiliates' results were \$5.1 million higher in 2019, due to increased income from these investments.

### ***Other***

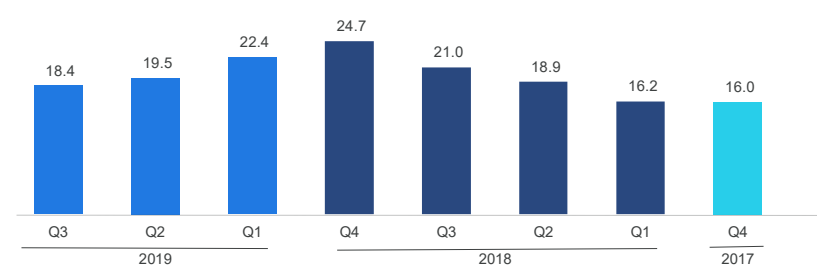
In 2019, we continued to invest in our strategic initiatives including the development of a new banking system. This was reflected in the \$6.4 million increase in strategic initiative spending compared to the first nine months of 2018. Dues levied on our members were also reduced in 2019. Combined, this resulted in a marginal increase in the loss before tax of 2019 compared to same period last year.

## Summary of Quarterly Results

**Profit (Loss) After Tax**  
(Millions of dollars)



**Interest Margin**  
(Millions of dollars)



(Thousands of dollars, except as indicated)	2019			2018				2017
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Interest income	\$ 89,634	\$ 90,952	\$ 89,998	\$ 96,375	\$ 93,713	\$ 87,579	\$ 78,382	\$ 73,208
Interest expense	71,263	71,475	67,562	71,641	72,683	68,650	62,220	57,171
Interest margin	18,371	19,477	22,436	24,734	21,030	18,929	16,162	16,037
Realized and unrealized gains (losses)	(633)	9,293	13,681	(19,698)	6,326	(6,128)	(3,046)	2,579
Impairment loss (recovery) on financial assets	(53)	38	234	217	58	(175)	183	1
	17,791	28,732	35,883	4,819	27,298	12,976	12,933	18,615
Non-financial income	37,858	36,760	33,644	34,270	35,164	37,233	34,786	38,620
Gains from system affiliates	-	-	-	-	2,671	37,470	43,017	-
	37,858	36,760	33,644	34,270	37,835	74,703	77,803	38,620
Non-financial expense	49,411	50,675	41,586	63,911	41,658	44,255	44,986	46,892
	(11,553)	(13,915)	(7,942)	(29,641)	(3,823)	30,448	32,817	(8,272)
Profit (loss) before tax	6,238	14,817	27,941	(24,822)	23,475	43,424	45,750	10,343
Income taxes (recovery)	505	2,157	2,817	(6,875)	4,145	2,866	4,760	2,463
Profit (loss)	\$ 5,733	\$ 12,660	\$ 25,124	\$ (17,947)	\$ 19,330	\$ 40,558	\$ 40,990	\$ 7,880
Weighted average shares outstanding (millions)	431.2	431.1	430.0	444.7	486.5	479.4	429.7	417.1
Earnings per share (cents) *								
Basic/Diluted	1.3	2.9	5.8	(4.0)	4.0	8.5	9.5	1.9

\*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.

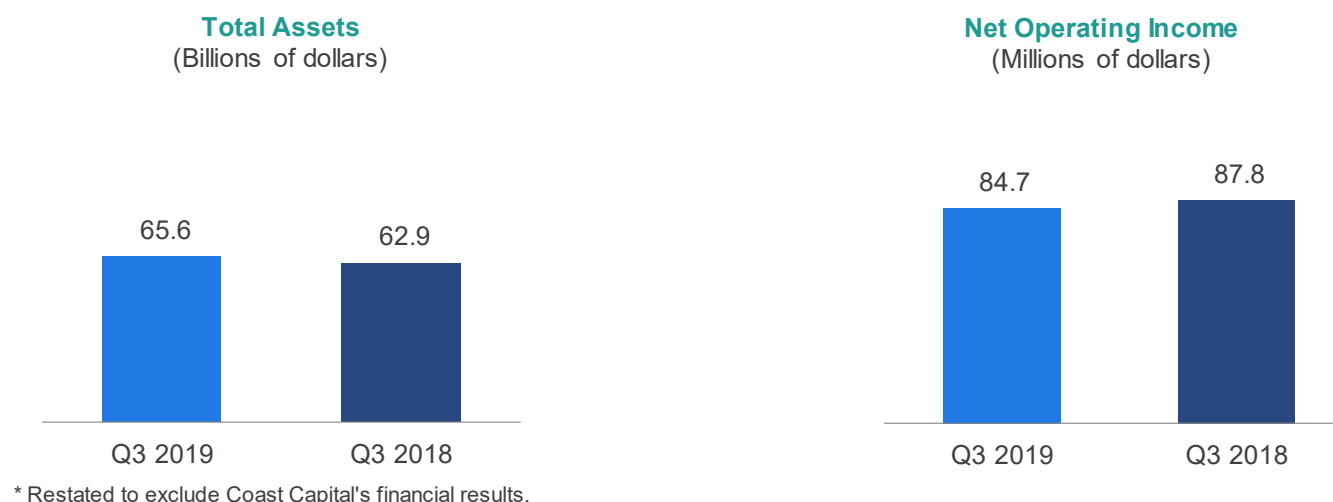
Effective January 1, 2018, we retrospectively adopted IFRS 9, *Financial Instruments*. Prior periods have not been restated. Results for the periods prior to January 1, 2018 are reported in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*.

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

2018 saw interest margin growth which began to taper off starting in the first quarter of 2019 and continued to the third quarter. The 2018 interest rate hikes continued to positively impact the year-over-year interest margin; however, the inverted yield curve in 2019 limited the ability to earn margin on new securities, leading to lower interest margin in the third quarter. Decreasing market yields and narrowing credit spreads during the first half of 2019 drove up the fair value of our securities, resulting in stronger net realized and unrealized gains, and the shift in asset mix in the third quarter of 2019 led to net realized and unrealized losses. Profits in the first and second quarter of 2018 were significantly higher than other quarters, due to one-time gains from transactions related to our equity investments. The lower net financial income, and the higher non-financial expense, generated a lower profit in the third quarter of 2019.

## System Performance

### British Columbia



\* Restated to exclude Coast Capital's financial results.

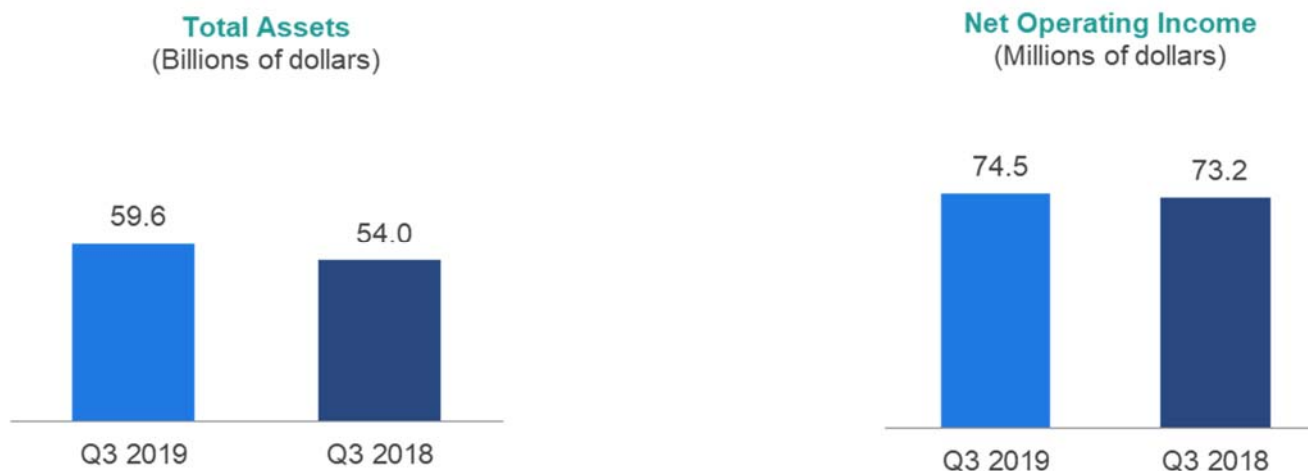
Net operating income for the third quarter of 2019 was \$84.7 million, down \$3.1 million or 3.5 per cent from the same period in 2018. Net interest income decreased \$3.1 million or one per cent over the same period of last year, driven by higher interest expense due to growth in deposits. Non-interest income decreased by \$2.2 million or 3.4 per cent year-over-year, lowered by equity investments. Non-interest expense decreased \$2.3 million or 0.8 per cent, led by a decrease in loan losses and others.

Total assets increased \$2.7 billion or 4.3 per cent year-over-year to reach \$65.6 billion at the end of the third quarter. Asset growth was led by a 3.0 per cent increase in personal mortgages, a 6.9 per cent increase in commercial mortgages, and a 5.7 per cent rise in liquid investments. Liability growth was led by a 8.6 per cent increase in non-registered term deposits and a 9.9 per cent rise in registered term deposits.

The system's rate of loan delinquencies over 90 days was 0.16 per cent of total loans at the end of September 2019, in line with prior year. Provision for credit losses as a percentage of loans was 0.29 per cent, up one basis point (bps) from a year ago. The B.C. system's loan loss expense ratio was 0.03 per cent annualized in the third quarter of 2019, down 5 bps from a year ago.

The B.C. system's regulatory capital as a percentage of risk-weighted assets was 15.3 per cent at the end of September 2019, up 63 bps from a year earlier. The aggregate liquidity ratio of the B.C. system, including that held by Central 1, was 15.1 per cent of deposit and debt liabilities, up 26 bps from a year ago. The B.C. system's return on assets was 0.52 per cent annualized in the third quarter, down 4 bps a year ago.

## Ontario



Net operating income for the third quarter of 2019 was \$74.5 million, up \$1.3 million or 1.8 per cent from the same in 2018. Net interest income increased \$19.7 million over the same period last year, driven by growth in residential mortgages and commercial loans. Non-interest income decreased \$2.6 million or 4.2 per cent year over year. Non-interest expense increased \$15.8 million, driven by salaries and benefits and administration.

Total assets increased \$5.6 billion or 10.4 per cent year-over-year to reach \$59.6 billion at the end of the third quarter. Asset growth was led by a 8.9 per cent increase in residential mortgages, a 7.7 per cent increase in commercial loans, a 28.0 per cent increase in cash and deposits and a 31.3 per cent increase in investments. Liability growth was led by a 17.4 per cent increase in non-registered term deposits and a 13.6 per cent increase in registered deposits.

The system's rate of loan delinquencies over 90 days was 0.32 per cent of total loans at the end of September 2019, up 4 bps from a year ago. Provision for credit losses as a percentage of loans was 0.27 per cent, up 3 bps from a year ago. The loan loss expense ratio was 0.04 per cent annualized in the third quarter of 2019, in line from a year ago.

The system's regulatory capital as a percentage of risk-weighted assets was 12.8 per cent at the end of September 2019, down 20 bps from a year ago. The aggregate liquidity ratio, including that held by Central 1, was 13.5 per cent of deposit and debt liabilities, up 165 bps from a year ago. The return on assets was 0.50 per cent annualized in the third quarter, down 4 bps a year ago.



## Off-Balance Sheet Arrangements

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

### Derivative Financial Instruments

(Millions of dollars)			Notional Amount	
	Sep 30 2019		Dec 31 2018	
Interest rate contracts				
Bond forwards	\$	85.1	\$	136.7
Futures contracts		1,340.0		890.0
Swap contracts		36,621.9		33,337.5
		38,047.0		34,908.6
Foreign exchange contracts				
Foreign exchange forward contracts		184.1		678.4
Other derivative contracts				
Equity index-linked options		188.8		216.2
	\$	38,419.9	\$	35,803.2
			\$	34,756.6

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 \$8.2 billion and \$26.6 billion, respectively, of the total derivative notional balances as at September 30, 2019, compared to \$8.8 billion and \$22.1 billion at December 31, 2018, and \$9.4 billion and \$21.6 billion at September 30, 2018. Derivatives are primarily used in our ALM activities.

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, Commitments and Contingencies

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 committed amounts were transacted.

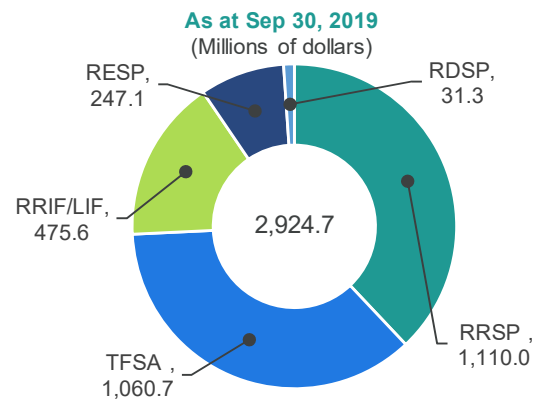
(Millions of dollars)	Sep 30 2019		Dec 31 2018		Sep 30 2018
Commitments to extend credit	\$	5,027.2	\$	4,526.0	\$ 4,131.7
Guarantees					
Financial Guarantees	\$	614.6	\$	480.0	\$ 378.3
Performance Guarantees	\$	100.0	\$	210.0	\$ 210.0
Standby letters of credit	\$	204.4	\$	201.1	\$ 198.5
Future prepayment swap reinvestment commitment	\$	1,355.9	\$	1,101.0	\$ 940.1

In the normal course of business, we enter into various off-balance sheet 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 \$895.5 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. 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 \$126.3 million resulting from additional limits offered to credit unions, while standby letters of credit were in line with prior periods. Future prepayment swap reinvestment commitments increased \$415.8 million from a year ago as a result of our transition from direct securitization to prepayment swap program.

From time to time we issue performance guarantees related to the Asset Backed Commercial Paper Program. The performance guarantees represented in the table above are the maximum limits for parties in existing contractual obligations. We also issue blanket approvals for performance guarantees on a non-committed basis which will become contractual obligations for specified amounts if requested and authorized by us, in our sole discretion. We have the ability to unilaterally withdraw anytime from these approved limits. These un-committed performance guarantee approved limits were \$810.0 million at September 30, 2019 and \$600.0 million at December 31, 2018.

## Assets under Administration



(Millions of dollars)	Sep 30 2019	Dec 31 2018	Sep 30 2018
Registered Retirement Savings Plans (RRSP)	\$ 1,110.0	\$ 1,071.8	\$ 1,094.4
Tax-Free Savings Accounts (TFSA)	1,060.7	934.1	907.9
Registered Retirement Income Funds/Life Income Funds (RRIF/LIF)	475.6	453.6	431.6
Registered Education Savings Plans (RESP)	247.1	234.3	232.9
Registered Disability Savings Plans (RDSP)	31.3	26.4	25.2
	<b>\$ 2,924.7</b>	<b>\$ 2,720.2</b>	<b>\$ 2,692.0</b>

Comparative figures have been restated.

Assets under Administration (AUA) mainly include government approved registered plans for tax deferral purposes, which are trustee and administered by Central 1 or one of its wholly owned subsidiaries. Central 1 provides trust and administrative services on AUA for the beneficial owners and members of the B.C. credit union system and Class C members. The subsidiary provides the same services for members of the Ontario and Manitoba credit union system and Class C members.

An overall increase in business from both Ontario and B.C., along with market value appreciation, contributed to a 8.6 per cent increase in total AUA from a year ago. Notable trends show that the AUA of Tax-Free Savings Accounts increased by 16.8 per cent from a year ago, reflective of its increasing popularity among investors as an alternative to the Registered Retirement Savings Plan (RRSP) which showed a modest increase of 1.4 per cent due to the decreased sales outweighed by market appreciation. All other registered products also had moderate increases from a year ago largely due to increased sales, contributions, 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 for assessing capital adequacy, dividends and management of regulatory capital requirements.

A key component of our capital management framework is the annual capital planning process that involves teams from across the organization. Capital planning has two key integrated components, the annual budget process which establishes operating targets for the organization and the Internal Capital Adequacy Assessment Process (ICAAP) in order to determine the required capital to cover material risks to which the organization is exposed. The capital planning process includes forecasted growth in assets, earnings and capital considering projected market conditions. These components are monitored 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.

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.

## Regulatory Capital

**\$1,123.3 million**

Tier 1 Capital

**\$1,238.2 million**

Net Capital Base

**13.7:1**

Borrowing Multiple

**44.3%**

Provincial Capital Ratio

(Millions of dollars)	Sep 30 2019	Dec 31 2018	Sep 30 2018
Share capital	\$ 431.2	\$ 429.9	\$ 486.0
Retained earnings	696.8	652.3	711.2
Less: accumulated net after tax gain in investment property	(4.7)	(4.7)	(4.7)
Tier 1 capital	1,123.3	1,077.5	1,192.5
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	1,349.0	1,503.2	1,618.2
Statutory capital adjustments	(110.8)	(105.7)	(107.5)
Net capital base	\$ 1,238.2	\$ 1,397.5	\$ 1,510.7
Borrowing multiple - Consolidated	13.7:1	11.0:1	11.5:1
Borrowing multiple - Mandatory Liquidity Pool	15.3:1	15.8:1	15.8:1
Borrowing multiple - Wholesale Financial Services	13.6:1	10.9:1	12.6:1

In determining regulatory capital, adjustments are required to the amount of capital 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 at September 30, 2019 compared to the balance at December 31, 2018 and September 30, 2018 was due to the redemption of \$200.0 million subordinated debt in 2019. The computation of the provincial capital base is broadly similar to the federal regulatory capital used for borrowing multiple purposes.

BCFSA requires a consolidated borrowing multiple of no more than 20.0:1, a borrowing multiple of no more than 17.0:1 for the MLP segment and of no more than 15.0:1 for the WFS segment. We manage the MLP's borrowing multiple through semi-annual Class F 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 we had sufficient capital to meet regulatory requirements. At September 30, 2019, our consolidated borrowing multiple was 13.7:1 compared to 11.0:1 at December 31, 2018, as a result of the decrease in subordinated debt combined with an increase in non-mandatory deposits.

Central 1 has been 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

Strategic risk arises when we fail to respond appropriately to changes in our internal and external environment which in turn may affect our ability to meet stakeholder expectations and to deliver on our vision, mission and core mandate. Strategic risk is affected by the choices management makes with respect to the development of future offerings as well as our ability to deliver these offerings in a timely manner.

To manage strategic risk, management monitors closely the current landscape of the credit union system and the emerging industry and regulatory trends that can affect this landscape. Management then incorporates its informed understanding into its strategic planning process to determine key strategic initiatives and to develop and/or maintain the capabilities needed to deliver on these initiatives.

Currently, we have identified eight strategic initiatives around: exploring additional opportunities to deliver value for its member credit unions and the system as a whole, strengthening its financial sustainability, further advancing its internal capabilities, and ensuring ongoing compliance with regulatory requirements. The initiatives are monitored closely on a quarterly basis through strategic initiative Key Performance Indicators (KPIs) and associated targets.

During the third quarter, we are on track with meeting the 2019 targets for each of its strategic initiative KPIs.

## 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 operate with integrity and uphold our reputation and that of the credit union system
- government regulators, to comply with standards expected for our industry
- financial system counterparties, to be able to provide products and services to the credit union system
- internal policies and procedures, to help ensure a strong and efficient governance structure

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

## Counterparty Risk

Within the MLP, WFS 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 of A-Low to AAA (Dominion Bond Rating Service [DBRS]), and our own credit union system where a robust internal risk rating regime is in place.

## 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.

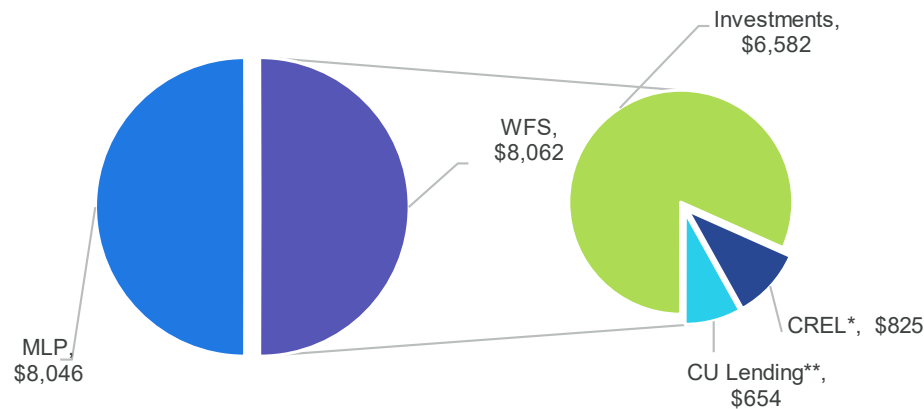
Risks are managed by:

- 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 \$580.0 million 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.).

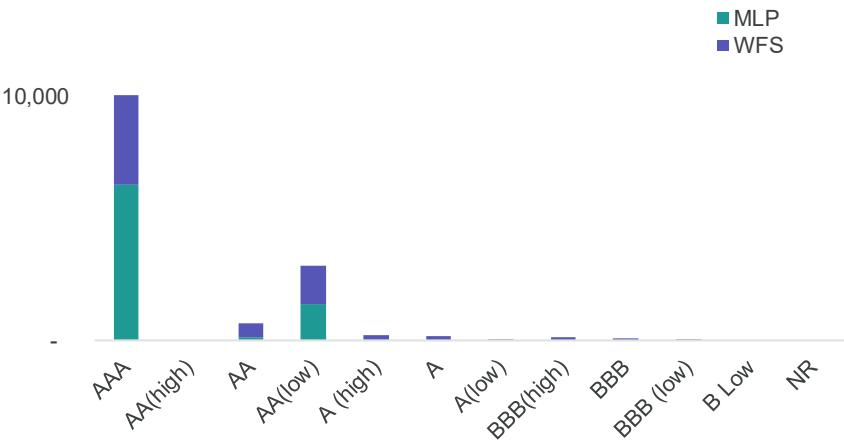
Central 1's Asset Distribution  
(Millions of dollars)



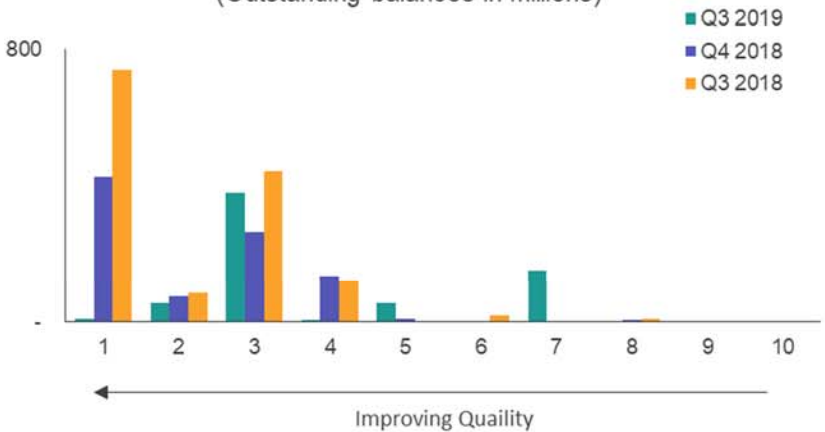
\*CREL – Commercial Real Estate Lending

\*\*CU Lending – this includes the utilized portion of the guarantees and standby letters of credit

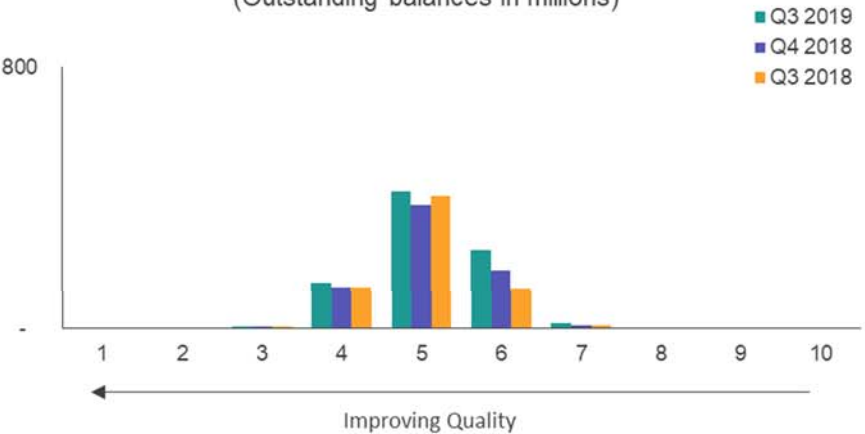
Investment Portfolio  
(Millions of dollars)



Credit Union Lending Portfolio  
(Outstanding balances in millions)



Commercial Real Estate Lending (CREL) Portfolio  
(Outstanding balances in millions)



## 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 September 30, 2019 there were four 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 23.4 per cent of the outstanding portfolio and 8.7 per cent of the authorized portfolio as at September 30, 2019. The increase quarter-over-quarter was due to one larger credit union meeting our Watch List criteria for non-financial reasons. Credit union lending facilities are fully collateralized by general security agreements and outstanding loans constitute a fraction of the security value. The risk in the portfolio remains unchanged.

### Commercial Real Estate Lending (CREL)

Currently, there are no impaired loans in the portfolio. The Watch List accounts represented 1.9 per cent of the outstanding portfolio balance as at September 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 Bank of Canada definition 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 Domestic Systemically Important Financial Institution (D-SIFI) requirements.

The LCR of the WFS portfolio weakened in the third quarter of 2019 due to a decrease in the stock of high-quality liquid assets.

Liquidity Coverage Ratio	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Last 12 Months		
					Average	High	Low
Mandatory Liquidity Pool	172.8%	173.2%	172.9%	170.7%	173.7%	164.5%	164.5%
Wholesale Financial Services	158.9%	187.9%	153.4%	134.2%	149.1%	194.6%	104.6%

Wholesale Financial Services 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 (excluding cash) and 6 bps, or 0.06 per cent, of WFS assets (excluding cash). As of quarter-end, the limits were \$5.9 million for MLP and \$4.6 million for WFS. We complied with MLP and WFS limits during the third quarter.

(Millions of dollars)	Mandatory Liquidity Pool							
					Last 12 Months			
	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Average	High	Low	
Interest Rate VaR	\$ 1.1	\$ 1.2	\$ 0.8	\$ 3.8	\$ 2.3	\$ 4.6	\$ 0.8	
Credit Spread VaR	1.4	1.5	1.3	5.1	3.0	5.8	1.1	
Foreign Exchange VaR	0.0	0.2	0.3	0.3	0.2	0.8	0.0	
Diversification <sup>(1)</sup>	(1.1)	(1.1)	(1.0)	(4.6)	(2.5)	nm	nm	
Total VaR	\$ 1.4	\$ 1.8	\$ 1.4	\$ 4.6	\$ 3.0	\$ 5.7	\$ 1.4	
Expected Shortfall	2.3	2.3	2.3	5.4	3.8	6.9	2.2	

(Millions of dollars)	Wholesale Financial Services							
					Last 12 Months			
	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Average	High	Low	
Interest Rate VaR	\$ 1.7	\$ 1.6	\$ 1.4	\$ 1.3	\$ 1.6	\$ 2.3	\$ 1.3	
Credit Spread VaR	1.8	1.8	1.6	1.5	1.7	2.2	1.5	
Foreign Exchange VaR	2.2	2.2	2.1	2.4	2.2	3.5	1.4	
Diversification <sup>(1)</sup>	(2.4)	(2.5)	(2.2)	(2.3)	(2.3)	nm	nm	
Total VaR	\$ 3.3	\$ 3.1	\$ 2.9	\$ 2.9	\$ 3.2	\$ 4.2	\$ 2.4	
Expected Shortfall	3.5	3.3	3.4	3.4	3.6	4.7	2.8	

<sup>(1)</sup> 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	\$	5.1	\$	8.6
Pre-Lehman Crisis (Oct 2006-Dec 2007)	\$	9.1	\$	13.6
Lehman Crisis (Jan 2008-May 2009)	\$	15.7	\$	12.1
European Crisis (Nov 2010-Dec 2013)	\$	8.4	\$	6.2

### 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 bp 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	\$	(79.4)	\$	105.3	\$	25.9	1.3238	\$	34.30

### 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 due to an ever-changing threat environment which requires us to continually adapt and enhance our controls to mitigate new threats.

We continue to invest in controls to mitigate cyber attacks and are working on a multi-year cyber strategy to continuously improve and mature our cyber security posture.

## 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 ongoing fragility of the global economy and uncertainty around the U.S.-China Trade Deal negotiations as the major Emerging Risks facing us.

- **Global Economic Uncertainty** – There are indicators that economic growth could turn negative, such as, softening growth, increasing risk or recession across the globe and depressed prices. Forecasts of global growth have been revised downward and the yield curve has remained inverted through the third quarter. 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 a range of credit metrics to understand impacts on the business.
- **US-China Trade Deal Negotiations** – The ongoing negotiations around a U.S.-China Trade deal have had a negative impact on both economies, with the U.S. agricultural sector and Chinese manufacturing sector experiencing sharp contractions over the last 12-18 months. Uncertainty around the negotiations has created an increased risk of lower GDP growth across the globe. Negotiations between the U.S. and China on a Trade Deal seem to have come through a difficult patch, with negotiations previously having fallen apart in May. In mid-October, President Trump declared that the two parties had reached an agreement on “phase one” of a bilateral Trade Deal.

## 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 September 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 September 30, 2019.

## Subsequent Event

On November 21, the Board of Directors of Central 1 approved the submission of an implementation plan to B.C. Financial Services Authority (BCFSA) to legally segregate the B.C. and Ontario MLPs into contractual trusts by December 31, 2020. Under the implementation plan, Central 1, as trustee and investment manager, will continue to hold and manage the funds exclusively for credit unions under terms established by the regulators and B.C. and Ontario member credit unions. As at September 30, 2019, we had approximately \$18.4 billion of assets, of which the MLPs for both B.C. and Ontario represent approximately 44.0 per cent in aggregate. Central 1 will submit the implementation plan for review and acceptance by the BCFSA.

# **Interim Consolidated Financial Statements**

September 30, 2019

## Interim Consolidated Statement of Financial Position (Unaudited)

(Thousands of dollars)	Notes	Sep 30 2019	Dec 31 2018
<b>Assets</b>			
Cash		\$ 58,350	\$ 811,360
Deposits with regulated financial institutions		5,749	6,078
Securities	5	14,523,477	13,286,020
Loans	6	2,475,009	1,939,247
Reinvestment assets under the Canada Mortgage Bond Program	5	787,553	580,457
Derivative assets		50,088	92,352
Settlements in-transit		291,017	32,845
Property and equipment		25,282	19,447
Intangible assets		35,815	24,659
Investments in affiliates	22	83,693	76,961
Current tax assets		-	7,487
Deferred tax assets		-	4,289
Other assets	7	31,898	25,967
		<b>\$ 18,367,931</b>	<b>\$ 16,907,169</b>
<b>Liabilities</b>			
Deposits	8	\$ 12,321,381	\$ 10,973,365
Debt securities issued	9	1,761,623	1,958,045
Obligations under the Canada Mortgage Bond Program	10	1,083,347	1,040,493
Subordinated liabilities	11	222,911	422,192
Obligations related to securities sold short		88,026	139,371
Securities under repurchase agreements		892,394	381,053
Derivative liabilities		74,401	82,880
Settlements in-transit		718,826	748,227
Current tax liabilities		2,898	-
Deferred tax liabilities		3,797	-
Provisions		1,704	1,713
Other liabilities	12	56,720	68,890
		<b>17,228,028</b>	<b>15,816,229</b>
<b>Equity</b>			
Share capital	13	431,166	429,937
Retained earnings		696,849	652,343
Accumulated other comprehensive income (loss)		1,972	(1,489)
Reserves		2	26
Total equity attributable to members of Central 1		<b>1,129,989</b>	<b>1,080,817</b>
Non-controlling interest		<b>9,914</b>	<b>10,123</b>
		<b>1,139,903</b>	<b>1,090,940</b>
		<b>\$ 18,367,931</b>	<b>\$ 16,907,169</b>
Guarantees, commitments, contingencies and pledged assets	19		
Subsequent event	23		

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 (Loss) (Unaudited)

(Thousands of dollars)	Notes	For the three months ended		For the nine months ended	
		Sep 30 2019	Sep 30 2018	Sep 30 2019	Sep 30 2018
<b>Interest income</b>					
Securities		\$ 75,122	\$ 78,497	\$ 227,771	\$ 216,439
Deposits with regulated financial institutions		40	55	126	156
Loans		14,151	13,897	40,021	39,504
Reinvestment assets under the Canada Mortgage Bond Program		321	1,264	2,666	3,575
		89,634	93,713	270,584	259,674
<b>Interest expense</b>					
Deposits		53,462	50,268	154,176	138,278
Debt securities issued		13,108	15,400	39,589	43,388
Subordinated liabilities		1,703	3,190	6,919	9,429
Obligations under the Canada Mortgage Bond Program		2,990	3,825	9,616	12,458
		71,263	72,683	210,300	203,553
Interest margin		18,371	21,030	60,284	56,121
Gain (loss) on disposal of financial instruments	14	2,293	(11,737)	53,159	(29,953)
Change in fair value of financial instruments	15	(2,926)	18,063	(30,818)	27,105
Net financial income		17,738	27,356	82,625	53,273
Impairment loss (recovery) on financial assets		(53)	58	219	66
		17,791	27,298	82,406	53,207
Non-financial income	16	37,858	35,164	108,262	107,183
Gains from system affiliates	16	-	2,671	-	83,158
Net financial and non-financial income		55,649	65,133	190,668	243,548
<b>Non-financial expense</b>					
Salaries and employee benefits		22,868	19,040	66,908	59,362
Premises and equipment		2,427	1,820	6,948	5,605
Other administrative expenses	17	24,116	20,798	67,816	65,932
		49,411	41,658	141,672	130,899
Profit before income taxes		6,238	23,475	48,996	112,649
Income taxes		505	4,145	5,479	11,771
Profit		\$ 5,733	\$ 19,330	\$ 43,517	\$ 100,878

See accompanying notes to the Interim Consolidated Financial Statements

## Interim Consolidated Statement of Comprehensive Income (Unaudited)

(Thousands of dollars)	For the three months ended		For the nine months ended	
	Sep 30 2019	Sep 30 2018	Sep 30 2019	Sep 30 2018
<b>Profit</b>	\$ 5,733	\$ 19,330	\$ 43,517	\$ 100,878
<b>Other comprehensive income (loss), net of tax</b>				
<b>Items that may be reclassified subsequently to profit</b>				
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	(790)	(1,468)	17,668	(1,390)
Reclassification of realized gains to profit	(683)	(578)	(9,095)	(5,573)
Share of other comprehensive loss of affiliates accounted for using the equity method	(891)	(521)	(513)	(2,435)
	(2,364)	(2,567)	8,060	(9,398)
<b>Items that will not be reclassified subsequently to profit</b>				
Net change in fair value due to change in own credit risk on financial liabilities designated under the fair value option	(50)	(3,261)	(3,847)	1,965
<b>Other comprehensive income (loss), net of tax</b>	(2,414)	(5,828)	4,213	(7,433)
<b>Comprehensive income, net of tax</b>	\$ 3,319	\$ 13,502	\$ 47,730	\$ 93,445
<b>Income taxes (recoveries) on items that may be reclassified subsequently to profit</b>				
Net change in fair value of debt securities at fair value through other comprehensive income	\$ (146)	\$ (310)	\$ 3,743	\$ (298)
Reclassification of realized gains to profit	\$ (145)	\$ (112)	\$ (1,913)	\$ (1,171)
Share of other comprehensive income (loss) of affiliates accounted for using the equity method	\$ 240	\$ (1,151)	\$ 276	\$ (104)
<b>Income taxes (recoveries) on items that may not be reclassified subsequently to profit</b>				
Net change in fair value due to change in own credit risk on financial liabilities designated under the fair value option	\$ (11)	\$ (696)	\$ (809)	\$ 413



## Interim Consolidated Statement of Changes in Equity (Unaudited)

(Thousands of dollars)	Attributable to equity members									
	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	
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		43,726					43,726	(209)	43,517	
Other comprehensive income, net of tax										
Fair value reserve (securities at fair value through other comprehensive income)			8,573				8,573		8,573	
Share of other comprehensive loss of affiliates accounted for using the equity method			(513)				(513)		(513)	
Liability credit reserve				(3,847)			(3,847)		(3,847)	
Total comprehensive income	-	43,726	8,060	(3,847)	-	-	47,939	(209)	47,730	
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)				(24)	(26)		(26)	
Total contributions from and distributions to owners	1,229	-	-	-	-	(24)	1,205	-	1,205	
Reclassification of liability credit reserve on derecognition <sup>(1)</sup>		752		(752)			-		-	
Balance at September 30, 2019	\$ 431,166	\$ 696,849	\$ 5,737	\$ (5,029)	\$ 1,264	\$ 2	\$ 1,129,989	\$ 9,914	\$ 1,139,903	

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

Profit attributable to:

	2019	2018
Members of Central 1	\$ 43,726	\$ 100,884
Non-controlling interest	(209)	(6)
	<u>\$ 43,517</u>	<u>\$ 100,878</u>

Total comprehensive income attributable to:

Members of Central 1	\$ 47,939	\$ 93,451
Non-controlling interest	(209)	(6)
	<u>\$ 47,730</u>	<u>\$ 93,445</u>

## Interim Consolidated Statement of Changes in Equity (Unaudited)

(Thousands of dollars)	Attributable to equity members							Equity Attributable to Members	Non- Controlling Interest	Total Equity
	Share Capital	Contributed Surplus	Retained Earnings	Fair Value & Affiliates Reserves	Liability Credit Reserve	Employee Benefits Reserve	Other Reserves			
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
<b>Total comprehensive income</b>										
Profit			100,884					100,884	(6)	100,878
Other comprehensive income, net of tax										
Fair value reserve (securities at fair value through other comprehensive income)				(6,963)				(6,963)		(6,963)
Share of other comprehensive loss of affiliates accounted for using the equity method				(2,435)				(2,435)		(2,435)
Liability credit reserve					1,965			1,965		1,965
Total comprehensive income	-	-	100,884	(9,398)	1,965	-	-	93,451	(6)	93,445
<b>Transactions with owners, recorded directly in equity</b>										
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", "C" and "F" shares issued	57,848							57,848		57,848
Transfer from reserves			37				(37)	-		-
Total contributions from and distributions to owners	57,841	(72,897)	6,385	-	-	-	(37)	(8,708)	-	(8,708)
Reclassification of liability credit reserve on derecognition <sup>(1)</sup>			212		(212)			-		-
Balance at September 30, 2018	\$ 485,984	\$ -	\$ 711,223	\$ 3,415	\$ (10,036)	\$ (1,808)	\$ 3,911	\$ 1,192,689	\$ 10,082	\$ 1,202,771

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

## Interim Consolidated Statement of Cash Flows (Unaudited)

(Thousands of dollars)	Notes	For the three months ended		For the nine months ended	
		Sep 30 2019	Sep 30 2018	Sep 30 2019	Sep 30 2018
<b>Cash flows from operating activities</b>					
Profit for the period		\$ 5,733	\$ 19,330	\$ 43,517	\$ 100,878
Adjustments for:					
Depreciation and amortization		2,118	1,984	4,414	6,055
Interest margin		(18,371)	(21,030)	(60,284)	(56,121)
Loss (gain) on disposal of financial instruments	14	(2,293)	11,737	(53,159)	29,953
Change in fair value of financial instruments	15	2,926	(18,063)	30,818	(27,105)
Impairment loss (recovery) on financial assets		(53)	58	219	66
Gains from system affiliates		-	(2,671)	-	(83,158)
Income taxes		505	4,145	5,479	11,771
Other items, net		-	(211)	-	(92)
		(9,435)	(4,721)	(28,996)	(17,753)
Change in securities		91,639	(14,902)	(1,120,029)	(894,795)
Change in loans		(886,629)	132,402	(533,716)	(305,495)
Change in settlements in-transit		723,650	(88,006)	(287,573)	(321,056)
Change in other assets		(348)	18,964	(1,874)	6,393
Change in deposits		(267,434)	(542,404)	1,281,438	558,766
Change in obligations related to securities sold short		(37,441)	152,359	(55,739)	248,187
Change in derivative assets and liabilities		(3,985)	5,428	7,863	10,046
Change in other liabilities		10,580	5,913	(3,534)	2,438
		(379,403)	(334,967)	(742,160)	(713,269)
Interest received		92,460	88,787	270,049	251,700
Interest paid		(57,818)	(55,986)	(189,482)	(171,651)
Income tax received (paid)		7,549	85	7,502	(5)
Net cash used in operating activities		(337,212)	(302,081)	(654,091)	(633,225)
<b>Cash flows from investing activities</b>					
Change in deposits with regulated financial institutions		-	-	358	(87)
Change in reinvestment assets under the Canada Mortgage Bond Program		(134,337)	(78,197)	(203,790)	(52,287)
Change in property and equipment		(1,634)	(123)	(890)	(618)
Change in intangible assets		(6,520)	(793)	(14,682)	(3,086)
Change in investments in affiliates		(3,018)	(447)	(6,969)	142,732
Net cash from (used in) investing activities		(145,509)	(79,560)	(225,973)	86,654
<b>Cash flows from financing activities</b>					
Change in debt securities issued		360	(30,390)	(205,250)	181,901
Change in lease liabilities		(83)	-	(262)	-
Change in obligations under the Canada Mortgage Bond Program	10	49,205	21,443	34,207	(88,100)
Change in subordinated liabilities		-	308	(200,000)	308
Change in securities under repurchase agreements		405,705	210,630	510,937	93,148
Dividends paid		-	-	(13,807)	(18,129)
Redemption of Class A shares	13	-	-	-	(378,101)
Issuance of Class F shares	13	-	-	1,229	435,949
Redemption of Class E shares	13	-	-	-	(53,050)
Reacquisition of treasury shares	13	-	-	-	(21,954)
Net cash from financing activities		455,187	201,991	127,054	151,972
Decrease in cash		(27,534)	(179,650)	(753,010)	(394,599)
Cash - beginning of period		85,884	335,814	811,360	550,763
Cash - end of period		\$ 58,350	\$ 156,164	\$ 58,350	\$ 156,164

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 November 21, 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,
- Determining 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 photocopiers. 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
<b>Impact on Statement of Financial Position</b>		
<b>Assets</b>		
Property and equipment	\$	5,752
Total Assets	\$	5,752
<b>Liabilities</b>		
Other liabilities	\$	5,724
<b>Equity</b>		
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)	Sep 30 2019	Dec 31 2018
<b>Securities FVTPL</b>		
Government and government guaranteed securities	\$ 6,873,471	\$ 6,787,033
Corporate and major financial institutions AA low or greater	1,899,524	1,001,534
Other	79,190	884,179
Fair value	\$ 8,852,185	\$ 8,672,746
Amortized cost	\$ 8,795,252	\$ 8,668,069
<b>Securities FVOCI</b>		
Government and government guaranteed securities	\$ 3,452,601	\$ 2,986,984
Corporate and major financial institutions AA low or greater	1,411,800	451,091
Other	806,891	1,175,199
Fair value	\$ 5,671,292	\$ 4,613,274
Amortized cost	\$ 5,666,101	\$ 4,619,401
Total fair value	\$ 14,523,477	\$ 13,286,020

## 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)	Sep 30 2019	Dec 31 2018
<b>FVTPL</b>		
Government and government guaranteed securities	\$ 594,274	\$ 580,457
Amortized cost	\$ 592,586	\$ 582,168
<b>Amortized cost</b>		
Assets acquired under reverse repurchase agreements	\$ 193,279	\$ -
Total reinvestment assets under the Canada Mortgage Bond Program	\$ 787,553	\$ 580,457

## 6. Loans

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

(Thousands of dollars)	Sep 30 2019	Dec 31 2018
<b>Amortized cost</b>		
Due on demand		
Credit unions	\$ 189,727	\$ 363,083
Commercial and others	3,623	941
	193,350	364,024
Term		
Credit unions	20,000	175,732
Commercial and others	797,045	673,573
Reverse repurchase agreements	1,431,438	694,772
Officers and employees <sup>(1)</sup>	9,808	7,976
	2,258,291	1,552,053
	2,451,641	1,916,077
Accrued interest	2,588	2,446
Premium	2,627	3,980
	2,456,856	1,922,503
Expected credit loss	(1,311)	(999)
Amortized cost	2,455,545	1,921,504
Fair value hedge adjustment <sup>(2)</sup>	(2,806)	(4,660)
Carrying value	\$ 2,452,739	\$ 1,916,844

<sup>(1)</sup> Loans to officers and employees bear interest at rates varying from 2.50% to 2.72%.

<sup>(2)</sup> Central 1 enters into fair value hedges to hedge the risks caused by changes in interest rates.

**Central 1 Credit Union**

Notes to the Interim Consolidated Financial Statements (Unaudited)  
 Period Ended September 30, 2019

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(Thousands of dollars)	Sep 30 2019	Dec 31 2018
<b>FVTPL</b>		
Term		
Commercial and others	\$ 21,804	\$ 22,229
Accrued interest	69	49
Premium	63	81
Amortized cost	\$ 21,936	\$ 22,359
Fair value	\$ 22,270	\$ 22,403
Total loans	\$ 2,475,009	\$ 1,939,247

**7. Other assets**

(Thousands of dollars)	Sep 30 2019	Dec 31 2018
Investment property	\$ 1,027	\$ 1,108
Prepaid expenses	12,081	10,665
Post-employment benefits	2,977	3,058
Accounts receivable and other	15,813	11,136
	\$ 31,898	\$ 25,967

## 8. Deposits

(Thousands of dollars)	Sep 30 2019	Dec 31 2018
<b>Deposits designated as FVTPL</b>		
Due within three months	\$ 556,430	\$ 551,048
Due after three months and within one year	2,154,385	1,698,918
Due after one year and within five years	3,959,585	4,450,854
	<b>6,670,400</b>	6,700,820
Accrued interest	53,158	48,373
Amortized cost	\$ 6,723,558	\$ 6,749,193
Fair value	\$ 6,730,175	\$ 6,697,026
<b>Deposits held at amortized cost</b>		
Due on demand	\$ 1,600,383	\$ 1,421,721
Due within three months	1,933,300	906,640
Due after three months and within one year	380,736	638,720
Due after one year and within five years	1,666,204	1,300,688
	<b>5,580,623</b>	4,267,769
Accrued interest	10,583	8,570
Amortized cost	\$ 5,591,206	\$ 4,276,339
Total carrying value	\$ 12,321,381	\$ 10,973,365

## 9. Debt securities issued

(Thousands of dollars)	Sep 30 2019	Dec 31 2018
Amounts		
Due within three months	\$ 493,846	\$ 663,701
Due after three months and within one year	412,989	49,621
Due after one year and within five years	847,756	1,246,518
	1,754,591	1,959,840
Accrued interest	6,794	5,551
Amortized cost	1,761,385	1,965,391
Fair value hedge adjustment	238	(7,346)
Carrying value	\$ 1,761,623	\$ 1,958,045

At September 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)	Sep 30 2019	Dec 31 2018
Amounts		
Due within one year	\$ 474,149	\$ 267,092
Due after one year and within five years	606,445	779,356
	1,080,594	1,046,448
Accrued interest	3,138	565
Amortized cost	\$ 1,083,732	\$ 1,047,013
Fair value	\$ 1,083,347	\$ 1,040,493

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

(Thousands of dollars)	Sep 30 2019	Dec 31 2018
<b>FVTPL</b>		
Total reinvestment assets under the Canada Mortgage Bond Program (see Note 5)	\$ 594,274	\$ 580,457
Assets recognized as securities	263,836	433,677
Fair value	\$ 858,110	\$ 1,014,134
<b>Amortized cost</b>		
Total reinvestment assets under the Canada Mortgage Bond Program (see Note 5)	\$ 193,279	\$ -
Assets recognized in loans	35,029	30,643
Total underlying assets designated	\$ 1,086,418	\$ 1,044,777

## 11. Subordinated liabilities

(Thousands of dollars)	Sep 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	(961)	(1,231)
Accrued interest	2,872	2,423
Amortized cost	\$ 222,911	\$ 422,192

## 12. Other liabilities

(Thousands of dollars)	Sep 30 2019	Dec 31 2018
Post-employment benefits	\$ 15,122	\$ 15,361
Short-term employee benefits	10,062	8,506
Dividends payable	-	13,807
Unearned insurance premiums	4	1,061
Finance Leases	6,650	1,178
Accounts payable and other	24,882	28,977
	\$ 56,720	\$ 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.

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(Thousands of shares)	Sep 30 2019	Dec 31 2018	Sep 30 2018
<b>Number of shares issued</b>			
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
<b>Number of treasury shares</b>			
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 May 31, 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 at a price of \$1 per share issued during the first nine months of 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)	Sep 30 2019	Dec 31 2018	Sep 30 2018
<b>Amount of share capital outstanding</b>			
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
	<b>431,168</b>	<b>429,939</b>	<b>485,986</b>
<b>Amount of treasury shares</b>			
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 nine months ended	
	Sep 30 2019	Sep 30 2018	Sep 30 2019	Sep 30 2018
Realized gain (loss) on securities as at FVTPL	\$ 4,230	\$ (13,593)	\$ 43,928	\$ (42,332)
Realized gain on securities as at FVOCI	829	612	11,055	6,666
Realized gain (loss) on derivative instruments	(2,266)	96	3,189	3,862
Realized gain on loans as at FVTPL	-	-	8	-
Realized gain (loss) on deposits designated as at FVTPL	(94)	(120)	(958)	93
Realized gain (loss) on obligations related to securities sold short	(406)	1,268	(4,063)	1,758
	\$ 2,293	\$ (11,737)	\$ 53,159	\$ (29,953)



**15. Change in fair value of financial instruments**

(Thousands of dollars)	For the three months ended		For the nine months ended	
	Sep 30 2019	Sep 30 2018	Sep 30 2019	Sep 30 2018
Securities as at FVTPL	\$ (12,630)	\$ (16,120)	\$ 51,511	\$ (14,467)
Loans as at FVTPL	(118)	(78)	292	(171)
Activities under the Canada Mortgage Bond Program				
Reinvestment assets	159	(1,400)	3,399	(2,389)
Derivative instruments	2,606	2,836	(9,786)	311
Obligations under the Canada Mortgage Bond Program	(208)	3,257	(6,135)	6,084
Derivative instruments	3,719	8,168	(15,804)	9,703
Financial liabilities as at FVTPL				
Deposits designated as at FVTPL	2,169	20,225	(54,166)	27,124
Obligations related to securities sold short	1,377	1,175	(129)	910
	\$ (2,926)	\$ 18,063	\$ (30,818)	\$ 27,105

**16. Non-financial income and gains from system affiliates**

(Thousands of dollars)	For the three months ended Sep 30 2019			For the three months ended Sep 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	\$ -	\$ 162	\$ 162	\$ -	\$ (132)	\$ (132)
Wholesale Financial Services						
Lending fees	3,373	-	3,373	2,016	-	2,016
Securitization fees	1,999	-	1,999	1,939	-	1,939
Foreign exchange income	-	1,883	1,883	-	1,462	1,462
Other	1,365	268	1,633	1,818	447	2,265
Digital & Payment Services						
Payment processing and other fees	15,071	-	15,071	15,127	-	15,127
Direct banking fees	8,736	-	8,736	7,999	-	7,999
System Affiliates						
Equity interest in affiliates	-	2,298	2,298	-	-	-
Income from investees	-	808	808	-	539	539
Gains from system affiliates	-	-	-	-	2,671	2,671
Other						
Membership dues	612	-	612	1,429	-	1,429
Other	1,283	-	1,283	2,520	-	2,520
	\$ 32,439	\$ 5,419	\$ 37,858	\$ 32,848	\$ 4,987	\$ 37,835

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(Thousands of dollars)	For the nine months ended Sep 30 2019			For the nine months ended Sep 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	\$ -	\$ (312)	\$ (312)	\$ -	\$ 160	\$ 160
Wholesale Financial Services						
Lending fees	7,764	-	7,764	5,573	-	5,573
Securitization fees	6,014	-	6,014	5,754	-	5,754
Foreign exchange income	-	6,697	6,697	-	5,300	5,300
Other	4,399	957	5,356	4,553	1,428	5,981
Digital & Payment Services						
Payment processing and other fees	44,162	-	44,162	44,764	-	44,764
Direct banking fees	26,020	-	26,020	24,018	-	24,018
System Affiliates						
Equity interest in affiliates	-	4,689	4,689	-	126	126
Income from investees	-	2,580	2,580	-	3,712	3,712
Gains from system affiliates	-	-	-	-	83,158	83,158
Other						
Membership dues	1,837	-	1,837	6,952	-	6,952
Other	3,455	-	3,455	4,843	-	4,843
	\$ 93,651	\$ 14,611	\$ 108,262	\$ 96,457	\$ 93,884	\$ 190,341

## 17. Other administrative expense

(Thousands of dollars)	For the three months ended		For the nine months ended	
	Sep 30 2019	Sep 30 2018	Sep 30 2019	Sep 30 2018
Cost of sales and services	\$ 3,140	\$ 3,411	\$ 7,991	\$ 10,590
Cost of payments processing	4,659	4,034	13,512	12,487
Management information systems	5,800	4,693	15,607	13,869
Professional fees	9,295	6,051	26,941	19,807
Flow through membership dues	-	1,567	-	4,560
Business development projects	137	303	549	726
Other	1,085	739	3,216	3,893
	\$ 24,116	\$ 20,798	\$ 67,816	\$ 65,932

## 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 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 Retail 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 September 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	\$	6,128	\$	11,758	\$	(95)	\$	-	\$	-	\$	17,791
Non-financial income		162		8,888		23,807		3,106		1,895		37,858
Net financial and other income		6,290		20,646		23,712		3,106		1,895		55,649
Non-financial expense		1,687		9,147		28,927		-		9,650		49,411
Profit (loss) before income taxes		4,603		11,499		(5,215)		3,106		(7,755)		6,238
Income tax expense (recovery)		800		2,015		(906)		(27)		(1,377)		505
Profit (loss)	\$	3,803	\$	9,484	\$	(4,309)	\$	3,133	\$	(6,378)	\$	5,733

The following table summarizes the segment results for the three months ended September 30, 2018:

(Thousands of dollars)	Mandatory Liquidity Pool		Wholesale Financial Services		Digital & Payment Services		System Affiliates		Other		Total	
Net financial income (expense) including impairment on financial assets	\$	10,325	\$	17,325	\$	(93)	\$	(259)	\$	-	\$	27,298
Non-financial income		(132)		7,682		23,126		3,210		3,949		37,835
Net financial and other income		10,193		25,007		23,033		2,951		3,949		65,133
Non-financial expense		2,160		8,010		23,757		457		7,274		41,658
Profit (loss) before income taxes		8,033		16,997		(724)		2,494		(3,325)		23,475
Income tax expense (recovery)		1,395		465		47		423		1,815		4,145
Profit (loss)	\$	6,638	\$	16,532	\$	(771)	\$	2,071	\$	(5,140)	\$	19,330

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The following table summarizes the segment results for the nine months ended September 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	\$ 29,977	\$ 54,122	\$ (300)	\$ (1,393)	\$ -	\$ 82,406
Non-financial income	(312)	25,831	70,182	7,269	5,292	108,262
Net financial and other income	29,665	79,953	69,882	5,876	5,292	190,668
Non-financial expense	5,094	27,860	88,004	22	20,692	141,672
Profit (loss) before income taxes	24,571	52,093	(18,122)	5,854	(15,400)	48,996
Income tax expense (recovery)	4,268	9,562	(3,148)	212	(5,415)	5,479
<b>Profit (loss)</b>	<b>\$ 20,303</b>	<b>\$ 42,531</b>	<b>\$ (14,974)</b>	<b>\$ 5,642</b>	<b>\$ (9,985)</b>	<b>\$ 43,517</b>
<b>Total assets as at Sep 30 2019</b>	<b>\$ 8,137,684</b>	<b>\$ 10,016,534</b>	<b>\$ 25,328</b>	<b>\$ 129,368</b>	<b>\$ 59,017</b>	<b>\$ 18,367,931</b>
<b>Total liabilities as at Sep 30 2019</b>	<b>\$ 7,639,004</b>	<b>\$ 9,554,905</b>	<b>\$ (1,565)</b>	<b>\$ 7,697</b>	<b>\$ 27,987</b>	<b>\$ 17,228,028</b>
<b>Total equity as at Sep 30 2019</b>	<b>\$ 498,680</b>	<b>\$ 461,629</b>	<b>\$ 26,893</b>	<b>\$ 121,671</b>	<b>\$ 31,030</b>	<b>\$ 1,139,903</b>

The following table summarizes the segment results for the nine months ended September 30, 2018:

(Thousands of dollars)	Mandatory Liquidity Pool	Wholesale Financial Services	Digital & Payment Services	System Affiliates	Other	Total
Net financial income (expense) including impairment on financial assets	\$ 21,685	\$ 32,926	\$ (249)	\$ (1,155)	\$ -	\$ 53,207
Non-financial income	160	22,608	68,782	86,996	11,795	190,341
Net financial and other income	21,845	55,534	68,533	85,841	11,795	243,548
Non-financial expense	6,282	24,175	74,089	2,084	24,269	130,899
Profit (loss) before income taxes	15,563	31,359	(5,556)	83,757	(12,474)	112,649
Income tax expense (recovery)	2,703	5,894	(965)	3,650	489	11,771
<b>Profit (loss)</b>	<b>\$ 12,860</b>	<b>\$ 25,465</b>	<b>\$ (4,591)</b>	<b>\$ 80,107</b>	<b>\$ (12,963)</b>	<b>\$ 100,878</b>
<b>Total assets as at Sep 30 2018</b>	<b>\$ 9,057,833</b>	<b>\$ 9,918,467</b>	<b>\$ 21,759</b>	<b>\$ 123,702</b>	<b>\$ 53,885</b>	<b>\$ 19,175,646</b>
<b>Total liabilities as at Sep 30 2018</b>	<b>\$ 8,518,208</b>	<b>\$ 9,463,802</b>	<b>\$ (34,664)</b>	<b>\$ 3,172</b>	<b>\$ 22,357</b>	<b>\$ 17,972,875</b>
<b>Total equity as at Sep 30 2018</b>	<b>\$ 539,625</b>	<b>\$ 454,665</b>	<b>\$ 56,423</b>	<b>\$ 120,530</b>	<b>\$ 31,528</b>	<b>\$ 1,202,771</b>

## 19. Guarantees, commitments, contingencies and pledged assets

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

(Thousands of dollars)	Sep 30 2019	Dec 31 2018
Commitments to extend credit	\$ 5,027,171	\$ 4,525,950
Guarantees		
Financial guarantees	\$ 614,600	\$ 480,000
Performance guarantees	\$ 100,000	\$ 210,000
Standby letters of credit	\$ 204,362	\$ 201,090
Future prepayment swap reinvestment commitment	\$ 1,355,887	\$ 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 September 30, 2019 are \$10.7 million, \$499.2 million and \$113.0 million (December 31, 2018 - \$21.2 million, \$471.1 million and \$78.0 million).

Central 1 from time to time issues performance guarantees related to the Asset Backed Commercial Paper Program. The performance guarantees represented in the table above are the maximum limits for parties in existing contractual obligations. Central 1 also issues blanket approvals for performance guarantees on a non-committed basis which will become contractual obligations for specified amounts if requested and authorized by Central 1, in their sole discretion. Central 1 has the ability to unilaterally withdraw anytime from these approved limits. These un-committed performance guarantee approved limits for September 30, 2019 were \$810.0 million (December 31, 2018 - \$600.0 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, cannot be reliably estimated at this point in time.



## Pledged assets

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

(Thousands of dollars)	Sep 30 2019	Dec 31 2018
Assets pledged to Bank of Canada & Direct Clearing Organizations <sup>(1)(2)</sup>	\$ 52,516	\$ 51,328
Assets pledged in relation to:		
Derivative financial instrument transactions	22,986	27,342
Securities lending	7,345	11,369
Obligations under the Canada Mortgage Bond Program	263,836	433,677
Reinvestment assets under the Canada Mortgage Bond Program	787,553	580,457
Securities under repurchase agreements	892,394	381,053
	\$ 2,026,630	\$ 1,485,226

<sup>(1)</sup> Includes assets pledged as collateral for LVTS activities.

<sup>(2)</sup> 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.

**Central 1 Credit Union**

Notes to the Interim Consolidated Financial Statements (Unaudited)  
Period Ended September 30, 2019

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The following tables present the fair value of Central 1's financial assets and financial liabilities classified in accordance with the fair value hierarchy:

(Millions of dollars) Sep 30 2019	Level 1	Level 2	Level 3	Amounts at Fair Value	Amounts at Amortized Cost <sup>(1)</sup>	Total Carrying Value
Financial assets						
Cash	\$ -	\$ -	\$ -	\$ -	\$ 58.4	\$ 58.4
Deposits with regulated financial institutions <sup>(1)</sup>	-	-	-	-	5.7	5.7
Securities	-	14,476.2	47.3	14,523.5	-	14,523.5
Reinvestment assets under the CMB Program	-	787.6	-	787.6	-	787.6
Loans	-	-	22.3	22.3	2,452.7	2,475.0
Derivative assets	-	50.1	-	50.1	-	50.1
Total financial assets	\$ -	\$ 15,313.9	\$ 69.6	\$ 15,383.5	\$ 2,516.8	\$ 17,900.3
Financial liabilities						
Deposits	\$ -	\$ 6,730.2	\$ -	\$ 6,730.2	\$ 5,591.2	\$ 12,321.4
Debt securities issued	-	-	-	-	1,761.6	1,761.6
Obligations under the CMB Program	-	1,083.4	-	1,083.4	-	1,083.4
Subordinated liabilities	-	-	-	-	222.9	222.9
Obligations related to securities sold short	-	88.0	-	88.0	-	88.0
Securities under repurchase agreements	-	-	-	-	892.4	892.4
Derivative liabilities	-	74.4	-	74.4	-	74.4
Total financial liabilities	\$ -	\$ 7,976.0	\$ -	\$ 7,976.0	\$ 8,468.1	\$ 16,444.1

<sup>(1)</sup> 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 Cost <sup>(1)</sup>	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

<sup>(1)</sup> 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 Sep 30 2019
Equity shares	\$	48.1	\$ 0.4	\$ (1.3)	\$ -	\$ 0.1	\$	47.3
Loans		22.4	-	-	-	(0.1)		22.3
Total financial assets	\$	70.5	\$ 0.4	\$ (1.3)	\$ -	\$ -	\$	69.6

## 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 September 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 the B.C. Financial Services Authority (BCFSA) (formerly, the Financial Institutions Commission of British Columbia). BCFSA 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.

BCFSA 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%. BCFSa 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 September 30, 2019 and September 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)	Sep 30 2019	Dec 31 2018
Mortgage loans outstanding at the end of the period	\$ 1,439	\$ 1,580

The mortgage loans to key members of management personnel bear interest at the rate between 2.50% and 2.55% and are secured over properties of the borrowers. No impairment losses have been recorded against this balance during the periods.

The following table presents the compensation to key management personnel:

(Thousands of dollars)	For the three months ended		For the nine months ended	
	Sep 30 2019	Sep 30 2018	Sep 30 2019	Sep 30 2018
Salaries and short-term employee benefits	\$ 979	\$ 978	\$ 3,272	\$ 2,369
Incentive	-	34	1,232	675
Post-employment benefits	52	33	168	126
Termination benefits	-	(48)	576	727
	\$ 1,031	\$ 997	\$ 5,248	\$ 3,897

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

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

### Transactions with Board of Directors

(Thousands of dollars)	For the three months ended		For the nine months ended	
	Sep 30 2019	Sep 30 2018	Sep 30 2019	Sep 30 2018
Total remuneration	\$ 159	\$ 157	\$ 511	\$ 487

### Significant subsidiaries

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

## 23. Subsequent Event

On November 21, the Board of Directors of Central 1 approved the submission of an implementation plan to B.C. Financial Services Authority (BCFSA) to legally segregate the B.C. and Ontario MLPs into contractual trusts by December 31, 2020. Under the implementation plan, Central 1, as trustee and investment manager, will continue to hold and manage the funds exclusively for credit unions under terms established by the regulators and B.C. and Ontario member credit unions. As at September 30, 2019, Central 1 had approximately \$18.4 billion of assets, of which the MLPs for both B.C. and Ontario represent approximately 44.0% in aggregate. Central 1 will submit the implementation plan for review and acceptance by the BCFSA.