Management's Discussion & Analysis

December 31, 2019

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2019 Highlights for the Year

(line of business results shown are profit (loss) before tax, unless otherwise indicated)

Total

$33.3M

Profit before tax

(**$34.2M** profit after tax)

Mandatory Liquidity Pool[1]

$27.5M

PROFIT

Wholesale Financial Services

$61.4M

PROFIT

Digital & Payment Services[2]

$10.4M

PROFIT

Other[3]

($8.5M)

Spending on Strategic Initiatives[4]

($57.5M)

Earnings per share[5]

7.9¢

Borrowing multiple

13.5:1

Tier 1 Capital Ratio

33.5%

[1] *Mandatory Liquidity Pool operations are identified as being planned for segregation at the end of 2020.*
[2] *Excludes strategic initiatives*
[3] *Other includes System Affiliates and excludes strategic initiatives*
[4] *Spending on strategic initiatives excludes MLP*
[5] *Earnings per share is calculated by dividing profit after tax by the average number of shares of all classes that are outstanding*

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Management's Discussion and Analysis

In this Management's Discussion and Analysis (MD&A), unless the context otherwise requires, references to "Central 1", "we", "us" and "our" refer to Central 1 Credit Union and its subsidiaries. This MD&A is dated February 21, 2020. The financial information included in this MD&A should be read in conjunction with our Consolidated Financial Statements for the years ended December 31, 2019 and 2018 (Consolidated Financial Statements), which were authorized for issue by the Board of Directors (the Board) on February 21, 2020. The results presented in this MD&A and in the 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 Consolidated Financial Statements. Additional information may be found on the System for Electronic Document Analysis and Retrieval (SEDAR) at **www.sedar.com**.

This MD&A also includes financial information about the credit union systems in British Columbia (B.C.) and Ontario. The B.C. credit union system is made up of all credit unions in B.C. except one credit union that has elected to become a federal credit union, while the Ontario credit union system is made up of only those credit unions that have elected to become our members. In the discussions presented in this report, the two provincial systems are individually referred to as the "British Columbia (B.C.) credit union system" or "B.C. system" and the "Ontario credit union system" or "Ontario system". Where the term "system" appears without regional designation, it refers to our total membership, encompassing credit unions in both provinces. Financial information for the B.C. system has been provided by the B.C. Financial Services Authority (BCFSA) 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.

Management's Discussion and Analysis

Who We Are

At Central 1, we power financial institutions. We've been doing that for more than 75 years. Our vision is to be a partner of choice for financial, digital banking and payment products and services. Our role as that partner supports the success of credit unions and by extension, the financial well-being of Canadians.

Our unique place in the cooperative banking ecosystem and our ability to meet challenges head on have helped us blaze a trail. That's because we don't keep up or catch up – we lead. We've created great financial technology and an amazing mobile banking experience that millions count on. We were the first to bring *Interac e-Transfer*® and cheque imaging to Canada. And now, with the **Forge Digital Banking Platform (Forge)**, we're transforming the banking experience for Canadians once again.

We power financial, digital banking, and payment products and services for more than 250 credit unions and clients across Canada. We fuel a strong and stable credit union system by managing the liquidity of British Columbia's and Ontario's credit unions. This includes delivering a robust array of funding programs and investment products.

But we're also about regular people, with over five million Canadians who use our services every day. We are owned by 105 Class A member credit unions who collectively form a member-oriented, full-service retail financial system that collectively holds billions in assets.

Our products and services are delivered through two core lines of business: Treasury and Digital & Payment Services. The Mandatory Liquidity Pool (MLP), which is part of Treasury, is presented separately from our results following the Board's approval and BCFSA's acceptance of the plan to legally segregate the B.C. and Ontario MLPs into contractual trusts by December 31, 2020.

Central 1, alongside 2,000 other organizations around the world, is a signatory of the UN supported Principles for Responsible Investment (PRI). We believe, as many in the industry do, that addressing key environmental, social, and governance (ESG) factors is crucial to developing a sustainable financial system. ESG considerations are a core part of our holistic approach to evaluating our investment holdings.

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Our Strategic Priorities and our Progress in 2019

Client Centricity

Transform our client service to align more closely with differentiated client needs

- We are an integral partner in the digital transformation of credit unions. We launched our *Forge* platform that enables our clients to design and customize their digital products and services and remain at the forefront of ever-evolving digital banking expectations.
- Working in partnership with *Forge* champions, the Forge Retail suite — comprising a public website, mobile banking app and online banking capabilities — launched in August 2019. We have 165 clients, nearly 50 per cent of Canadian credit unions, committed to Forge. Approximately two million Canadians will soon have access to the platform.
- We launched International Transfers — a made-in-Canada solution— enabling our clients to move money cross border any day, at any time. The launch of International Transfers has the potential to immediately impact four million Canadians, and gives credit unions with a competitive advantage—enabling seamless cross-border, multi-currency payments that few large financial institutions offer in Canada.

Operational Excellence

Create an engaged and empowered culture that delivers results

- We understand the importance of creating a healthy organization. Our focus on continuing to make Central 1 an inspiring place to work was reinforced by a significant increase in our organizational health score.
- We are progressing our vision to be an agile organization where decisions are made by smaller teams and we work with our clients to design and develop the best solutions. Our first Organizational Agility project successfully launched International Transfers, enabling credit union members to move money internationally through online banking.
- Central 1 was shortlisted for the 'Best Overall Corporate Governance' category award by the Governance Professionals of Canada at the 2019 Excellence in Governance Awards. 'Best Overall Corporate Governance' award honours organizations that demonstrate an ongoing commitment to corporate governance that adds value for the organization and their processes for continuous improvement.

System Leadership

Make change happen for the system

- We provide credit unions with the Treasury products and services they need to thrive. We are a partner who is dedicated to keeping our clients strong, stable and successful. Central 1 expanded our reach, delivering Treasury products and services to new clients in other provinces in Canada.
- Central 1 received strong investor support following a successful debt issuance in December 2019 that was almost four times oversubscribed. The positive response from existing and new investors is an indication of continued market confidence in Central 1, our revenue generating potential and our sound management practices.
- As Canada prepares to modernize payments, we are actively working on our own modernization journey, and are well-positioned to advance our plans to meet all Payments Canada and Interac timelines. In 2019, we successfully completed all the required milestones on schedule, and provided leadership and guidance to the Canadian credit union system to ready them for Payments Canada's modernization initiative.

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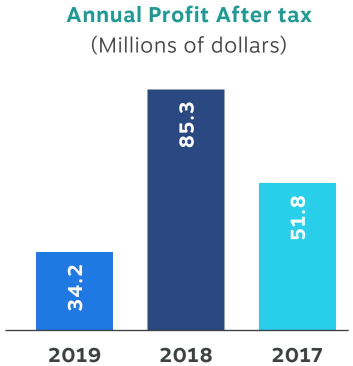
Our Plan for 2020

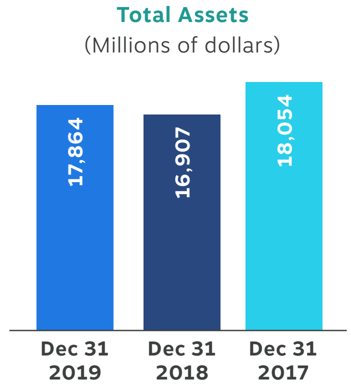
In 2020, Central 1 is committed to be the partner of choice for innovative financial, digital banking and payment products and services. Our number one priority is to enable our members’ and clients’ success, helping to enhance the financial well-being of more than five million Canadians from coast to coast.

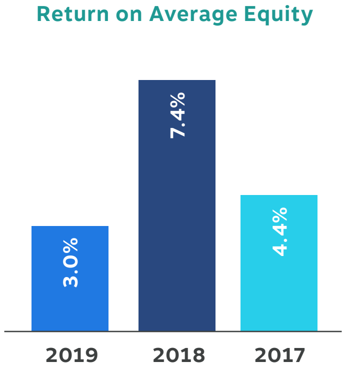
- Continue our efforts to be more responsive to our members’ and clients’ needs and the changing environment.
- Expand the reach of our financial products and solutions to fuel further profitable growth.
- Build new features into Forge Retail, launch our Forge Business products and Forge Community, while continuing the rollout to current and new clients.
- Be ready to deliver a path towards a modernized payments platform that will enable our clients to innovate and adapt to the needs of their business strategies and the expectations of their members and customers.
- Finalize the specific details and implement the segregation of the Mandatory Liquidity Pool, conduct ongoing member information and education on the process and outcomes.
- Broaden our internal efforts to increase efficiencies, agility and our ability to deliver on our vision by continuing to make Central 1 an inspiring place to work.

As we begin this next decade, the Central 1 Board has also commenced a future state review of our organization. The goal is to ensure Central 1 is best positioned to enable the long-term prosperity of our member-owners, clients and the credit union system, and simultaneously drive sustainable growth now and into the future.

Overall Performance







December 31 (millions of dollars)	2019	2018	2017
Income statement			
Net financial income	$ 70.7	$ 34.4	$ 47.0
Non-financial income	134.9	132.7	144.7
Net financial and non-financial income	205.6	167.1	191.7
Non-financial expense	142.3	126.2	125.9
	63.3	40.9	65.8
Gains from system affiliates	-	82.9	-
Strategic initiatives	(57.5)	(49.5)	(24.9)
Income tax (recovery)	(0.9)	2.5	7.2
Profit after tax from continuing operations	$ 6.7	$ 71.8	$ 33.7
Profit from discontinuing operations	$ 27.5	$ 13.5	$ 18.1
Profit after tax	$ 34.2	$ 85.3	$ 51.8

The 2018 and 2017 results were represented to reclassify results from discontinuing operations. For further details, please refer to Note 3 and Note 11 in our Notes to the Consolidated Financial Statements.
To meet current financial reporting requirements, 2018 and 2017 profit after tax have been represented to include a dividend income tax recovery balance.

Overall, our profit after tax of $34.2 million for the year ended December 31, 2019 was up $31.8 million from 2018, excluding our one-time gains of $82.9 million in 2018.

Continuing Operations

Our profit after tax from continuing operations for the year of 2019 was $6.7 million, $17.8 million higher than last year, excluding the one-time gains in 2018.

Net financial income increased $36.3 million from 2018 primarily driven by a $30.9 million increase in net realized and unrealized gains from decreasing market yields and narrowing credit spreads during the majority of 2019. Interest margin also increased $5.7 million as a result of higher than expected growth in WFS' deposit base in 2019.

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Non-financial expense was up $16.1 million from a year ago, mostly due to a provision for tax related matters together with a review of the carrying value of our intangible assets. Investments in our strategic initiatives continued in 2019, consistent with our strategic plan, with project expenses increasing $8.0 million from a year ago primarily led by the development of the *Forge* platform.

Discontinuing Operations

Following approval by our Board on November 21, 2019, we submitted a segregation plan to BCFSA to legally segregate the B.C. and Ontario MLPs into contractual trusts by December 31, 2020. Under the segregation plan, we as trustee and investment manager, will continue to manage the funds for credit unions under terms established by the regulators and B.C. and Ontario member credit unions. We received BCFSA's acceptance of the segregation plan in December 2019 and commenced extensive member engagement in early 2020. At December 31, 2019, the MLP has been presented separately within the consolidated results on our financial statements. In 2021, MLP assets will be reported as "Assets under Administration" and we will receive a management fee associated with the management of these funds.

The 2019 MLP reflected a profit after tax of $27.5 million, up $14.0 million from 2018. Net financial income increased by $13.2 million, which primarily benefited from decreasing market yields and narrowing credit spreads throughout most of 2019. Year-over-year comparison shows a $5.7 million decrease in interest margin, attributed to lower deposit levels over the year following Coast Capital's withdrawal of its mandatory deposits in 2018 as a result of their continuance as a federal credit union.

The dividends declared represent all of the MLP's pre-tax earnings in a fiscal year. The stronger 2019 earnings from the MLP, reflective of higher net financial income, resulted in increased dividends per share from 2018. After the MLP is legally segregated from Central 1 at the end of 2020, the associated dividends are anticipated to be discontinued.

December 31	2019	2018	2017
Selected information			
Efficiency ratio from continuing operations	**97.2%**	71.2%	79.3%
Adjusted efficiency ratio - excluding Forge and one-time gains[1]	**78.8%**	86.6%	73.8%
Return on average assets	**0.2%**	0.4%	0.3%
Return on average equity	**3.0%**	7.4%	4.4%
Earnings per share *(cents)*[2]			
Basic/Diluted	**7.9**	18.5	12.2
Basic/Diluted from continuing operations	**1.5**	15.6	7.9
Basic/Diluted from discontinuing operations	**6.4**	2.9	4.3
Dividends per share *(cents)*			
Class A - *credit unions*[3]	**-**	0.9	4.3
Class B & C - *cooperatives & other*	**2.2**	2.4	1.7
Class F - *credit unions*	**7.0**	2.7	-
Weighted average shares outstanding *(number of shares)*	**431.7**	460.2	424.9
Average assets *(millions of dollars)*	**$ 17,291.0**	$ 18,832.5	$ 17,851.2

[1] Refer to Non-GAAP Measures section
[2] Earnings per share is calculated based on all classes of shares
[3] 2018 MLP dividend was paid proportionately on Class A shares for the first quarter of 2018 and Class F shares for the remainder of the year. For 2019 and 2020, the MLP dividend will be paid proportionately on Class F shares only.

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Non-GAAP Measures

Results and measures in this document are presented on a GAAP basis. Unless otherwise indicated, all amounts have been derived from consolidated financial statements prepared in accordance with IFRS. References to GAAP means IFRS. They are also presented on an adjusted basis that excludes the impact of certain items as set out in the table below. We believe that certain non-GAAP measures described below are more reflective of our ongoing operating results and provide readers with a better understanding of our performance. Presenting results by excluding those items that may not be reflective of ongoing results permits readers to better assess the impact of certain specified items on the current performance. Non-GAAP measures do not have standardized meaning under GAAP and may not be comparable to similar measures disclosed by other companies and should not be viewed in isolation from, or as a substitute for, GAAP results.

Adjusted Efficiency Ratio

December 31 (millions of dollars)		2019		2018		2017
Reported results[1]						
Net financial and non-financial income	**$**	**206.3**	$	258.5	$	197.3
Non-financial expense	**$**	**200.5**	$	184.2	$	156.4
Efficiency ratio from continuing operations		**97.2%**		71.2%		79.3%
Adjusting items						
Net financial and non-financial income - One-time gains	**$**	**-**	$	82.9	$	-
Non-financial expense - Forge	**$**	**37.9**	$	32.2	$	10.8
Adjusted results						
Net financial and non-financial income	**$**	**206.3**	$	175.6	$	197.3
Non-financial expense	**$**	**162.6**	$	152.0	$	145.6
Adjusted efficiency ratio - excluding Forge and one-time gains		**78.8%**		86.6%		73.8%

[1]The reported results are based on the information presented in our Consolidated Statement of Profit.

To calculate this ratio, we have adjusted our reported net financial and non-financial income as well as non-financial expense to remove the impact associated with the development of the *Forge* platform and the 2018 one-time gains from our equity investments. We believe that the adjusted efficiency ratio provides readers with a better understanding of how we assess the underlying business performance and facilitates a more informed analysis of trends.

December 31		2019		2018		2017
Balance sheet *(millions of dollars)*						
Total assets	**$**	**17,864.1**	$	16,907.2	$	18,054.3
Regulatory ratios						
Tier 1 capital ratio		**33.5%**		37.3%		35.9%
Provincial capital ratio		**42.1%**		54.5%		54.1%
Borrowing multiple *(times)*		**13.5**		11.0		12.4

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

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December 31		2019		2018		2017
Share information *(thousands of dollars, unless otherwise indicated)*						
Outstanding $1 par value shares						
Class A – *credit unions*	**$**	**43,359**	$	43,359	$	428,101
Class B – *cooperatives*	**$**	**5**	$	5	$	5
Class C – *other*	**$**	**7**	$	7	$	7
Class F – *credit unions*	**$**	**396,686**	$	386,547	$	-
Outstanding $0.01 par value shares with redemption value of $100						
Class E – *credit unions*	**$**	**21**	$	21	$	31
Treasury shares	**$**	**(2)**	$	(2)	$	(1)

The change in total assets correlates to the change in the size of our funding portfolios. Despite the impact from Coast Capital's withdrawal of their deposits in late 2018 as a result of their continuance as a federal credit union, the size of our funding portfolio increased largely due to the strong growth in our non-mandatory deposits, reflective of liquidity in the credit union system. This led to an overall increase in total assets of $1.0 billion from the 2018 year-end to reach $17.9 billion at the end of December 2019.

The redemption of a $200.0 million subordinated debt in early 2019 led to an overall decrease in provincial regulatory capital. This lower capital balance coupled with an increase in risk weighted assets (RWA), primarily due to an increase in securities and commercial lending portfolios, resulted in a lower provincial capital ratio. The increase in RWA also improved our Tier 1 capital ratio. The borrowing multiple increased compared to prior year end as a result of this lower capital balance combined with the growth in non-mandatory deposits.

While impacted from Coast Capital's 2018 withdrawal of their deposits and shares and our redemption of subordinated debt during 2019, our regulatory ratios remain strong and we have continued to be in compliance with all regulatory capital requirements.

Factors That May Affect Future Results

In addition to the risks described in subsequent sections of this MD&A, there are numerous factors – systemic, political and economic – that may affect our performance, many of which are outside our immediate control and influence. The effects of these factors can be difficult to predict and could cause our results to differ significantly from our plans, objectives and estimates. Readers are cautioned that the list of risk factors below is not exhaustive and should be reviewed in conjunction with the Cautionary Note Regarding Forward-Looking Statements section of this MD&A.

Economic Conditions

As a wholesale financial services provider to member credit unions, we are affected by prevailing economic and business conditions, including the impact of prices within financial markets. Factors such as interest rates, inflation, consumer and business spending not only impact residential real estate lending and the primary activities for B.C. and Ontario credit unions, but also influence demand for the majority of other credit union products and services.

Our financial results are affected by the monetary policies of the Bank of Canada (BOC) and, to a lesser extent, by those of the U.S. Federal Reserve system. Monetary policy decisions determine the level of interest rates which, in turn, may have an impact on our financial results.

The interest rate differential, or credit spread, between Government of Canada (GOC) securities and those issued by other participants in fixed-income markets also affects our financial results. We earn income from accepting mandatory credit union deposits at rates based on Canada Mortgage Bond (CMB) securities and non-mandatory deposits

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based on senior bank deposit notes, and investing in securities issued by the GOC, other levels of government and corporations. To the extent that credit spreads change, our interest margin as well as the fair value of our financial instruments, would be impacted.

Industry Regulation

In 2019 the B.C. government passed two significant pieces of legislation which were significant to us and to the credit union system as a whole. The first, the *Financial Services Authority Act*, established a new regulator which replaced the Financial Institutions Commission (FICOM) with a crown agency, the B.C. Financial Services Authority (BCFSA). The BCFSA agency and its Board came fully into force in November 2019, but many aspects of its rule making authority remain to be defined under the new *Financial Institutions Act* (FIA). The revised FIA was passed in November 2019, and is a broad piece of legislation that will rely heavily on its regulations for operational standards and direction. The Ministry of Finance has expressed its concern that technology and the financial services industry is changing rapidly, and that legislative review processes cannot keep pace. Therefore, they have suggested the operational components of the legislation will be defined in regulation, which can be more rapidly reviewed and adjusted as appropriate. The process of consultation and drafting of regulations started in early 2020.

In 2019, we submitted a segregation plan to the BCFSA to legally segregate the B.C. and Ontario Mandatory Liquidity Pool (MLP) into contractual trusts by December 31, 2020. The intent to segregate was disclosed publicly in the fourth quarter of 2019.

In Ontario, the Ministry of Finance issued a consultation paper regarding the review of the *Credit Unions and Caisses Populaires Act* (CUCPA). We participated in a system response coordinated by the Canadian Credit Union Association, and issued a specific response related to specific consultation questions regarding the function of the Central 1. In the consultation, the Ministry queried whether a mandatory liquidity arrangement with Central 1 might be in the best interest of the system. We and the system were both clear that a mandatory arrangement is not necessary. Further work and finalization of revised CUCPA legislation is expected in 2020.

We have been designated by BCFSA as a domestic systemically important financial institution (D-SIFI) within the Canadian credit union system. D-SIFIs are financial institutions whose failure could cause significant disruption to the wider financial network and economic activity.

System-Specific Factors

Our financial performance is heavily influenced by events in the credit union system and financial services in general. There is strong competition for members and clients among Canada's financial services providers. The degree of such competition has an impact on the performance of our organization and the system. Credit unions enjoy strong member loyalty; retention is influenced by their ability to deliver products and services at competitive prices and service levels vis-à-vis other financial services providers.

We continually review our operations to determine if there are any opportunities to provide greater value to both members and other clients, to benefit the financial well-being of Canadians. Our focus is on the success of Canadian credit unions and their members and a reaffirmation of our commitment to the cooperative values and principles. We know that expanding our services to other financial institutions will further power the progress of Canadian credit unions.

Corporate-Specific Factors

We have earned a reputation for innovation, with deep expertise in providing services and products that create a competitive edge for our members and clients to enable them to reach their greatest potential.

Demand for our products and services are therefore correlated with the success of clients and their customers. For example, demand for products and services provided by our WFS business line are correlated with demand for lending and deposits at the individual credit union level. Technology needs within the system are similarly driven by member and client needs, which in turn are impacted by regulatory change and potentially disruptive new entrants into the market.

Our future performance is also dependent on our ability to attract, develop and retain key management personnel.

Other Factors

Other factors which can affect actual results include changes in accounting standards, including their effect on our accounting policies, estimates and judgements. Changes in income tax regulations also affect our actual results. In addition, we may be adversely impacted by the failure of third parties to comply with their obligations, such as obligations related to the handling of personal information or failure to prevent fraud.

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 and plans to segregate the Mandatory Liquidity Pool into contractual trusts. 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.

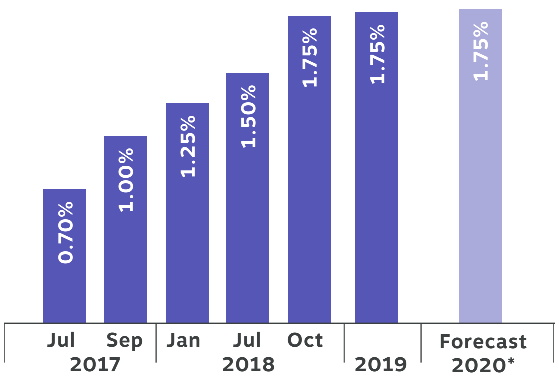
Forward-looking statements, by their nature, require us to make assumptions and are subject to inherent risks and uncertainties, which give rise to the possibility that predictions, forecasts or conclusions will not prove to be accurate, that assumptions may not be correct, and that financial objectives, 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, regulatory and operational risks and required member and regulatory approvals.

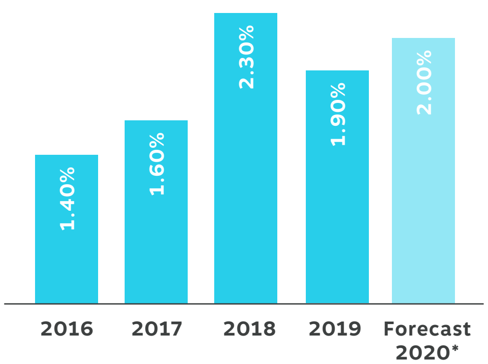
Readers are cautioned that the foregoing list is not intended to be exhaustive and other factors may adversely impact our results. We do not undertake to update forward-looking statements except as required by law.

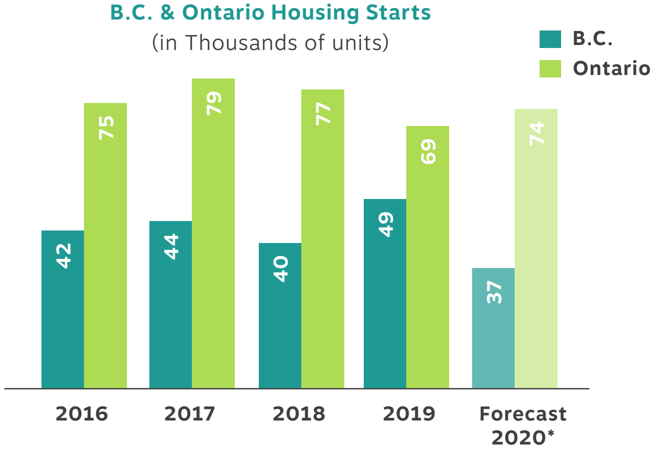
Economic Developments and Outlook

The following summaries of the economic environment, the state of financial markets and performance by both provincial systems in 2019 offer context for interpreting our year-over-year results and insight into our future.

Economic Environment







*Forecast source: Central 1 Economics

Global economic growth is forecasted to be 3.0 per cent for 2019, below the 3.5 per cent predicted at the beginning of the year and a significant drop from the 3.8 per cent seen in 2018. This is the slowest rate of economic growth since the global financial crisis and is a consequence of rising trade tensions and geopolitical uncertainties, weakness in several emerging market economies, and structural factors, such as low productivity growth and aging demographics in advanced economies. All this has factored into the broad-based slowdown in manufacturing, lowered demand for capital goods, and decreased investment, and has led to an easing of monetary policy across both advanced and emerging economies. Add in fears from the novel coronavirus, which are greatly affecting transportation logistics and tourism activities and we can foresee possible slower growth in 2020, especially in the first quarter of 2020.

U.S. economic growth maintained its strength in the first half of 2019. Growth is expected to come in at 2.4 per cent and to moderate to 2.1 per cent in 2020 as the effects from 2017 tax cuts fade. A tight labour market with an unemployment rate close to the half century low has wages rising, helping to keep consumer spending up. However, deepening of the U.S.-China trade war through 2019 contributed to weak business investment. A Phase 1 U.S.-China trade deal agreed to in late 2019 provided an uplift to sentiment. The Federal Reserve cut its policy rate three times in 2019 in response to weakening economic outlook.

Canada's economy is expected to grow at 1.7 per cent in 2019 according to the BOC, its slowest rate since the last recession. No recession is foreseen in the immediate future, supported by a healthy labour market and a turnaround in the housing market. Likely ratification of the Canada-United States-Mexico Agreement (CUSMA) should support exports and business investment although U.S.-China trade issues remain a concern. This has kept consumer confidence relatively steady and has led to moderate, but slower growth in consumer spending through most of 2019. As with the rest of the world, trade conflicts hampered investment in Canada because of all the uncertainties and energy investments continue to decline due to depressed energy prices. Outside oil producing regions, the economy is operating close to potential, with upward pressure from faster wage increases and rising housing markets cost.

British Columbia

British Columbia's economy grew by a forecast of 2.1 per cent in 2019 according to Central 1 Economics, its slowest pace since 2015. Weak export activity was the key drag on the economy, with trade wars and uncertainty hampering the broad export picture. Retail spending also underperformed with growth expected below one per cent for the year, its lowest level since a four per cent contraction in 2009. The upside though is that B.C. has experienced a strong labour market with employment gains of 2.6 percent, albeit with slowing momentum in the latter half of the year. Combined that with low unemployment numbers and this has led wage accelerations. Housing also took a hit in early part of the year but has recovered from those bottoms, fueled by deep cuts to mortgage rates, a steady economy, and a tight labour market.

Ontario

Ontario's economy grew by a forecast of 1.6 per cent in 2019 according to Central 1 Economics. Slower consumer demand, sharp declines in both residential and non-residential building investment, and deterioration in trade were primary drags on the economy for most of 2019. On an industry basis, various sectors experienced a pinch highlighted by sluggish growth in construction, manufacturing, retail auto production, and education. While goods-producing sectors have stumbled, many service sectors are outperforming and continue to expand at a stronger, albeit slower, pace than past years. The surprise was a strong labour market, which saw a strong 2.6 per cent growth in 2019 supported in part by strong population growth.

Financial Markets

Major political events have recently taken place that affect the market. A recent phase one agreement for a U.S.-China trade deal, an answer to the Brexit question through the recent United Kingdom election, and the signing of the CUSMA has lowered broader economic uncertainty. While the yield curve in the U.S. has returned to a normal upward sloping, it's still relatively inverted in Canada as the long term bond yields dropped over the year while short term rates remained the same as the BOC has kept overnight rate at 1.75 per cent through all of 2019. This has helped the Canadian Dollar (CAD) to appreciate slightly against the U.S. Dollar (USD) as the U.S. Federal Reserve cut its rates three times in 2019. Central 1 Economics does not expect any rate changes from the BOC for 2020. Equity markets in Canada and the U.S. continue to surpass all-time highs.

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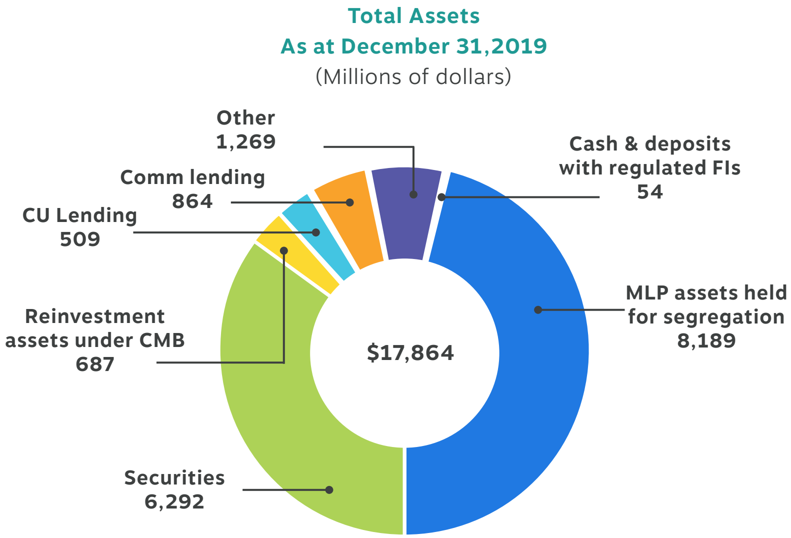
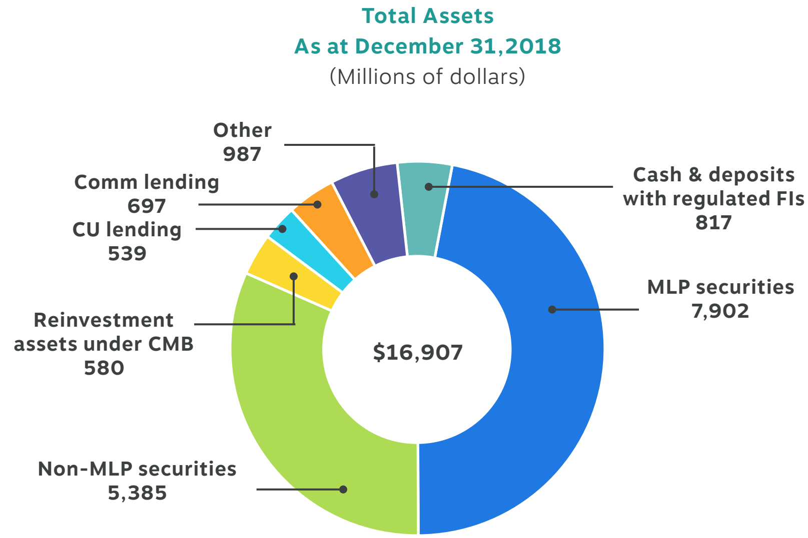
Statement of Financial Position

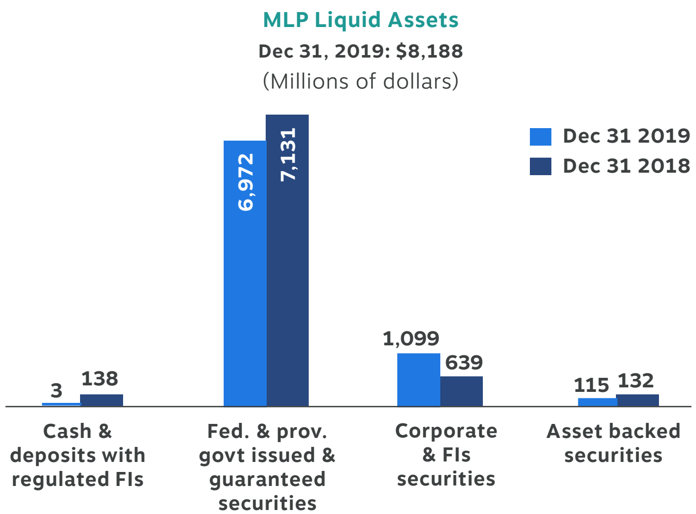


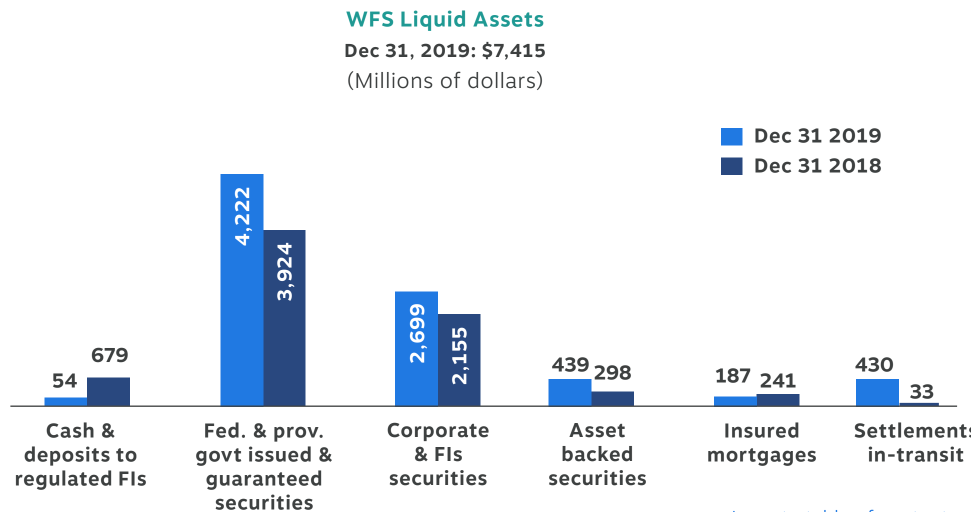


The funding portfolio experienced a $1.0 billion increase in our total assets in 2019. This was the result of strong growth in our non-mandatory deposits, which combined with a strong capital position allowed us to redeem $200.0 million worth of more expensive subordinated debt.

At December 31, 2019, the assets and liabilities of the MLP segment were classified as MLP assets and liabilities held for segregation on our Consolidated Statement of Financial Position following the approval from our Board in November 2019 to submit a segregation plan to BCFSA to legally segregate MLP into contractual trusts. We received BCFSA's acceptance of the segregation plan in December 2019.

Cash and Liquid Assets





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December 31, 2019 (Millions of dollars)	MLP** Liquid Assets	WFS Liquid Assets	WFS Securities Received as Collateral	WFS Total Liquid Assets	WFS Encumbered Assets	WFS Unencumbered Assets*
Cash and deposits with regulated financial institutions	$ 2.7	$ 53.9	$ -	$ 53.9	$ -	$ 53.9
Federal and provincial government issued and guaranteed securities	6,972.1	3,606.9	615.5	4,222.4	1,473.0	2,749.4
Corporate and financial institutions securities	1,099.0	2,699.3	-	2,699.3	19.0	2,680.3
Asset backed securities	114.7	438.5	-	438.5	45.0	393.5
Insured mortgages	-	187.0	-	187.0	73.2	113.8
Settlements in-transit	-	429.9	-	429.9	-	429.9
Total	**$ 8,188.5**	**$ 7,415.5**	**$ 615.5**	**$ 8,031.0**	**$ 1,610.2**	**$ 6,420.8**

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

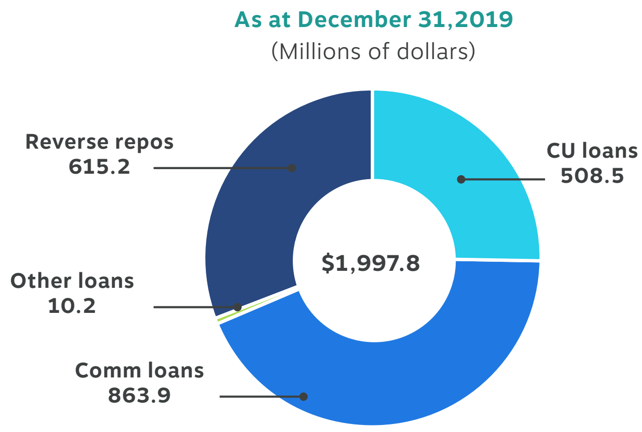
December 31, 2018 (Millions of dollars)	MLP Liquid Assets	WFS Liquid Assets	WFS Securities Received as Collateral	WFS Total Liquid Assets	WFS Encumbered Assets	WFS Unencumbered Assets*
Cash and deposits with regulated financial institutions	$ 138.0	$ 679.2	$ -	$ 679.2	$ -	$ 679.2
Federal and provincial government issued and guaranteed securities	7,131.3	3,223.2	700.3	3,923.5	1,299.0	2,624.5
Corporate and financial institutions securities	638.9	2,154.5	-	2,154.5	37.0	2,117.5
Asset backed securities	131.5	297.9	-	297.9	21.0	276.9
Insured mortgages	-	241.1	-	241.1	128.0	113.1
Settlements in-transit	-	32.8	-	32.8	-	32.8
Total	$ 8,039.7	$ 6,628.7	$ 700.3	$ 7,329.0	$ 1,485.0	$ 5,844.0

*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.
Comparative figures have been represented.

Cash and liquid assets for the MLP are managed on behalf of the credit union system. In addition, we manage our own liquidity within WFS. The liquidity management framework for WFS is designed to support the liquidity requirements for the system under non stressed conditions and to ensure that credit unions have access to reliable and cost-effective sources of liquidity. The liquidity in WFS also supports our potential cash and collateral obligations, including collateral pledged to the BOC's Large Value Transfer System. We maintain a portfolio of high-quality liquid assets in WFS to support these objectives.

MLP's liquid assets at December 31, 2019 were $148.8 million higher than a year ago, reflective of growth in the credit union system. WFS' liquid assets increased largely due to an increase in non-mandatory credit union deposits.

Loans



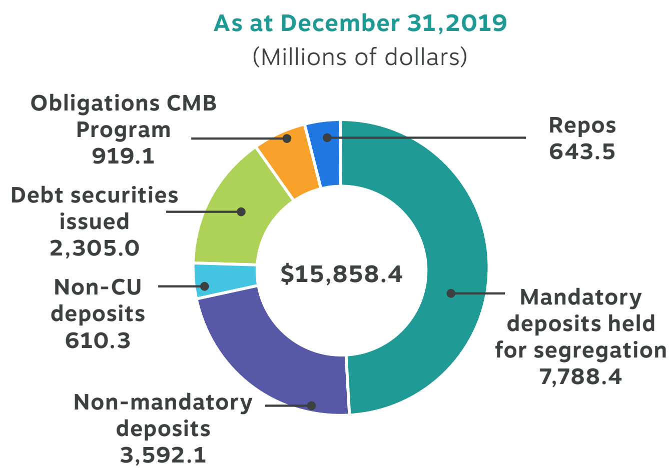
December 31 (Millions of dollars)		2019		2018
Loans to credit unions	$	**508.5**	$	538.8
Commercial loans		**863.9**		696.7
Other loans		**10.2**		8.0
		874.1		704.7
Reverse repurchase agreements		**615.2**		694.8
	$	**1,997.8**	$	1,938.3

*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 on our Consolidated Statement of Financial Position.

Loans to credit unions decreased by $30.3 million compared to the prior year reflective of greater liquidity in the credit union system and evidenced by an increase in our non-mandatory deposits from credit unions.

Funding



December 31 (Millions of dollars)		2019		2018
Deposits				
Mandatory deposits	$	**-**	$	7,553.1
Mandatory deposits held for segregation		**7,788.4**		-
Non-mandatory deposits		**3,592.1**		2,723.9
Deposits from member credit unions		**11,380.5**		10,277.0
Deposits from non-credit unions		**610.3**		696.4
		11,990.8		10,973.4
Debt securities issued				
Commercial paper issued		**531.8**		713.3
Medium-term notes issued		**1,551.7**		1,244.7
Subordinated liabilities		**221.5**		422.2
		2,305.0		2,380.2
Obligations under the Canada Mortgage Bond (CMB) Program		**919.1**		1,040.5
Securities under repurchase agreements		**643.5**		381.0
	$	**15,858.4**	$	14,775.1

Our primary funding source for WFS is credit unions' excess liquidity deposits. Further funding diversification is achieved through the issuance of commercial paper, medium-term notes and subordinated debt.

Our total funding portfolios increased $1.1 billion from a year ago, primarily driven by the growth in non-mandatory deposits from member credit unions, reflective of better liquidity within the credit union system.

We decreased our total outstanding debt securities by $75.2 million. In early 2019, we redeemed a $200.0 million of subordinated debt outstanding and decreased our commercial paper facility. During the fourth quarter of 2019, we issued a $300.0 million medium-term notes. As a percentage of our total borrowings, the outstanding debt securities represents 14.5 per cent at December 31, 2019, compared to 16.1 per cent at December 31, 2018.

We participate in direct securitization by acquiring ownership in mortgage pools and subsequently selling them into the Canada Housing Trust under the CMB Program. We also participate in indirect securitization, acting as an administrator on behalf of credit unions in the securitization process and receiving an administrative fee. Prepayment swaps are also offered to member credit unions and have seen steady growth in volumes since inception. Direct securitization transactions are accounted for on-balance sheet while indirect securitizations and prepayment swaps are off-balance sheet. At the end of 2019, the total amount due under the CMB Program was $919.1 million, down $121.4 million from a year ago, due to the maturity of the balance payable to the Canada Housing Trust.

Securities under repurchase agreements increased $262.5 million compared to prior year as more assets were purchased under repurchase agreements from member credit unions.

Equity

In 2018, we issued Class F shares following changes to our Constitution and Rules (Rules) which were approved by our members and our regulator in 2017. Proceeds from the issuance of Class F shares have become the primary form of capital in the MLP and Class A members are required to subscribe for Class F shares in proportion to their share of mandatory deposits. We intend to distribute dividends to Class F shareholders in an amount equal to the profit before tax earned on the MLP subject to regulatory requirements and approval from our Board. After the MLP is legally segregated from Central 1 at the end of 2020, the associated dividends are anticipated to be discontinued.

Class F in-cycle share calls are scheduled semi-annually which contributes to the year-over-year increase in MLP's share capital. In addition, year-over-year earnings retained by our other business lines, primarily led by higher net financial income from Wholesale Financial Services (WFS), accounted for most of the increase in equity.

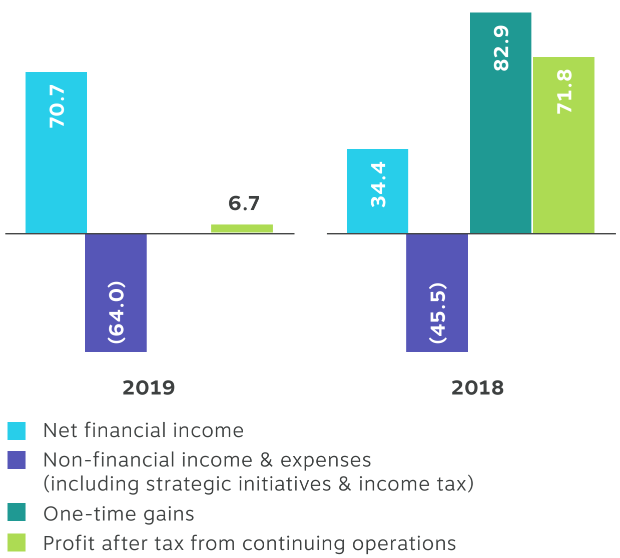
December 31 (Millions of dollars)		2019
Balance at December 31, 2018	$	1,090.9
IFRS 16 transition adjustment		0.1
Balance at January 1, 2019		1,091.0
Profit after tax		34.2
Other comprehensive income, net of tax		7.2
MLP dividend, net of tax		(27.5)
Class F share issued		10.1
Preferred shares redeemed by subsidiary		(1.8)
Balance at December 31, 2019	**$**	**1,113.2**

December 31 (Millions of dollars)		2018
Balance at December 31, 2017	$	1,119.1
IFRS 9 transition adjustment		(1.1)
Balance at January 1, 2018		1,118.0
Profit after tax		85.3
Other comprehensive income, net of tax		0.2
MLP dividend, net of tax		(13.8)
Reserves		(3.8)
Share restructuring:		
Class F share issued		386.5
Class A share redeemed		(384.7)
Class E share redeemed or reacquired		(111.6)
Related tax savings		14.8
Balance at December 31, 2018	$	1,090.9

Statement of Profit

2019 vs 2018

Annual Profit After Tax from Continuing Operations (Millions of dollars)



Continuing Operations

Profit after tax from continuing operations was $6.7 million for 2019, down $65.1 million from last year. Prior year results benefited from one-time gains of $82.9 million relating to transactions surrounding our equity investments. Excluding these gains, profit after tax in 2019 was up $17.8 million. Net financial income increased $36.3 million year-over-year primarily driven by a $30.9 million increase in net realized and unrealized gains from decreasing market yields and narrowing credit spreads in most of 2019. Higher than expected growth in WFS' deposit base in 2019 generated a higher interest margin, up $5.7 million from 2018.

Investments in our strategic initiatives in 2019 continued, consistent with our strategic plan, up by $8.0 million compared to last year primarily due to the development of the *Forge* platform. Non-financial expense also increased $16.1 million for items including a provision for tax related matters together with an expense associated with the review of our intangible assets' carrying value and higher costs of operations.

The combined impact from higher net financial income offsetting higher non-financial expense increased profit after tax from continuing operations during 2019.

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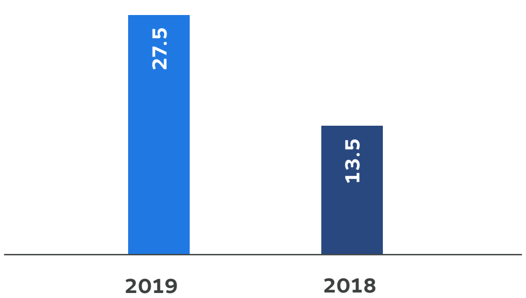
Annual Profit After Tax from Discontinuing Operations
(Millions of dollars)



Discontinuing Operations

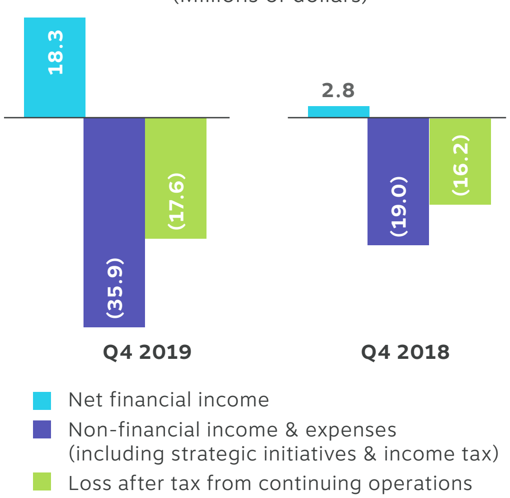
Discontinuing operations reflect the operations of the MLP segment which are separately disclosed in our consolidated results. For further details, refer to the Overall Performance section of this MD&A.

MLP's profit after tax in 2019 was up $14.0 million from 2018, ending the year at $27.5 million. MLP reported a $13.2 million increase in net financial income, primarily benefitting from decreasing market yields and narrowing credit spreads in most of 2019. Offsetting this was a $5.7 million decrease in interest margin as a result of Coast Capital's withdrawal of its mandatory deposits in late 2018.

In 2019, the MLP reported a foreign exchange loss of $0.5 million, compared to a $0.5 million foreign exchange gain a year ago, decreasing non-financial income by $1.0 million year-over-year.

Q4 2019 vs Q4 2018

Quarterly Loss After Tax from Continuing Operations
(Millions of dollars)



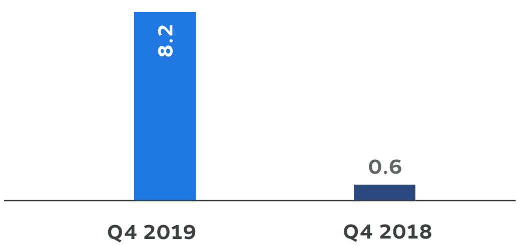
Continuing Operations

Our fourth quarter results reported a loss after tax from continuing operations of $17.6 million, $1.4 million greater than the same period last year. Net financial income increased $15.5 million compared to the fourth quarter of 2018, reflective of higher net realized and unrealized gains from lower interest rates and narrowing credit spreads.

There was a $5.4 million decrease in non-financial income, driven by lower dues levied to our members and a greater loss from equity investments. Non-financial expense was also higher than the same period last year, supported by the provision for tax related matters and an expense recognized from the 2019 annual review of the carrying value of our intangible assets and higher costs of operations. Investments in strategic initiatives continued throughout the fourth quarter of 2019 with the amount invested being $6.6 million lower than the same period last year.

Overall, the combined impact resulted in a greater loss after tax in the fourth quarter.

Quarterly Profit After Tax from Discontinuing Operations
(Millions of dollars)



Discontinuing Operations

Discontinuing operations reflect the operations of the MLP segment which are separately disclosed in our consolidated results. For further details, refer to the Overall Performance section of this MD&A.

MLP's fourth quarter profit after tax for 2019 exceeded that of the same period in 2018 by $7.6 million. MLP's profit before tax in 2019 was up $6.0 million from 2018, ending the year at $3.9 million.

MLP's fourth quarter results saw an increase in net financial income of $4.9 million from the same period last year. Net realized and unrealized gains were up $8.6 million from the same period last year, benefitting from decreasing market yields and narrowing credit spreads. The reduced size of the funding portfolios in the MLP, mainly a result of Coast Capital's withdrawal of their deposits in late 2018, led to a $3.5 million decrease in interest margin.

Income Tax

While our combined federal and provincial statutory tax rate, net of the credit union deduction, was unchanged from the prior year's 17.4 per cent, our 2019 effective tax rate from continuing operations was negative 15.7 per cent, compared to positive 3.4 per cent in 2018. This low effective tax rate primarily benefited from favorable tax credits relating to prior years and the recognition of the non-capital loss from one of our subsidiaries.

Results by Segment

In 2019, our operations and activities are reported around three key business segments: MLP, WFS and Digital & Payment Services. At December 31, 2019, the assets and liabilities of the MLP were classified as MLP assets and liabilities held for segregation following the approval by our Board in November 2019 to submit a segregation plan to BCFSA to legally segregate the B.C. and Ontario MLPs into contractual trusts by December 31, 2020. We received BCFSA's acceptance of the segregation plan in December 2019.

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 unattributed amounts included in the Other operating segment.

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

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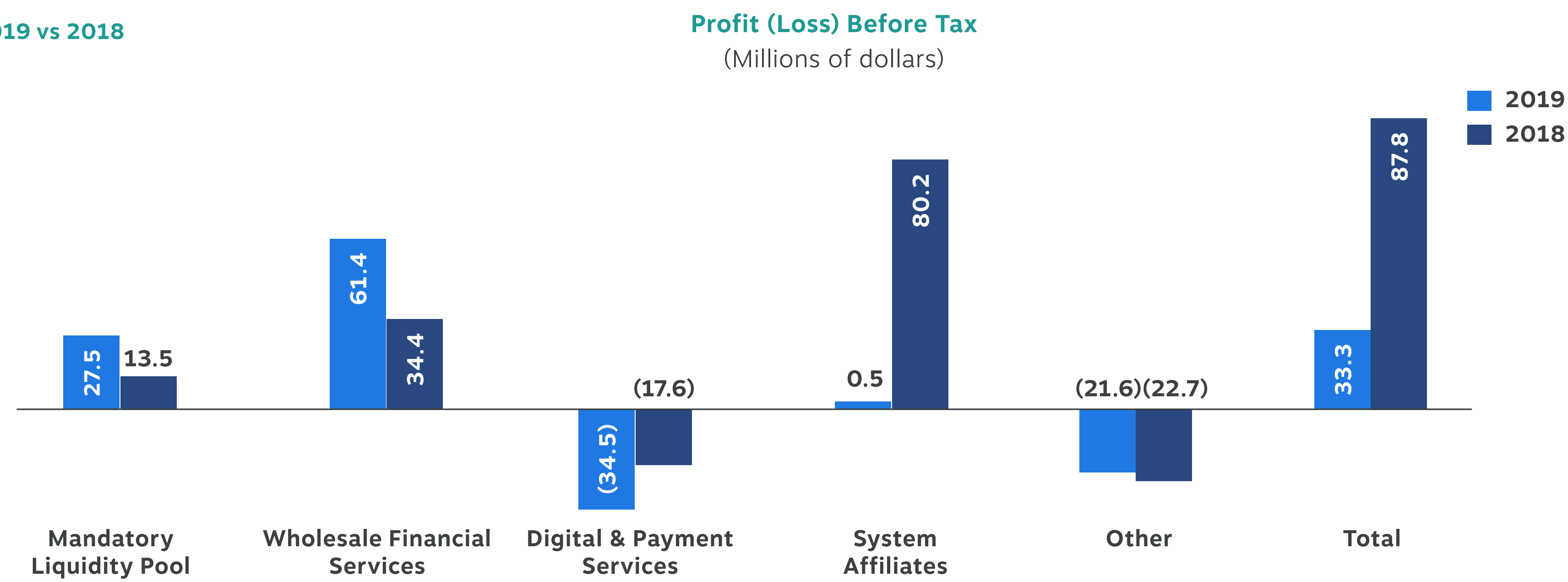
2019 vs 2018



For the year ended December 31, 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	$	36.8 $	72.4 $	(0.4) $	(1.3) $	- $	**107.5**
Non-financial income		(0.5)	32.8	94.7	1.8	5.6	**134.4**
Net financial and non-financial income		36.3	105.2	94.3	0.5	5.6	**241.9**
Non-financial expenses		6.8	43.8	83.9	-	14.6	**149.1**
		29.5	61.4	10.4	0.5	(9.0)	**92.8**
Strategic investments		(2.0)	-	(44.9)	-	(12.6)	**(59.5)**
Profit (loss) before tax	**$**	**27.5 $**	**61.4 $**	**(34.5) $**	**0.5 $**	**(21.6) $**	**33.3**

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For the year ended December 31, 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	$	23.6	$	36.7	$	(0.4)	$	(1.9)	$	-	$	58.0
Non-financial income		0.5		30.9		85.5		1.0		15.3		133.2
Net financial and non-financial income		24.1		67.6		85.1		(0.9)		15.3		191.2
Non-financial expenses		10.3		33.2		66.5		1.8		24.7		136.5
		13.8		34.4		18.6		(2.7)		(9.4)		54.7
Strategic investments		(0.3)		-		(36.2)		82.9		(13.3)		33.1
Profit (loss) before tax	$	13.5	$	34.4	$	(17.6)	$	80.2	$	(22.7)	$	87.8

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

Mandatory Liquidity Pool

MLP's profit before tax in 2019 was up $14.0 million from 2018, ending the year at $27.5 million. The MLP's results have been presented separately within the consolidated results on our financial statements. Please refer to the Statement of Profit of this MD&A for further details of MLP's results compared to last year.

Wholesale Financial Services

WFS saw a year-over-year increase of $35.7 million in net financial income. Decreasing market yields and narrowing credit spreads during most of 2019 resulted in an increase of $32.9 million in net realized and unrealized gains. The higher than expected growth in WFS' deposit base in 2019 generated a higher interest margin, resulting in a comparative $3.2 million increase from 2018.

WFS reported higher revenue in their commercial lending area, reflective of increased commercial loan business. Greater liquidity in the credit union system allowed credit unions to reduce their borrowing with us, which led to an increase in the undrawn commitments to extend credit to our members. This resulted in a $2.6 million increase in standby lending fee revenue. These movements, in combination with higher foreign exchange income, contributed to higher non-financial income. Offsetting these increases are higher non-financial expenses stemming from the provision for tax related matters in WFS' Financial Services area and higher salaries and employee benefits expenses. The collective impact was a higher WFS' profit before tax by $27.0 million.

Digital & Payment Services

In 2019, Digital & Payment Services experienced a year-over-year loss that was $16.9 million greater than the prior year. This segment saw an increase of $8.7 million in its investments in strategic initiatives which included the development of the *Forge* platform and payments modernization. Non-financial income was $9.2 million higher due to increased direct banking revenue. However, this increase was outweighed by a $17.4 million increase in non-financial expense due to increased corporate expenditures supporting the segment's operations and the expense following a review of our intangible assets' carrying value.

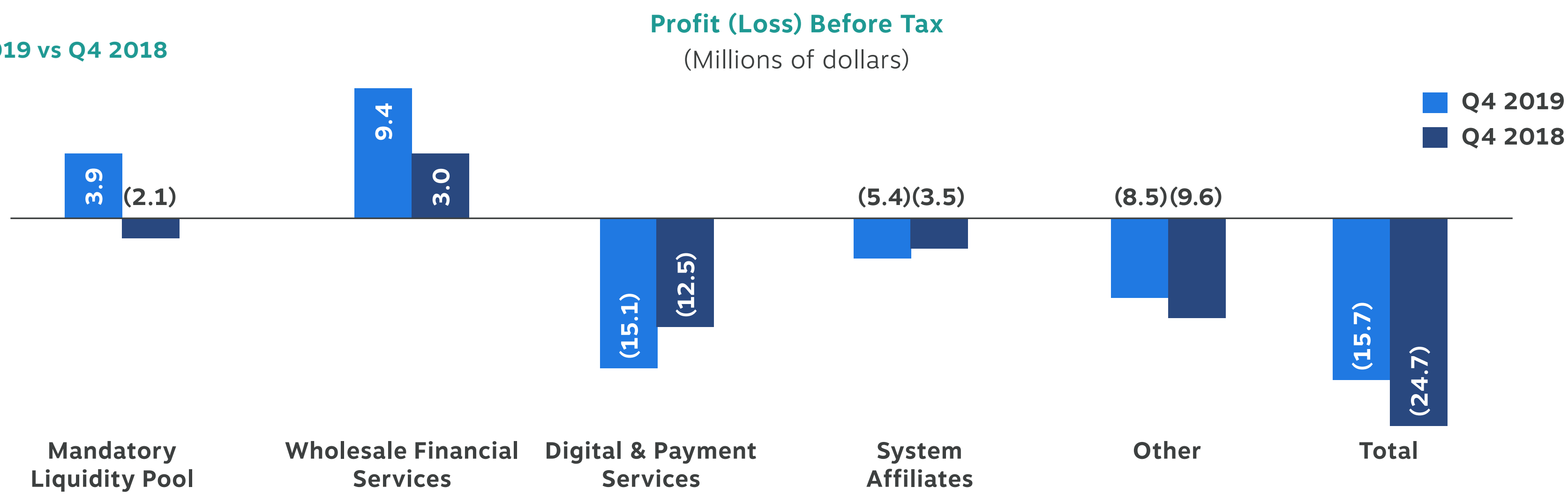
System Affiliates

System Affiliates' 2018 results benefited from one-time gains relating to our equity investments. Excluding these gains, System Affiliates' results were $3.2 million better in 2019. While the loss from these equity investments was very small in 2019, the comparative loss was $2.6 million greater in 2018, leading to overall better results in 2019.

Other

The Other segment reported a loss before tax of $21.6 million in 2019, largely in line with 2018. Investments in our strategic initiatives continued throughout 2019, with a primary focus on Organizational Agility, the development of a new banking system and data analytics. Total investments were consistent year-over-year. A lower non-financial income from dues levied to our members during 2019 was mitigated by lower non-financial expense, leading to an overall smaller loss in this segment.

Q4 2019 vs Q4 2018



For the three months ended December 31, 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	$ 6.8	$ 18.3	$ (0.1)	$ 0.1	$ -	**$ 25.1**
Non-financial income	(0.2)	7.1	23.5	(5.5)	1.7	**26.6**
Net financial and non-financial income	6.6	25.4	23.4	(5.4)	1.7	**51.7**
Non-financial expenses	1.7	16.0	23.9	-	6.0	**47.6**
	4.9	9.4	(0.5)	(5.4)	(4.3)	**4.1**
Strategic investments	(1.0)	-	(14.6)	-	(4.2)	**(19.8)**
Profit (loss) before tax	**$ 3.9**	**$ 9.4**	**$ (15.1)**	**$ (5.4)**	**$ (8.5)**	**$ (15.7)**

For the three months ended December 31, 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	$ 1.9	$ 3.8	$ (0.2)	$ (0.8)	$ -	$ 4.7
Non-financial income	0.3	8.3	21.8	(2.7)	4.8	32.5
Net financial and non-financial income	2.2	12.1	21.6	(3.5)	4.8	37.2
Non-financial expenses	4.0	9.1	17.0	-	6.1	36.2
	(1.8)	3.0	4.6	(3.5)	(1.3)	1.0
Strategic investments	(0.3)	-	(17.1)	-	(8.3)	(25.7)
Profit (loss) before tax	$ (2.1)	$ 3.0	$ (12.5)	$ (3.5)	$ (9.6)	$ (24.7)

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

Mandatory Liquidity Pool

MLP’s profit before tax in the fourth quarter of 2019 was up $6.0 million from the same period in 2018, ending the year at $3.9 million. The MLP’s fourth quarter results have been presented separately within the consolidated results on our financial statements. Please refer to the Statement of Profit of this MD&A for further details of MLP’s fourth quarter results compared to the same period last year.

Wholesale Financial Services

WFS saw a $14.5 million increase in net financial income in the fourth quarter of 2019 primarily driven by higher net realized and unrealized gains as a result of lower interest rates and narrowing credit spreads. Offsetting some of these gains was a decrease of $1.7 million in interest margin. Higher yield securities matured and resulting funds were reinvested at current lower market rates. Non-financial income decreased $1.2 million from 2018, primarily due to a lower foreign exchange income. Combined, WFS reported a profit before tax of $9.4 million in the fourth quarter of 2019, up $6.4 million from the same quarter last year.

Digital & Payment Services

During the fourth quarter of 2019, Digital & Payment Services continued to invest in strategic initiatives, including the development of the *Forge* platform and payments modernization, with the amount invested being $2.5 million lower than a year ago. While Digital & Payment Services saw increased revenue in its direct banking area, the business experienced a larger increase in non-financial expense due to higher corporate expenditure and the expense recognized from the annual review of the carrying value of intangible assets in the fourth quarter. The collective impact of these movements contributed to an overall $2.6 million greater loss before tax compared to the same period last year.

System Affiliates

System Affiliates’ results reflected a loss before tax of $5.4 million, which were $1.9 million higher than the fourth quarter of 2018, primarily due to a greater loss from our equity investments.

Other

During the fourth quarter, the Other operating segment reported a loss before tax that was $1.1 million better than the same period last year. Investments in strategic initiatives continued in the fourth quarter, including the development of a new banking system and data analytics, with total investments being $4.1 million lower than 2018. These lower investments exceeded the impact from lower dues levied to our members and contributed to a lower loss reported in the Other operating segment.

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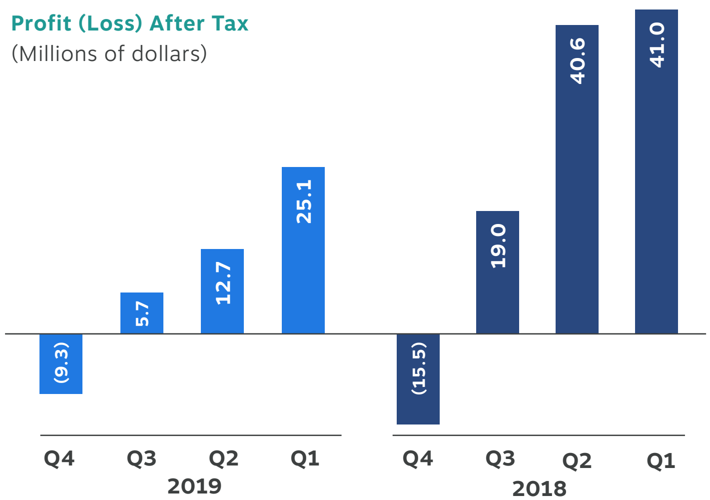
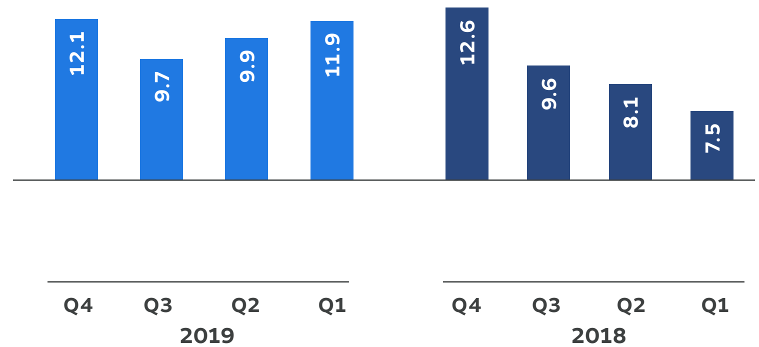
Summary of Quarterly Results

Profit (Loss) After Tax
(Millions of dollars)



Interest Margin
(Millions of dollars)



(Thousands of dollars, except as indicated)	2019 Q4	2019 Q3	2019 Q2	2019 Q1	2018 Q4	2018 Q3	2018 Q2	2018 Q1
Interest income	$ **51,234**	$ 48,655	$ 49,738	$ 48,059	$ 51,637	$ 49,749	$ 46,982	$ 42,561
Interest expense	**39,175**	38,931	39,815	36,170	39,033	40,122	38,833	35,085
Interest margin	**12,059**	9,724	9,923	11,889	12,604	9,627	8,149	7,476
Realized and unrealized gains (losses)	**6,589**	1,903	7,531	11,708	(9,523)	7,439	(1,105)	29
Impairment loss (recovery) on financial assets	**364**	(37)	46	242	197	93	(124)	123
	18,283	11,665	17,408	23,356	2,884	16,973	7,168	7,381
Non-financial income	**26,974**	37,695	36,975	33,904	33,953	35,296	37,095	34,632
Gains from system affiliates	**-**	-	-	-	-	2,671	37,470	43,017
	26,974	37,695	36,975	33,904	33,953	37,967	74,565	77,649
Non-financial expense	**64,957**	46,827	48,869	39,852	59,576	39,498	42,174	42,945
	(37,982)	(9,132)	(11,894)	(5,949)	(25,623)	(1,531)	32,391	34,704
Profit (loss) before tax	**(19,699)**	2,532	5,514	17,407	(22,739)	15,442	39,559	42,085
Income taxes (recovery)	**(2,115)**	(295)	523	983	(6,569)	2,750	2,205	4,113
Profit (loss) after tax from continuing operations	**(17,584)**	2,827	4,992	16,425	(16,170)	12,692	37,354	37,972
Profit from discontinuing operations	**8,238**	2,906	7,669	8,699	620	6,638	3,205	3,018
Profit (loss)	$ **(9,346)**	$ 5,733	$ 12,660	$ 25,124	$ (15,550)	$ 19,330	$ 40,558	$ 40,990
Weighted average shares outstanding *(millions)*	**434.7**	431.2	431.1	430.0	444.7	486.5	479.4	429.7
Earnings per share *(cents)**								
Basic/ Diluted	**(2.1)**	1.3	2.9	5.8	(3.5)	4.0	8.5	9.5
Basic/ Diluted from continuing operations	**(4.0)**	0.6	1.1	3.8	(3.6)	2.6	7.8	8.8
Basic/ Diluted from discontinuing operations	**1.9**	0.7	1.8	2.0	0.1	1.4	0.7	0.7

*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. Certain comparative figures have been reclassified to conform with the current period's presentation. The 2018 results were represented to reclassify results from discontinuing operations. For further details, please refer to Note 3 and Note 11 in our Notes to the Consolidated Financial Statements.

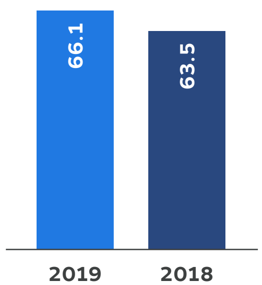
Interest margin peaked in the fourth quarter of 2018 but continued to perform well during 2019. The inverted yield curve in 2019 made it challenging to find high yielding assets in which to invest new and maturing funds at levels substantially exceeding deposit rates.

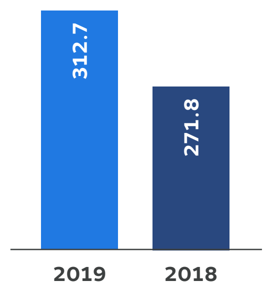
Decreasing market yields and narrowing credit spreads during most of 2019 drove increases in the fair value of our securities portfolio, as demonstrated by the stronger net realized and unrealized gains.

The one-time gains from the 2018 system affiliates transactions was reflected in the first two quarters of 2018. Excluding these gains, we saw a smaller growth in our profit for each of these two quarters in 2018, which had been largely supported by a strong interest margin. This strong interest margin continued to drive our profit growth during the first three quarters of 2019, with the fourth quarter experiencing a loss. This loss is reflective of the provision for tax related matters and the expense recorded from the review of our intangible assets carrying value, in combination with a loss from equity investments.

System Performance

British Columbia





The system's assets and earnings continued to grow in 2019. Net income after taxes totaled $312.7 million, up from $271.8 million in 2018. This was driven by a 39.3 per cent increase non-financial income and a net loan increase of 4.0 per cent. Offsetting this was a decrease in net interest income of 1.3 per cent, largely caused by a 29.2 per cent increase in deposit interest cost. Non-interest expenses in 2019 increased modestly at 1.8 per cent year-over-year, led by increases in salaries and professional services.

Assets of the B.C. system totaled $66.1 billion at the end of 2019, up $2.6 billion or 4.2 per cent from a year earlier. Asset growth was largely in personal and commercial mortgages. Liability growth was led by non-registered term deposits. The 90-day delinquency rate at year-end stood at 0.20 per cent of the loan portfolio, up three basis points (bps) from a year earlier. Net loan loss expense was 0.06 per cent of average loans in 2019, down one bp from a year earlier. Reserves held against loan losses totaled 0.31 per cent of the portfolio at year-end, roughly the same as last year.

The system's liquidity ratio was 14.7 per cent at the end of 2019, down 13 bps from a year earlier. The risk-weighted capital adequacy ratio finished 2019 at 15.3 per cent, down 6 bps year-over-year. B.C. credit union membership stood at approximately 1.4 million at year-end, roughly the same as last year.

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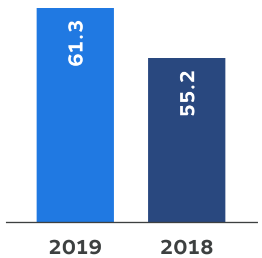
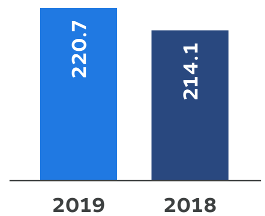
Ontario

Total Assets
(Billions of dollars)



Net Operating Income
(Millions of dollars)



524 Branches

1.5 million Members

64 Credit Unions

The Ontario credit union system saw profits grow in 2019, albeit at a significantly slower pace than in 2018. Net income after taxes totaled $220.7 million, up from $214.1 million in 2018. While lending and deposits grew at a similar rate, the interest paid on deposits increase more than those earned on loans, putting pressure on financial margins. Gross spread came in at 1.89 per cent in 2019, down 12 bps from 2018. Non-financial income also grew to $248.5 million in 2019 up from $238.1 million in 2018.

Asset growth for the Ontario system remained strong in 2019, with assets totaling $61.3 billion at year end, up 11.0 per cent year-over-year. Loan growth was largely in residential mortgages with commercial loans and mortgages also increasing. Deposits totaled $48.2 billion at year-end, up 8.8 per cent from a year earlier. Deposit growth was largely in non-registered term products. Borrowings totaled $8.2 billion at year end, up 22.9 per cent year-over-year. Credit union capital totaled $4.1 billion at year-end, up 11.4 per cent year-over-year.

The system’s liquidity ratio ended 2019 at 12.9 per cent, up from 11.6 per cent from 2018. The risk-weighted capital ratio increased from 12.8 per cent to 13.0 per cent. The system’s credit risk measures generally increased but remained low in 2019. The overall 90-day delinquency rate went up from 0.24 per cent to 0.27 per cent at year-end, while total loan loss reserves ended 2019 at 0.26 per cent of the portfolio. The rate of loan loss expense was six bps in 2019, similar to last year. Ontario credit union membership stood at approximately 1.5 million at year-end, roughly the same as last year.

Off-Balance Sheet Arrangements

In the normal course of business, we enter into off-balance sheet arrangements that, under IFRS, are not required to be recorded on the Consolidated Statement of Financial Position. These arrangements fall into the following main categories: derivative financial instruments, guarantees and commitments, and assets under administration.

Derivative Financial Instruments

December 31 (Millions of dollars)		2019		Notional Amount 2018
Interest rate contracts				
Bond forwards	**$**	**66.7**	$	136.7
Futures contracts		**1,330.0**		890.0
Swap contracts		**35,138.4**		33,881.9
		36,535.1		34,908.6
Foreign exchange contracts				
Foreign exchange forward contracts		**380.8**		678.4
Other derivative contracts				
Equity index-linked options		**183.3**		216.2
	$	**37,099.2**	$	35,803.2

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 asset/liability management (ALM) of their respective balance sheets.

Derivatives are recognized in the 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 individual 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.

December 31 (Millions of dollars)		2019		2018
Commitments to extend credit	**$**	**4,332.0**	$	4,526.0
Guarantees				
Financial Guarantees	**$**	**622.6**	$	480.0
Performance Guarantees	**$**	**100.0**	$	210.0
Standby letters of credit	**$**	**219.8**	$	201.1
Future prepayment swap reinvestment commitment	**$**	**1,339.2**	$	1,101.0

Comparative figures have been represented.

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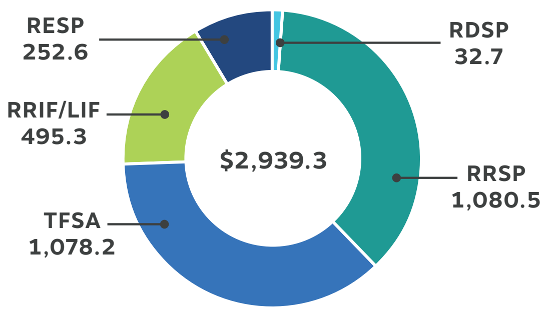
In the normal course of business, we enter into various off-balance sheet instruments to meet the financing, credit, and liquidity requirements of our member credit unions. These are in the form of commitments to extend credit, guarantees, and standby letter of credit.

Commitments to extend credit, representing undrawn commitments, decreased $194.0 million from a year ago. This is reflected in the increased commercial lending balance. With the authorized credit limits remaining consistent, the higher the commercial lending balance, reflective of counterparties' increasing need to draw on the credits, the lower the undrawn commitments. Financial guarantees increased $142.6 million from additional limits offered to credit unions, while standby letters of credit were in line with the prior year. Future prepayment swap reinvestment commitments also increased $238.2 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, down $110.0 million from last year. 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.

Assets under Administration

As at December 31,2019
(Millions of dollars)



December 31 (Millions of dollars)		2019		2018
Registered Retirement Savings Plans (RRSP)	$	**1,080.5**	$	1,071.8
Tax-Free Savings Accounts (TFSA)		**1,078.2**		934.1
Registered Retirement Income Funds/Life Income Funds (RRIF/LIF)		**495.3**		453.6
Registered Education Savings Plans (RESP)		**252.6**		234.3
Registered Disability Savings Plans (RDSP)		**32.7**		26.4
	$	**2,939.3**	$	2,720.2

Comparative figures have been represented.

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

An overall increase in business from both Ontario and B.C., along with market value appreciation, contributed to an 8.1 per cent increase in total AUA from a year ago. Notable trends show that the AUA of Tax-Free Savings Accounts increased by 15.4 per cent from a year ago, reflective of its increasing popularity among investors as an alternative to the RRSP. All other registered products also had moderate increases from a year ago largely due to new asset growth 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.

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, as required, 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. Whether or not in-cycle share calls are required to meet capital requirements, Class F shares are rebalanced at these times based on each Class A members' 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. These dividends are anticipated to be discontinued after the MLP is legally segregated into contractual trusts at the end of 2020.

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Regulatory Capital

$1,095.3 million
Tier 1 Capital

$1,215.7 million
Net Capital Base

13.5:1
Borrowing Multiple

42.1%
Provincial Capital Ratio

December 31 (Millions of dollars)		2019		2018
Share capital	$	**440.1**	$	429.9
Retained earnings		**659.9**		652.3
Less: accumulated net after tax gain in investment property		**(4.7)**		(4.7)
Tier 1 capital		**1,095.3**		1,077.5
Subordinated debt		**221.0**		421.0
Add: accumulated net after tax gain in investment property		**4.7**		4.7
Tier 2 capital		**225.7**		425.7
Total capital		**1,321.0**		1,503.2
Statutory capital adjustments		**(105.3)**		(105.7)
Net capital base	$	**1,215.7**	$	1,397.5
Borrowing Multiple - Consolidated		**13.5:1**		11.0:1
Borrowing Multiple - Mandatory Liquidity Pool		**16.0:1**		15.8:1
Borrowing Multiple - Wholesale Financial Services		**12.5:1**		10.9:1

In determining regulatory capital, adjustments are required to the amount of capital reflected in our Consolidated Statement of Financial Position. Deductions from capital are required for certain investments, including substantial investments in affiliated cooperative organizations. The decrease in the net capital base as at December 31, 2019 compared to the balance at December 31, 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 December 31, 2019, our consolidated borrowing multiple was 13.5:1 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.

Throughout 2018 and 2019, we have been in compliance with all regulatory capital requirements.

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Risk Review

Our business operations, industry and environment expose us to a wide variety of risks, some of which are well known and readily managed and others, such as industry or environment driven risks, that are outside of our immediate control and influence. Our risk management is focused on effectively managing those risks we can control and creating organizational readiness and resilience for those risks we have limited ability to manage. Risk management prioritizes awareness of all the risks we face and, once identified, measuring or assessing and then monitoring our risks. We also ensure that we have the financial strength through our profitability and capital adequacy to support our businesses and our resultant risks.

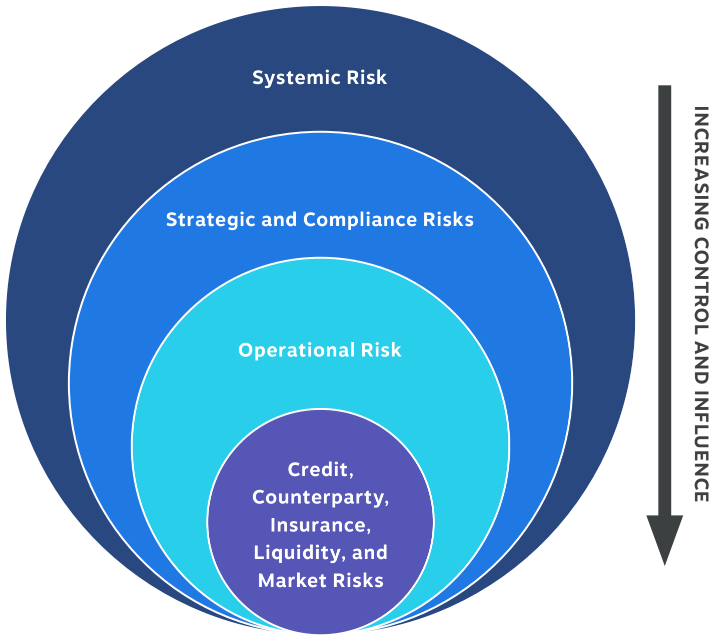
We employ a multifaceted risk management framework designed in keeping with our business operations and role in the credit union system, our operational capabilities and our designation by BCFSA as a Domestic Systemically Important Financial Institution (D-SIFI). Our risk management framework provides independent risk oversight across our organization and our capabilities consider risk across the credit union system.

The risk management framework is founded on several key principles:

- We take business-related risks necessary to execute our strategy:
  - recognize and accept that there are risks inherent in providing core services to our members
  - ensure that business strategies generate a level of value commensurate with our respective risk profile
  - does not take speculative risks
- We only take risks that we understand and can manage:
  - clearly identify, openly discuss, and explicitly accept the risks inherent in our businesses
  - use the most appropriate tools, methodologies, and governance structures to manage our risks
  - establish clear boundaries around our risk profile and continuously ensure adequate levels of capital and liquidity
- We take and manage risk in a way that maximizes good outcomes for the credit union system:
  - tailor our risk management approach to facilitate innovation and to allow members' needs to be met swiftly and nimbly
  - as a D-SIFI, we consider, manage, and place risk in the best interests of the credit union system
  - do not take risks that expose the financial strength or the reputation of the system to critical or incapacitating harm

Business and Operations Risk

Our business involves centralized liquidity, funding, treasury and portfolio management services, forward-thinking technology and payment settlement services and other innovative services and solutions aimed at providing a competitive edge to member credit unions and other corporate clients. These business activities involve inherent risks arising from day-to-day activities and systemic and strategic risks arising from the highly competitive and constantly evolving financial sector. These risks are identified in this section and further discussed in the following sections.



Systemic risk is the risk that the financial system as a whole may not withstand the effects of a crisis resulting from extraordinary economic, political, social or financial circumstances. This risk is inherent for a large, highly interconnected and mutually dependent system such as the financial sector. This risk could result in financial, reputation or other losses and is the risk that we are least able to materially affect or influence.

Strategic risk is the potential for gaining or losing value related to making and executing strategic business decisions in response to changes of the business

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environment. We have control over our strategic decisions and decision processes but does not always have clear insight into competitive pressures and/or emerging industry and competitive threats. We are also part of a system of credit unions and support organizations and our strategy needs to be created and managed within this dynamic system.

Compliance risk is the potential for legal or regulatory sanctions, material financial loss or damage to our reputation resulting from failure to comply with applicable laws, regulations, rules, related self-regulatory organization standards and/or codes of conduct applicable to its activities. Our objective is to adhere to all legislative and regulatory requirements and actively monitor the ongoing changes arising in these areas. We actively manage our risks arising from existing and clearly signaled legislative and regulatory requirements but cannot as readily manage requirements under emerging legislation and regulation given time frames for implementation and compliance.

Operational risk is the potential for loss of value caused by people, processes, systems, or external events. An ongoing but evolving concern for us is cyber security, which focuses on the protection of the confidentiality, integrity and availability of information systems from both internal and external forces. We have implemented strong monitoring and control frameworks around the internal elements of this risk and has implemented business continuity and recovery plans based on potential external events.

Credit risk is the potential for incurring financial loss/opportunity cost resulting from the default or failure of a borrower, endorser, guarantor or issuer to repay their financial obligation as they come due. Our capabilities in the measurement of credit risk are strong and include due diligence, expected loss calculation, risk rating models and strict limit monitoring.

Counterparty risk is the potential for financial loss resulting from the inability of a counterparty in a value-exchange transaction (e.g., interest rate swap, foreign exchange deal) to fulfill its obligations. We have developed potential future exposure modeling to complement existing capabilities around counterparty risk.

Insurance risk is the potential for financial loss or loss to our reputation resulting from an inability to fully meet the obligations arising from offering insurance. This can result from higher than expected claims frequency, claim amounts and administration costs. We are indirectly exposed to insurance risk through the activities of our subsidiary, CUPP Services Ltd.

Liquidity risk is the potential for financial loss resulting from the inability to meet cash flow obligations in a timely manner due to an inability to generate sufficient cash from assets or funding sources. We also provide liquidity support to the credit union system in B.C. and Ontario and consider the liquidity and funding risks for each of our member credit unions as part of our risk.

Market risk is the potential for financial gain or loss resulting from favorable or unfavorable movements in interest rates, exchange rates and asset prices/yields. We use Value-at-Risk (VaR), duration and stress scenarios among other risk measures to monitor and report on market risk.

These risks are not managed as standalone elements but within ongoing business and operations management. In addition, we monitor all risk activities and exposures, including risk transfers, migrations and transformations, as well as risk diversification and amplification.

Risk Management Framework

The Risk Management Framework consists of a strong governance framework including the Board and management risk committees, risk policies, management standards and procedures, clear authorities and responsibilities, effective control and oversight functions with clear and independent reporting lines and risk education on key topics.

The Board and Our Committees

Board of Directors					
Risk Review and Investment & Loan Committee	Audit and Finance Committee	Human Resources Committee	Technology Committee	Nominations and Elections Committee	Conduct Review and Corporate Governance Committee

The Board reviews and approves material business strategies and activities. Subject to our Constitution and Rules (Rules) and applicable legislation, the Board may delegate certain duties to committees of the Board. The Board has delegated to the Risk Review and Investment & Loan Committee (RRILC) the responsibility for overseeing the risk-taking operations and risk management functions and ensuring appropriate risk governance processes are executed effectively and that investment, lending and other business operations are undertaken in a prudent and risk-informed manner.

The RRILC reviews the risk related to investment and lending activities of our organization, the associated corporate policies and any significant and emerging events and related action plans, and recommends any improvements or changes to the Board as deemed necessary or desirable. The RRILC also monitors and oversees compliance with anti-money laundering and counter terrorism financing (AML/CTF) legislation and related policies.

The Audit and Finance Committee (AFC) has responsibility for assisting the Board in its oversight over the financial reporting process and internal controls.

The Chairpersons of the AFC and the RRILC are members of both committees as mandated by the committees' terms of reference.

The Technology and Innovation Committee has oversight over all technology risk, cyber risk, and major project risks.

The Human Resources Committee has oversight of people risk.

Management and our Risk Committees

The President and Chief Executive Officer (CEO) provides overall leadership and vision in developing, together with our Board, our strategic direction, vision, mission, goals and the business plans necessary to realize our goals. The President and CEO is responsible for the overall risk profile and creating a culture of ethical business conduct and prudent risk management.

Our business lines are overseen by key members of our executive management. The Chief Investment Officer (CIO) is responsible for the management of MLP and WFS, including a variety of investment and funding programs to meet the differing needs of our members and clients, and the Chief Digital and Payments Officer is responsible for the management of the Digital & Payment Services to member credit unions and other corporate clients.

The Chief Risk Officer (CRO) develops, implements and oversees a comprehensive process for assessing, identifying, monitoring and effectively managing pertinent business risks that could interfere with our core purpose and ability to grow and develop our business lines for the benefit of the credit union system. The CRO reports to the President and CEO and has direct access to the RRILC.

Internal Audit's objective is to enhance and protect organizational value by providing risk-based and objective assurance, advice and insight. Our internal audit function is independent of management and the Risk Group. Internal Audit develops audit plans for approval by and reports independently to the AFC of our Board on the design and effectiveness of policies, procedures and internal controls.

Corporate Policy Coverage

Our risk policy framework outlines the roles and responsibilities of the business and operations functions, the Risk Group and corporate support groups in the effective creation, approval, maintenance and communication of corporate risk policies as well as management risk standards.

Risk policies that cover risk identification, measurement, management and reporting are set by the Risk Group and are considered minimum requirements for the business and operations functions and the other support and control functions. These policies communicate our risk appetite, limits and parameters within which business groups and employees can operate. All risk policies are subject to a rigorous approval process which, depending on the type and significance of the policy, can involve different management risk committees, the RRILC and, for all Corporate Policies, the Board.

Our risk policy framework includes the organization's Risk Appetite Framework and Risk Appetite Statement (RAS), which defines the types and amounts of risk that we are willing to take in pursuit of our strategic objectives. The RAS covers all our main risk categories, including Compliance Risk, Credit Risk, Counterparty Risk, Liquidity Risk, Market Risk, Operational Risk and Strategic Risk.

The policy framework provides clear authorities and responsibilities for all functions and creates effective control and oversight functions with clear and independent reporting lines. We operate a dual stream authorization process, whereby all risk exposures are recommended by the business and concurred with by the Risk Group. This ensures that any potential risk exposure both supports business objectives and is independently reviewed.

We undertake rigorous risk education on several key topics. All our staff are required to complete information security training as part of the employee onboarding process. All staff involved with funds flows, whether deposit, loan or payments flows, must complete annual AML/CTF training. We have a business continuity plan (BCP) and all employees with planning and/or resolution responsibilities must complete annual BCP training. In addition, on a periodic basis and as needed,

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Central 1 runs various specialized and general risk awareness sessions to maintain and further evolve Central 1's risk management capabilities.

Risk Process

Our Corporate Risk Management Policy outlines the Risk Process. The process is based on five related and reinforcing steps, as follows:

Identification involves the detection and description of risks across a horizon that extends from the present to the long-term, including risks known to exist today and risks that are emerging and may impact the organization in the future. The objective of this step is to identify the key risks affecting business performance, along with their specific risk drivers.

Assessment and Measurement involves the evaluation of identified risks to determine their potential to affect, individually or collectively, business objectives. Assessment is largely a qualitative exercise relying on analytical and intuitive thinking, while measurement is a quantitative exercise converting the barrage of data into insightful and actionable information. The objective of this step is to build an understanding on the magnitude, sources, and key drivers of risk exposure.

Analytics is the transformation of measured risk data into business-actionable risk information through the application of quantitative modelling and methodologies, as well as skilled judgment and qualitative interpretation. It includes trend identification and analysis, detection of correlations and amplifications, recognition of concentrations, and assessment of the organization's capabilities. While based on past risk data, analytics and management looks forward to predict possible future states and inform future management actions. The objective of this step is to develop risk insights and a deeper understanding of possible performance outcomes to inform business management.

Monitoring and Reporting involves the qualitative and quantitative monitoring of our risk profile against approved limits, the tracking of identified risk issues, and the reporting of risk at varying levels of aggregation to our management, the RRILC, and the Board, and the escalation of risk exposures to the appropriate level of the organization for discussion and action. The objective of this step is to capture risk exposures and clearly communicate with key stakeholders, including business leaders, risk takers, regulators and the Board.

Management and Planning entails the creation of plans to drive management action, should a business event occur that materially affects our risk profile. It includes both reactive measures and identification of forward- looking, longer term tactical plans aimed at maximizing value for us, all with the objective to ensure the organization stays within our risk appetite and meets our business objectives.

Risk Oversight and Management

Our approaches to managing and mitigating specific types of risk are as follows:

Strategic Risk

We believe that pressures on all financial institutions including credit unions, from, among other things, tight margins and financial technology disruption characterize the current environment. We need to be prepared to respond to the resulting changes and opportunities. We rely on the underlying system's direction, ongoing member and client engagement and a continuous strategic planning process to pursue a strategy that prepares us for the risks inherent in the environment and to deliver value for credit unions and clients.

Compliance Risk

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

Compliance risk is managed by a framework that is in place to ensure that we continue to meet the requirements of:

- the law, to uphold our reputation and that of the credit union system
- government regulators, to 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

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Our compliance risk framework includes policies, management standards, and operational procedures, as well as risk assessments, monitoring and reporting processes, and relevant training. Specifically:

- the onus is placed on each business line or functional area to manage the compliance risk arising from its day-to-day operations. At this level, risk management is accomplished through a combination of ongoing training and development and documentation of operational procedures, as well as regular risk assessments that are reported as necessary to compliance.
- compliance provides guidance to the business line or functional area, and assesses, monitors, and regularly reports upon the compliance levels within our organization to the CRO and, through the CRO, to the RRILC of the Board.

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

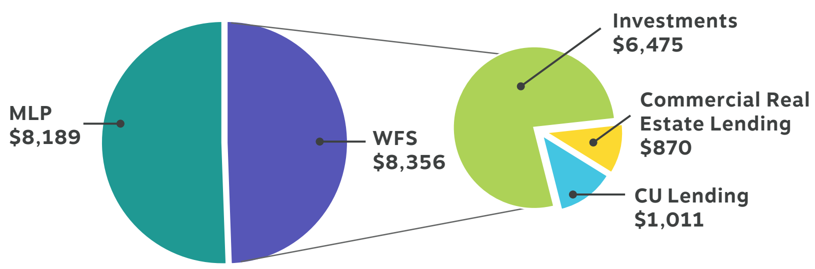
Within Treasury operations, we incur credit risk through loans, payment services and the purchasing of credit instruments. Our policies establish the parameters within which we manage our credit risk. These policies are implemented through a number of key business procedures. Together, the policies and procedures form a framework that includes:

- application of safe and sound, stringent lending and/or funding criteria to all credit exposures prior to their acquisition
- clearly defined management and policy limits on the amount, types, and concentrations of credit risk
- regular evaluation and assessment of existing credit risk exposures and allowances
- continuous monitoring of credit exposures to promptly identify deteriorating situations and take appropriate action

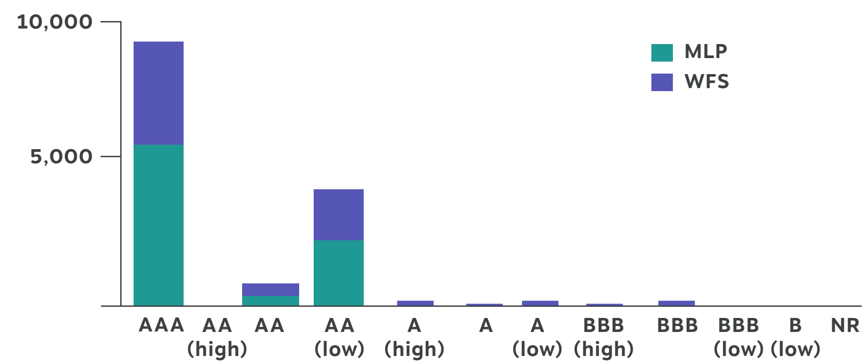
All potential and existing borrowers are evaluated by skilled lenders and are adjudicated by independent, highly trained credit officers. Annually, the status of each borrower and transaction is reviewed in the same manner as a new proposal. The exposures are concentrated in low-risk investment securities with very limited exposure to underperforming loans in the lending portfolios.

The following charts illustrate our credit exposure and risk profile based on outstanding balances in the investment portfolios held in the MLP and WFS. WFS holds $546.0 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).

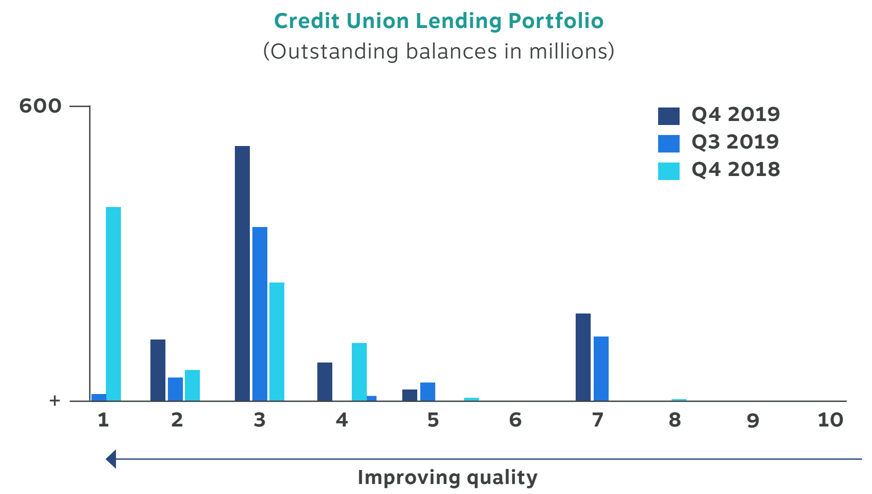
Central 1's Asset Distribution
(Millions of dollars)

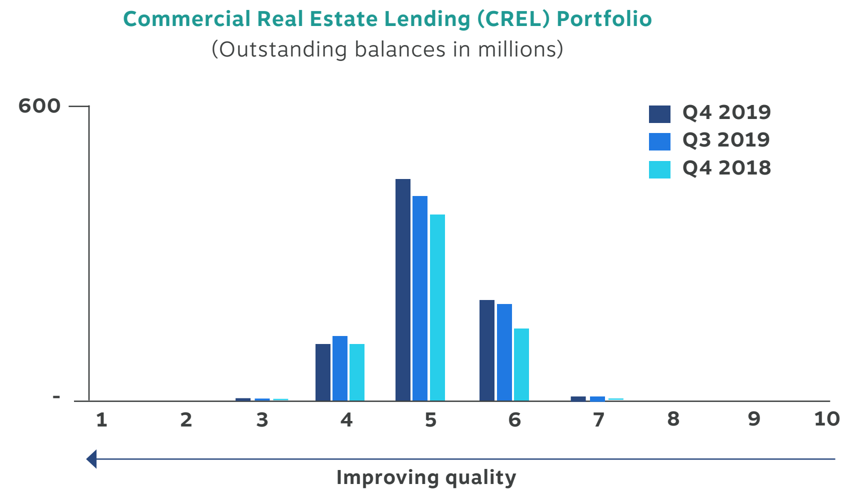


Investment Portfolio - (DBRS rated)
(Millions of dollars)



The following charts provide the year-end exposure in the Commercial Real Estate Lending and Credit Union Lending Portfolios.





Credit Quality Performance

Investments Portfolio

There are no impaired investments in the Investments Portfolio. As part of our ongoing risk management activities, we perform ongoing stress tests to measure the resiliency of our 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)

No loans in the Credit Union Lending Portfolio were written off in 2019. Currently, there are no impaired loan facilities in the CU Lending Portfolio. While there are no impaired facilities in the portfolio, a number of credit unions have been placed on the Watch List. As at December 31, 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 19.82 per cent of the outstanding portfolio (0.79 per cent in the previous year) and 8.8 per cent of the authorized portfolio as at December 31, 2019. The increase year-over-year 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 security provided for the Watch List and Unsatisfactory facilities is substantial and no losses are expected.

Commercial Real Estate Lending (CREL)

Currently there are no impaired loans in the portfolio. The Watch List accounts represented 1.85 per cent of the outstanding portfolio balance as at December 31, 2019. The risk associated with the commercial loan syndication program is currently assessed by management as low.

Insurance Risk

We are exposed to insurance risk through the activities of our subsidiary, CUPP. We manage our exposure to insurance risk by imposing underwriting limits and undertaking robust monitoring.

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Liquidity Risk

Liquidity risk is the potential inability to meet cash flow obligations in a timely manner, because we are either unable to sell securities at a desired market price or unable to secure the funds needed to meet our obligations when due. Liquidity events can be caused by an internal mismatch between the cash flows of our assets and liabilities, external idiosyncratic or systemic market and credit events or unexpected changes in the liquidity needs of our members. Sound liquidity management ensures the safety of credit union members' deposits and the health of the credit union system.

Our mandate includes the management of credit union members' access to liquidity in B.C. and Ontario. Credit unions are required to hold (by regulation in B.C. and by contractual agreement in Ontario) their core liquidity reserves in the MLP. The Board, management and regulatory guidelines ensure that deposits are supported by highly liquid assets. These assets are held to provide liquidity to credit unions in the event of a liquidity crisis.

In November 2019, our Board approved, and BCFSA subsequently accepted, a segregation plan to legally segregate MLP into contractual trusts by December 31, 2020.

Our WFS business line provides capital markets products and services to Class A, B and C members. Product offerings include current accounts, term deposits, credit union lending, commercial lending, access to securitization vehicles, foreign exchange services, and derivatives. WFS is funded through members' discretionary deposits and capital markets under our commercial paper and medium-term note programs.

We provide payment clearing and settlement services to Class A, B and C members. We manage the Group Clearer function on behalf of the credit union system nationally (excluding Quebec) and is a direct clearer through the Payments Canada network. We provide access to global correspondent banks for the credit union system to settle foreign currency payments. These activities directly expose us to credit and liquidity risk from other direct participants in the payments network. The credit and liquidity risk of these core banking functions are managed within WFS.

We have established a comprehensive liquidity risk framework that is comprised of:

- a robust risk governance framework
- investment strategies focused on maintaining sufficient unencumbered highly liquid assets to meet cash flow requirements in normal and stressed conditions
- access to diversified funding sources – member deposits and capital markets
- monitoring of credit union system liquidity, performance and financial health
- an enterprise Contingency Funding Plan (CFP)
- frequent measurement of portfolio liquidity

Investment Strategies

We invest in a sufficient quantity of highly liquid assets to ensure that it can meet the deposit withdrawal and borrowing requirements of our member in normal and stressed market environments. We view the following assets as highly liquid and include them in our assessment of portfolio liquidity:

1. Government of Canada (GOC) securities, GOC guaranteed securities (including NHA MBS and CMB), Canadian provincial and municipal governments securities and other high-quality government assets meeting OSFI's definition of HQLA.
2. Other securities eligible to be pledged to the BOC in the form of highly rated investment grade corporate debt (collectively other BOC Standing Liquidity Fund (SLF) eligible assets).
3. USD denominated variants of the securities identified in groups (1) and (2) above.

MLP deposits are backed entirely by assets in one of the three categories above. USD denominated debt is matched against the USD denominated deposits to ensure that exposure to foreign currency market risk is mitigated. MLP assets are not currently used to meet derivative and clearing and settlement collateral requirements; consequently, the portfolio is 100 per cent unencumbered.

WFS liquidity management is more complex than for the MLP and, consequently, it is subject to a more rigorous measurement and monitoring regime. A portion of WFS liabilities is invested in HQLA as defined above, sufficient to ensure the portfolio's liquidity objectives are met. These liabilities are also invested in credit union and commercial loans and residential mortgages. As part of its normal business operations, we make commitments to grant loans to credit unions and commercial borrowers, enter into derivatives and securities lending transactions, and is a participant in the national clearing and settlements network. We encumber a portion of WFS' highly liquid assets to support these activities.

Diversification of Funding

Our liquidity management framework is designed to ensure that reliable and cost-effective funding sources are available to satisfy current and prospective commitments of our organization and our member credit unions. Diversification of funding sources provides flexibility and minimizes concentration risk. It is a crucial component of our overall liquidity management strategy.

The MLP is funded primarily through Class A member statutory (for B.C.) or contractual (for Ontario) deposits. WFS is funded through a combination of Class A, B and C member deposits and capital markets borrowing. We regularly issue commercial paper and medium-term notes in the capital markets. We also issue subordinated debt. Regular participation in these markets and the maintenance of

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a strong external credit rating is critical for ensuring that capital markets access is maintained. We fund a portion of our purchases of residential mortgages and credit union NHA MBS through the NHA MBS and CMB mortgage securitization programs.

Credit Union System Health Analysis

Our liquidity is directly affected by the liquidity of the B.C. and Ontario credit union systems and the liquidity of our Class B and C members. We closely monitor credit unions' financial positions for any indication of negative liquidity trends. Utilization of lending facilities, liquidity ratios, deposit levels, economic conditions, and use of capital market and other funding sources are among the items regularly monitored.

Contingency Funding Plan

We provide financial stewardship of the liquidity deposits of the B.C. and Ontario credit union systems. Accordingly, it is imperative that we maintain members' trust and confidence by ensuring the existence of an appropriate plan to provide the credit union system with access to funding during a liquidity crisis.

Given that a liquidity crisis would likely be the result of a liquidity event that flows through the credit union system, we continually monitor the system and its environment for indicators of impending stress. Although there is a low probability of a significant liquidity crisis occurring, we monitor the risk and have implemented a Contingency Fund Plan should such a crisis occur.

Risk Monitoring

We monitor our asset and liability positions, encumbrances, commitments, cash flows and funding to better understand our liquidity capacity and our sensitivity to changing market conditions. We include the following types of assets in our liquidity measures (including Liquidity Coverage Ratios) as highly liquid assets:

- **HQLA 1.** Assets issued by the GOC, provincial governments and securities secured by GOC as defined by OSFI
- **HQLA 2.** Investment grade corporate, covered debt and residential mortgage-backed securities (RMBS) as defined by OSFI
- **Other SLF Eligible.** Securities eligible to be pledged to the BOC in the form of financial institution and investment grade corporate debt (collectively other BOC SLF eligible assets) not included in HQLA 1 or 2; and USD denominated variants of the securities identified in groups above (per agreement with BCFSA)

In the MLP investment strategy, limits and regulations ensure that MLP deposits are entirely covered by HQLA 1, HQLA 2 and Other SLF Eligible assets. Note that the nominal amount of other assets relates other accounting based non-marketable assets. Since the entire portfolio is highly liquid and eligible to be pledged to the BOC SLF, management is confident that the portfolio can be converted to cash through sale, repurchase agreement or pledging to the BOC to meet member needs in a liquidity stress event.

The majority of assets in WFS are highly liquid and can be readily sold or pledged to the BOC to generate cash to support member deposit withdrawals or the drawdown of committed loan facilities in both normal and stressed markets. While WFS holds other less liquid assets, the quantity of highly liquid assets is greater than the level of funding provided by member deposits. The following charts illustrate the relationship between assets and liabilities.

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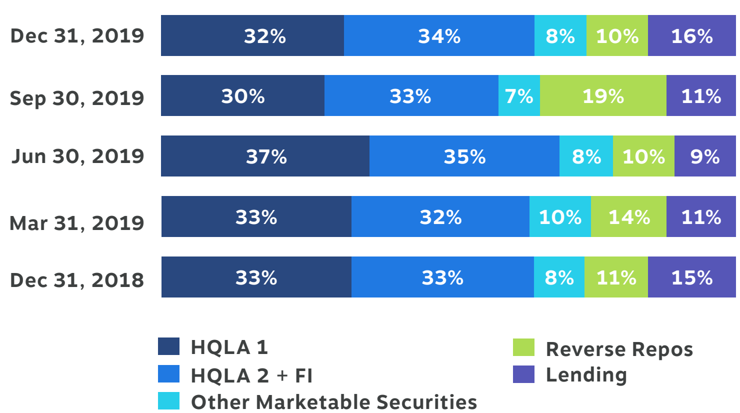
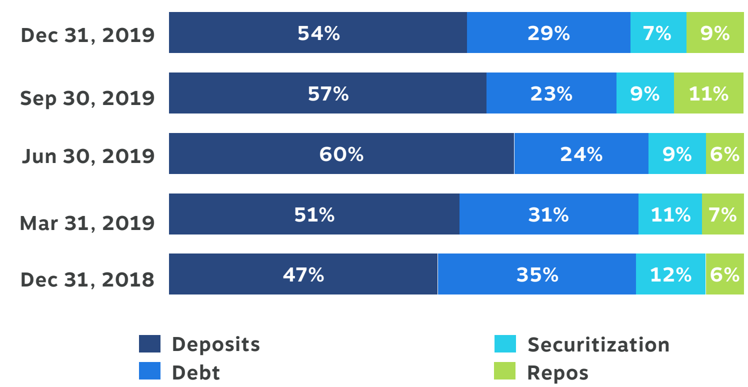
WFS Assets



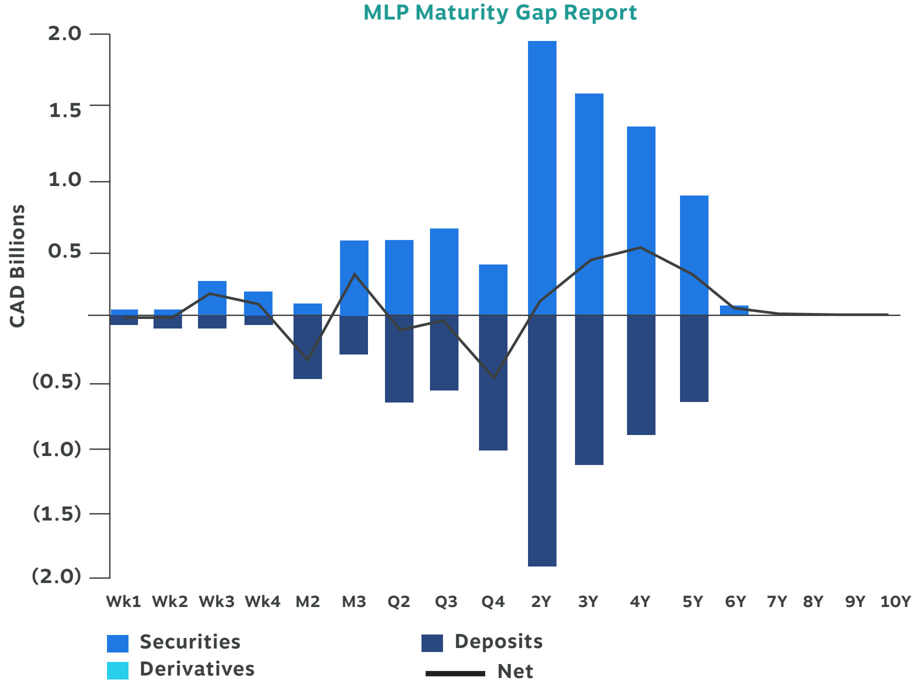
WFS Liabilities



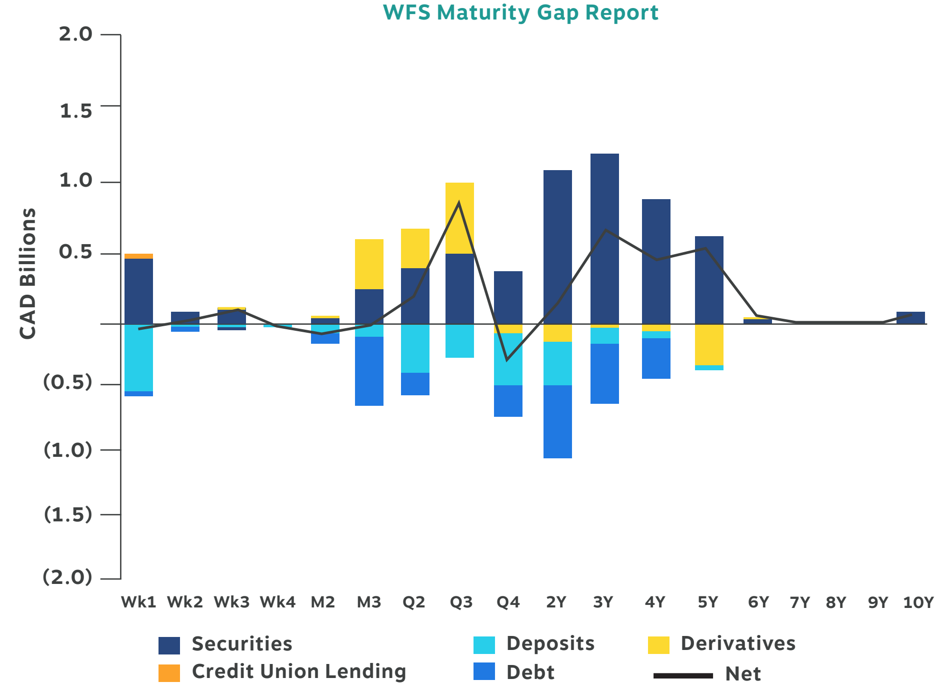
The Maturity Gap provides a picture of the mismatch between the contractual maturity of our asset and liabilities. These gaps, even under normal market conditions, must be closed by receiving additional funding or liquidating assets. Under normal market conditions, the MLP maturity gaps are generally funded by members rolling over or renewing their mandatory or contractual deposits as, typically, credit union deposits are growing.The maturity gaps reported for WFS are within normal levels.

The following charts show the Maturity Gap for MLP and WFS.

MLP Maturity Gap Report



WFS Maturity Gap Report



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Our liquidity positions continue to be strong. The Liquidity Coverage Ratio (LCR) demonstrates our ability to meet 30-day cashflow requirements under stressed conditions. The LCR assumes a partial run-off of deposits, no new extension or issuance of capital markets debt and that only highly liquid assets can be sold to raise cash subject to a haircut of their market value. We calculate the LCR for MLP and WFS portfolios against the 100 per cent target set by the Risk Appetite Statement. Our highly liquid assets include securities eligible to be pledged under Standing Liquidity Facility (SLF), and USD-denominated variants that meet the SLF eligibility criteria as requested by our D-SIFI requirements. The SLF LCR of the WFS portfolio weakened in the third quarter of 2019 due to a decrease in the stock of high-quality liquid assets.

	Q4 2019	Q3 2019	Q2 2019	Q1 2019	LTM Average	LTM High	LTM Low
Mandatory Liquidity Pool	170.3%	172.8%	173.2%	172.9%	173.9%	164.5%	164.5%
Wholesale Financial Services	171.6%	158.9%	187.9%	153.4%	159.0%	202.8%	121.0%

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.

In 2019, we developed a measure of earnings sensitivity due to fluctuation in interest rates, called Net Interest Income Sensitivity (NIIS). NIIS quantifies the repricing risk in WFS and the MLP from instantaneous +/-150 basis point (1.5 per cent) yield curve shocks, assuming a 12-month horizon, and a constant balance sheet.

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 8 bps, or 0.08 per cent, of WFS assets (excluding cash). As of year-end, the limits were $6.06 million for MLP and $6.41 million for WFS. We complied with MLP and WFS limits during the year.

	Mandatory Liquidity Pool						
					Last 12 Months		
Millions of dollars	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Average	High	Low
Interest Rate VaR	**$ 0.8**	$ 1.1	$ 1.2	$ 0.8	$ 1.6	$ 3.8	$ 0.8
Credit Spread VaR	**1.4**	1.4	1.5	1.3	2.1	5.1	1.1
Foreign Exchange VaR	**0.0**	0.0	0.2	0.3	0.2	1.1	0.0
Diversification[1]	**(1.1)**	(1.1)	(1.1)	(1.0)	(1.7)	nm	nm
Total VaR	**$ 1.1**	$ 1.4	$ 1.8	$ 1.4	$ 2.2	$ 4.9	$ 1.2
Expected Shortfall	**2.1**	2.1	2.3	2.3	2.9	5.4	2.0

[1]Total VaR is less than the sum of Risk Factors' VaR as a result of diversification and offsetting risk factors.
nm - Not meaningful to calculation

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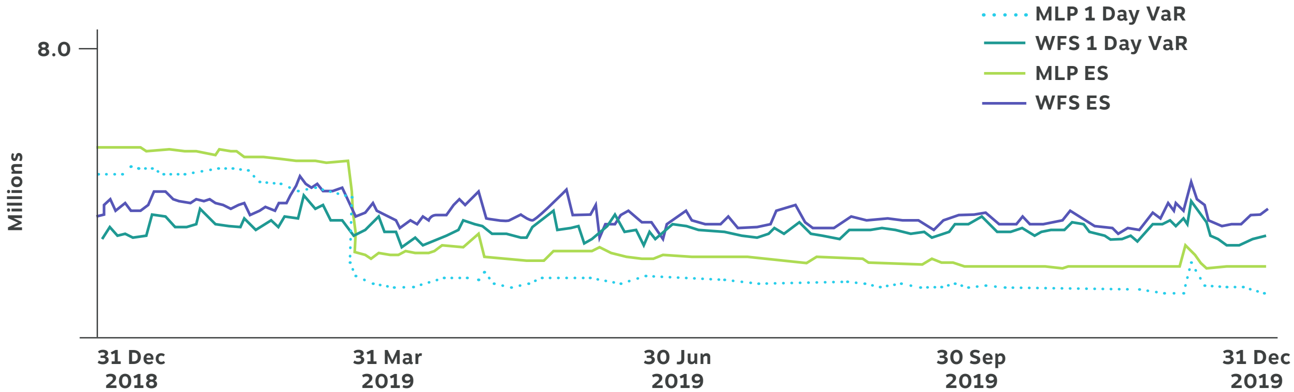
Millions of dollars	Wholesale Financial Services						
					Last 12 Months		
	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Average	High	Low
Interest Rate VaR	**$ 1.5**	$ 1.7	$ 1.6	$ 1.4	$ 1.6	$ 2.3	$ 1.3
Credit Spread VaR	**2.0**	1.8	1.8	1.6	1.7	2.2	1.5
Foreign Exchange VaR	**2.5**	2.2	2.2	2.1	2.2	3.9	1.4
Diversification[1]	**(3.0)**	(2.4)	(2.5)	(2.2)	(2.4)	nm	nm
Total VaR	**$ 3.0**	$ 3.3	$ 3.1	$ 2.9	$ 3.1	$ 4.3	$ 2.4
Expected Shortfall	**3.6**	3.5	3.3	3.4	3.5	4.8	2.8

[1]Total VaR is less than the sum of Risk Factors' VaR as a result of diversification and offsetting risk factors.
nm - Not meaningful to calculation



Stress Testing

VaR Stress Testing allows us to test the performance of the portfolio in different 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.

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(Millions of dollars)	Mandatory Liquidity Pool	Wholesale Financial Services
10-Day VaR	$ 5.2	$ 7.9
Pre-Lehman Crisis (Oct 2006 - Dec 2007)	$ 8.2	$ 14.4
Lehman Crisis (Jan 2008 - May 2009)	$ 15.5	$ 16.7
European Crisis (Nov 2010 - Dec 2013)	$ 7.7	$ 9.9

Direction and Sources of Interest Rate Risk

We use a number of secondary market risk measures to help understand the direction and sources of interest rate risk in the MLP and WFS portfolios. DV01 measures the sensitivity of the portfolio to 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 changing foreign currency values is managed by applying limits on the amounts (short or long positions) that can be maintained in the various currencies, utilizing derivative exchange contracts 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	$ (67.8)	$ 93.5	$ 25.7	$ 1.2987	$ 33.4

Operational Risk

Operational risk is measured by referring to organizational and industry loss events combined with estimates of frequency from the historical record and key risk drivers. While the financial impact associated with operational risk can be significant, it is equally important to recognize the less identifiable and quantifiable non-financial impacts. Real or perceived changes in an institution's credibility can damage its reputation, image, and stakeholder confidence, thereby negatively affecting the institution's results in the future.

Given the high volume of transactions we process on behalf of our members and external organizations, shortcomings in our internal processes could lead to financial and reputational damage. Furthermore, although we have contingency and business continuity plans, natural disasters, power or telecommunications disruptions, acts of terrorism, physical or electronic break-ins or other events could adversely impact our ability to provide services to our members, damage our reputation or otherwise adversely impact our ability to conduct business.

We manage this type of risk through implementing policies and associated procedures that are fundamental to our operating infrastructure. Elements include:

- Developing and maintaining a comprehensive system of internal controls encompassing segregation of functional activities, managerial reporting and delegation of authority
- Continuous monitoring, evaluation, and improvement of our operational practices
- Selection and training of highly qualified staff, supported by policies that provide for skills upgrading, clear authorization levels and adherence to an employee code of conduct
- Maintaining a comprehensive portfolio of insurance to reduce the impact of any potential losses
- Contingency business resumption plans for activation in response to systems failure or catastrophic events, including off-site data storage and back-up processing capabilities for all critical operations

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As well as having the above measures in place, our policies provide for regular, ongoing review of its practices and procedures by internal audit teams, technology systems security personnel and management personnel. External resources, when required, also supplement the internal reviews. In addition, both provincial and federal regulatory agencies undertake periodic reviews of our operations and contingency plans.

We continue to experience increasing exposure to technological risk and have implemented real-time intrusion detection monitoring of our remote banking applications and use an external agency to continuously monitor security performance. We continue to invest in the infrastructure to successfully defend against a variety of cyber-attacks on behalf of member credit unions, reducing their exposure and the risk of significant negative effects.

Reputation

We recognize that our reputation is among our most important assets and considers reputational impact in all of our business and planning practices. Integrity and ethical conduct are core values for our organization, and these are fostered at the most fundamental levels of the organization through the adherence of each employee and contractor to our Code of Conduct. In addition to the key principles listed in the Corporate Risk Management Policy (the Policy), the following specific principles govern our management of our reputation:

- We will maintain the highest degree of integrity and ethical conduct at all times to ensure everything we do and every decision we make will be guided by principles of honesty, integrity, respect and ethical standards
- We will avoid activities that may harm either our reputation or the reputation of the credit union system
- We will consider the reputational impact on our organization of all business activities that we undertake

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 us. They are investigated because of the substantial potential impact on our business.

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.

Consistent with 2018 we see as an emerging risk the potential for the current economic cycle coming to an end. The magnitude of this risk's impact on our clients, product offerings, counterparties and strategic pursuits is not well understood but qualitative and quantitative methods are being explored to assess vulnerabilities and potential mitigants needed to address it.

Open Banking is also identified and continues to be investigated as an emerging risk with currently indeterminable impacts on us. The evolution of this emerging risk will depend on several factors including the shape of legislation, itself dependent on the Canadian and international network of stakeholders, and rise of privacy concerns around the world. Our Government Relations department continues to monitor consultation efforts from the Ministry of Finance and coordinate with CCUA on responses from the system.

Accounting and Control Matters

Our 2019 annual Consolidated Financial Statements have been prepared using the accounting policies as set out in Note 3 to those statements.

Critical Accounting Policies and Estimates

In preparing the 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 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 Consolidated Financial Statements for the year ended December 31, 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 Consolidated Financial Statements.

Amendment to IAS 12, *Income Taxes*

In the issued Annual improvements to IFRS Standards 2015-2017 Cycle, IASB amended IAS 12 to clarify that all income tax consequences of dividends are recognized consistently with the past transactions or events that generated the distributable profits – i.e. in profit or loss, OCI or equity. The amendment shall be applied for annual periods beginning on or after January 1, 2019 with early adoption permitted. Central 1 adopted this amendment on January 1, 2019 and the adoption did not have a material impact on the Consolidated Financial Statements.

Controls and Procedures

We have designed and implemented disclosure controls and procedures and internal controls over financial reporting to provide reasonable assurance that all relevant information are gathered and reported on a timely basis to senior management, so that appropriate decisions can be made regarding public disclosure and to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. We evaluated the design of our disclosure controls and procedures and our internal controls over financial reporting for the year ended December 31, 2019. Based on that evaluation, we have concluded that the design of our internal monitoring controls and procedures over financial reporting was effective.

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 38 of the Consolidated Financial Statements.

Corporate Governance

Our disclosure in accordance with Section 2.2. of National Instrument 58-101 *Disclosure of Corporate Governance Practices* and Section 6.2 of National Instrument 52-110 - *Audit Committees* is attached as Schedule "A" to this MD&A.

Glossary of Financial Terms

Basis Point (bps) is one one-hundredth of a percentage point.

Borrowing Multiple is the ratio of our total borrowings to regulatory capital.

Capital Base includes Tier 1 and Tier 2 capital, net of certain deductions.

Capital Ratio is the ratio of risk-adjusted assets to capital as defined by provincial legislation. The provincial legislation closely approximates that applied to other financial institutions by the Office of the Superintendent of Financial Institutions.

Commitments to extend credit are amounts in undrawn credit facilities and unutilized lending arrangements that have been authorized to our members.

Credit Spread is the difference between the yield of a given debt security and the yield of a risk-free government bond with similar maturity.

Derivatives are contracts which require little or no initial investment and where payments between parties are "derived" from movements in interest or foreign exchange rates, indices, equities or commodity prices. Derivatives allow for the transfer, modification or reduction of current or expected risks from changes in rates and prices.

Earnings Per Share (EPS) is calculated by dividing profit by the average number of member common shares outstanding.

Expected credit losses (ECL) is the difference between the contractual cash flows due in accordance with relevant contractual terms and the cash flows that we expect to receive, discounted to the balance sheet date.

Fair Value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Group Clearer is the arrangement whereby we are appointed as the group clearing member of the Payments Canada that, on its own behalf and on behalf of the clearing Centrals, exchanges payment items and effects clearing and settlement into the Payments Canada system.

Hedging is a risk management technique used to neutralize or manage interest rate, foreign currency, equity, commodity or credit exposures arising from normal business activities.

Interest Margin is the difference between the amounts of interest earned on interest bearing assets less the amounts of interest paid on liabilities that have interest charges associated with them and include both on-and-off-balance sheet financial instruments.

Liquidity is the ability to meet debt obligations, guarantees and commitments as they become due through the use of cash or the conversion of assets that are readily convertible to cash.

Mark-to-Market represents the valuation of securities and derivatives at market rates as of the balance sheet date, where required by accounting rules.

Net Income is a performance measure used to describe the B.C. and Ontario credit union systems. It is the source of retained earnings and is equal to net operating income after income taxes, but before dividends, patronage refunds, charitable donations, capital gains/extraordinary items and other comprehensive income.

Net Financial Income consists of interest and dividend income earned on financial assets, plus realized and unrealized gains or losses on financial instruments, and less interest expense paid on financial liabilities.

Efficiency Ratio is the ratio of non-financial expenses to net financial and non-financial income.

Return on Average Equity is calculated as profit for the year, as a percentage of average member shareholders' equity. Member shareholders' equity consists of share capital, contributed surplus, accumulated other comprehensive income (loss), retained earnings and reserves.

Securities Acquired under Reverse Repurchase Agreements are instruments supported by the pledge of collateral, which arise from transactions that involve the borrowing or purchasing of securities.

Securities Sold under Repurchase Agreements are low-cost, low-risk liabilities, supported by collateral, which arise from transactions that involve the lending or selling of securities.

Swaps are contractual agreements between two parties to exchange a series of cash flows with counterparties generally exchanging fixed and floating rate interest payments based on a notional value.

Swap Spread is the difference between the fixed rate paid on a given swap and the yield of a risk-free government bond with similar maturity.

Schedule A

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Corporate Governance

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Corporate Information

Central 1 Credit Union (Central 1) was incorporated as B.C. Central Credit Union on May 25, 1944. Central 1 is a central credit union governed by the *Credit Union Incorporation Act* (British Columbia) (CUIA). In 1970, B.C. Central Credit Union merged with the British Columbia Credit Union League, which, at that time, was the service corporation and trade association for the province's credit unions.

B.C. Central Credit Union changed its name to Credit Union Central of British Columbia on January 1, 1996 and subsequently changed its name to Central 1 Credit Union effective June 30, 2008. Central 1 Credit Union combined businesses with Credit Union Central of Ontario pursuant to an asset purchase transaction on July 1, 2008 to form Central 1 Credit Union. Central 1's Constitution and Rules can be found on the public website, www.central1.com on the Governance page.

Membership in Central 1

Membership in Central 1 is restricted to credit unions incorporated in the Provinces of British Columbia and Ontario, cooperative associations and other corporate entities, including a number of credit unions and central credit unions incorporated under the laws of other jurisdictions. The Rules restrict membership in Central 1 to incorporated organizations that qualify as Class A Members, Class B Members or Class C Members in accordance with the requirements below:

(i) Class A Members are: (a) credit unions incorporated under the CUIA or the *Credit Union Act* (British Columbia) (CUA) or the *Credit Unions and Caisses Populaires Act*, 1994 (Ontario) or under the laws of any other province or territory and that, under those laws, are licensed or registered to carry on business as a credit union or caisse populaire in that jurisdiction or are incorporated as a federal credit union under the laws of Canada; or (b) a credit union incorporated under the laws of another jurisdiction as a central credit union or as a corporation which, in the opinion of the Board of Directors (the Board) of Central 1, conducts its operations in a manner similar to a central credit union incorporated under the CUIA or CUA, and whose application for membership has been approved by the Board.

(ii) Class B Members are cooperative associations incorporated under the Cooperative Association Act (British Columbia) or a cooperative incorporated under another law of the Province of British Columbia or under the laws of another jurisdiction which, in the opinion of the Board of Central 1, conducts its operations on a cooperative basis and is designated as a cooperative association by the Board for the purposes of membership in Central 1.

(iii) Class C Members are incorporated organizations whose application for membership has been approved by the Board as provided in the Rules, other than a Class A Member or a Class B Member.

As of December 31, 2019, Central 1's membership consisted of 105 Class A members, 46 Class B members and 83 Class C members.

On February 27, 2014, the Financial Institutions Commission (now succeeded by the British Columbia Financial Services Authority (BCFSA)) designated Central 1 as a domestic systemically important financial institution (D-SIFI) within the Canadian credit union network. D-SIFIs are financial institutions whose failure could cause significant disruption to the wider financial network and economic activity. Institutions designated as D-SIFIs are subject to additional capital and liquidity requirements and enhanced supervision by regulatory authorities.

Corporate Governance Disclosure

Board of Directors

Our Board currently consists of 15 directors who are ultimately responsible for the stewardship of Central 1 and oversight of its risk and financial performance.

Bill Kiss

Burnaby, British Columbia

Chairperson of the Board (since 2018)
Director since 2013
Currently serving a third term (2019-2022)

Bill is currently Co-Chief Executive Officer of Gulf and Fraser Fishermen's Credit Union (G&F Financial Group), a position he has held since 2011. He was Chief Financial Officer of G&F Financial Group from 1996 to 2011. Prior to joining G&F Financial Group, Bill worked at a local chartered accounting firm for over 10 years. He is a strong advocate for community investment and passionately believes in the cooperative movement.

Bill is a Chartered Professional Accountant, CPA, CGA, holds a Bachelor of Science degree in Mathematics/Statistics and a Licentiate in Accounting, post graduate degree.

Central 1's Board/ Committee Memberships	Attendance at Meetings during 2019		
	Attendance	Term in 2019	% of Meetings Attended
Board Chairperson, Board of Directors	22/22	Jan 1 – Dec 31	100%
Member, Human Resources Committee	4/5	Jan 1 – Dec 31	80%
Member, Risk Review and Investment & Loan Committee	14/15	Jan 1 – Dec 31	93%
Other Current Boards/Committee Memberships			
Director, Co-operators Life Insurance Company & Co-operators General Insurance Company			
Director, Gulf and Fraser Insurance Services			
Areas of Expertise			
Credit Union/Cooperative Sector, P&L Ownership, Financial Acumen, Risk Management, Individual F.I. Liquidity, Regulatory Expertise, Governance Experience, Human Resources Experience, Community Engagement			

Rick Hoevenaars

London, Ontario

Vice Chairperson of the Board (since 2018)
Director since 2012
Currently serving a third term (2018-2021)

Rick was the Executive Vice President of Finance & Chief Financial Officer of Libro Credit Union since 1988. He retired from this role in 2019 and remains an Officer of Libro in the role of Strategic Advisor to the CEO. He has been very involved in the industry throughout the years at both the National and Provincial levels.

In the community, Rick is currently a member of the University of Western Ontario's Audit Committee and a past member of United Way's Poverty Impact Council.

Central 1's Board/ Committee Memberships	Attendance at Meetings during 2019		
	Attendance	Term in 2019	% of Meetings Attended
Board Vice Chairperson, Board of Directors	22/22	Jan 1 – Dec 31	100%
Member, Audit and Finance Committee	1/1	Jan 1 – Apr 30	100%
Chair, Conduct Review and Corporate Governance Committee	8/8	Jan 1 – Dec 31	100%
Member, Technology & Innovation Committee	10/10	Jan 1 – Dec 31	100%
Other Current Boards/Committee Memberships			
Director, Co-operators Life Insurance Company & Co-operators General Insurance Company; Member of the Risk & Compensation Committee			
Member, The University of Western Ontario's Audit Committee			
Chairperson, Ontario Pension Sub-Committee			
Areas of Expertise			
Credit Union/Cooperative Sector, P&L Ownership, Financial Acumen, Risk Management, Individual F.I. Liquidity, Regulatory Expertise, Technology Business Expertise, Governance Experience, Human Resources Experience, Community Engagement			

Mary Falconer

Delta, British Columbia

Director since 2019
Currently serving a first term (2019-2022)

The amalgamation of Prospera and Westminster Savings Credit Unions was effective January 1, 2020. With the amalgamation, Mary has assumed the role of Chief Financial Officer & Corporate Secretary for Prospera Credit Union, the role she held previously at Westminster Savings Credit Union. She provides financial oversight, leadership and strategic expertise for the credit union and its subsidiaries and plays a key role in helping position the organization for long-term sustainable growth and success.

She joined Westminster Savings in 2013 and, with more than 30 years of financial management experience, has worked in the British Columbia credit union system for the past decade. Mary spent seven years as the Chief Financial Officer of an international Swiss bank based in various jurisdictions including Europe, the United States, Asia and the Caribbean. She also spent 13 years in professional services firms, largely in senior audit management roles with PricewaterhouseCoopers and Ernst & Young.

Mary is a Chartered Professional Accountant (CPA, CA), holds the ICD.D designation and a Bachelor of Commerce degree from the University of Alberta. Mary is a member of the Juvenile Diabetes Research Foundation and is involved in both personal and corporate fundraising for the Foundation.

Central 1's Board/ Committee Memberships	Attendance at Meetings during 2019		
	Attendance	Term in 2019	% of Meetings Attended
Board of Directors	18/18	May 1 – Dec 31	100%
Member, Audit and Finance Committee	3/3	May 1 – Dec 31	100%
Member, Risk Review and Investment & Loan Committee	12/12	May 1 – Dec 31	100%
Other Current Boards/Committee Memberships			
Director: Mercado Capital Corporation / WS Leasing Ltd. / Mercado Financing Ltd. Westminster Savings Financial Planning Ltd. / Westminster Savings Foundation			
Areas of Expertise			
Credit Union/Cooperative Sector, P&L Ownership, Financial Acumen, Risk Management, Individual F.I. Liquidity, Regulatory Expertise, Governance Experience, Human Resources Experience, Community Engagement			

Angela Kaiser

Delta, British Columbia

Director since 2015
Currently serving a second term (2018-2021)

Angela Kaiser is a UBC Graduate from the Faculty of Commerce and holds CPA, CGA and CFP designations. She completed the ICD.D program in 2010 and works in a public practice providing accounting, corporate and personal tax services and business consulting to small businesses and individuals. Angela served on the board of Prospera Credit Union (Audit Chair) until December 31, 2019. She served as Board Chair for Prospera and Stabilization Central Credit Unions for five years and continues to be actively involved with several not-for-profit organizations and is the Chair of Finance for the Delta Police Board.

In 2018 Angela received the PEAK Award for Significant Board Contribution from the Association of Women in Finance. Caring for community and learning is important, therefore she volunteers as a Facilitator for Junior Achievement and the CPA Financial Literacy Program as well as acting as a mentor for the Martin Family Initiative/CPA Canada Mentorship Program.

Central 1's Board/ Committee Memberships	Attendance at Meetings during 2019		
	Attendance	Term in 2019	% of Meetings Attended
Board of Directors	22/22	Jan 1 – Dec 31	100%
Member, Audit and Finance Committee	4/4	Jan 1 – Dec 31	100%
Chair, Risk Review and Investment & Loan Committee	15/15	Jan 1 – Dec 31	100%
Other Current Boards/Committee Memberships			
Director, Prospera Credit Union			
Director, CUPP Services Ltd.			
Areas of Expertise			
Credit Union/Cooperative Sector, Financial Acumen, Regulatory Expertise, Risk Management, Governance Experience, Community Engagement			

John Kortram

Nelson, British Columbia

Director since 2017
Currently serving a second term (2018-2021)

John built his career in the Netherlands, holding various Executive Director positions with international corporations. In 2011, John immigrated to Canada and settled in Nelson, BC where he is a business owner in the community which eventually led him to become a member of the Nelson and District Credit Union Board of Directors. As director on the board of Nelson and District Credit Union, John has contributed to various committees and has been a member of the Governance Committee, the Audit Committee, the Investment and Lending Committee, the CEO Transition Committee and the Executive Committee.

John holds a Bachelor of Economics from the University of Agriculture and Science in the Netherlands and a Master of Business Management from the University's Faculty of Business. He has completed all three levels of the Credit Union Director Achievement Program and is an Accredited Canadian Credit Union Director (ACCUD).

Central 1's Board/ Committee Memberships	Attendance at Meetings during 2019		
	Attendance	Term in 2019	% of Meetings Attended
Board of Directors	22/22	Jan 1 – Dec 31	100%
Member, Conduct Review and Corporate Governance Committee	8/8	Jan 1 – Dec 31	100%
Member, Nominations and Elections Committee	2/2	Jan 1 – Apr 30	100%
Chair, Nominations and Elections Committee	1/1	May 1 – Dec 31	100%
Other Current Boards/Committee Memberships			
Director, Nelson & District Credit Union (Governance, Investment & Lending, *Ad hoc* Committee Merger Kootenay Credit Union)			
Delegate, Nelson & District Credit Union in partnership discussion around the merger of the credit unions in the Kootenay Boundary and Columbia Valley Region.			
Areas of Expertise			
Credit Union/Cooperative Sector, P&L Ownership, Risk Management, Governance Experience, Human Resources Experience			

Joel Lalonde

Ottawa, Ontario

Director since 2017
Currently serving a first term (2017-2020)

Joel currently holds the title of President & Chief Executive Officer at Your Credit Union, a position he has held since 2013. He has been with Your Credit Union since 2009. His prior role was that of Executive Vice President. Previously, he held a number of management positions with caisses populaires in Ontario after his early work as an analyst with the Deposit Insurance Corporation of Ontario (DICO).

Joel is a Director and past Chair of the Ontario Co-operative Association and also sits as a Director of the Ontario Credit Union Foundation and of the Credit Union Services Association (CUSA). He has a Bachelor of Commerce degree and Masters of Business Administration degree from the University of Ottawa.

Central 1's Board/ Committee Memberships	Attendance at Meetings during 2019		
	Attendance	Term in 2019	% of Meetings Attended
Board of Directors	21/22	Jan 1 – Dec 31	95%
Member, Conduct Review and Corporate Governance Committee	8/8	Jan 1 – Dec 31	100%
Member, Human Resources Committee	2/2	May 1 – Dec 31	100%
Member, Legislative Committee	1/1	Jan 1 – Apr 30	100%
Member, Nominations and Elections Committee	2/2	Jan 1 – Apr 30	100%
Other Current Boards/Committee Memberships			
Director, Ontario Co-operative Association			
Director, Ontario Credit Union Foundation			
Director, Credit Union Services Association			
Areas of Expertise			
Credit Union/Cooperative Sector, P&L Ownership, Financial Acumen, Risk Management, Individual F.I. Liquidity, Regulatory Expertise, Governance Experience, Human Resources Experience			

Shelley McDade

Gibsons, British Columbia

Director since 2017
Currently serving a first term (2017-2020)

Shelley’s financial services career spans 35 years in the B.C. credit union system. She is currently Chief Executive Officer of Sunshine Coast Credit Union, an over 75 year old cooperative with $580 million in assets and more than 16,000 members.

Shelley is best known for her commitment and passion for leveraging collaboration to create value for members locally and across the network as a whole. A well-respected leader and advisor to a variety of community and industry groups, she also dedicates her time to championing collaborative opportunities across the credit union network including the Solutions Centre, Risk Management Alliance and most recently, the Back Office Collaborative.

An accredited director through ICSA Canada, she obtained her Master of Business Administration from Aspen University in 2009.

Central 1’s Board/ Committee Memberships	Attendance at Meetings during 2019		
	Attendance	Term in 2019	% of Meetings Attended
Board of Directors	22/22	Jan 1 – Dec 31	100%
Member, Conduct Review and Corporate Governance Committee	8/8	Jan 1 – Dec 31	100%
Chair, Nominations and Elections Committee	2/2	Jan 1 – Apr 30	100%
Member, Technology & Innovation Committee	10/10	Jan 1 – Dec 31	100%
Other Current Boards/Committee Memberships			
None			
Areas of Expertise			
Credit Union/Cooperative Sector, P&L Ownership, Financial Acumen, Risk Management, Individual F.I. Liquidity, Regulatory Expertise, Governance Experience, Community Engagement			

Penny-Lynn McPherson

Shirley, British Columbia

Director since 2015 (Outside Director)
Currently serving a second term (2018-2021)

Penny-Lynn spent most of her career as Vice-President, General Counsel and Corporate Secretary for the Canadian Payments Association (now Payments Canada). She has over 30 years’ experience in payments, clearing and settlement, ecommerce, legal, compliance, risk management and corporate governance. Penny-Lynn is also a Director of the Facility Association and President of a local strata council. She has served on and co-chaired many payment system committees and served as a director and vice-chair of a hospital board.

Penny-Lynn holds a Bachelor of Arts from Carleton University, and an LL.B from the University of Ottawa. She is a member of the Law Society of Ontario.

Central 1’s Board/ Committee Memberships	Attendance at Meetings during 2019		
	Attendance	Term in 2019	% of Meetings Attended
Board of Directors	22/22	Jan 1 – Dec 31	100%
Member, Risk Review and Investment & Loan Committee	15/15	Jan 1 – Dec 31	100%
Member, Technology & Innovation Committee	10/10	Jan 1 – Dec 31	100%
Other Current Boards/Committee Memberships			
Facility Association Board of Directors			
Areas of Expertise			
Credit Union/Cooperative Sector, Financial Acumen, Risk Management, Liquidity Management Expertise, Regulatory Expertise, Legal Expertise, Governance Experience, Human Resources Experience			

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Jan O'Brien

Victoria, British Columbia

Director since 2017
Currently serving a first term (2017-2020)

A credit union member since 1977, Jan brings leadership and experience in financial management, governance, labour relations and advocacy in the community and not-for-profit sectors. She is currently serving her fourth term on Vancouver City Savings Credit Union's Board of Directors, and is the Board Chairperson.

After a career in journalism, that included covering city hall and labour for The Province newspaper, Jan focused her career on labour relations. She was a vice-chairperson of the BC Labour Relations Board, a vice-president of the BC Federation of Labour; president of a local of the Communications, Energy and Paperworkers Union representing newspaper workers; provincial director of the BC New Democratic Party; and most recently a staff representative at the BC Government and Service Employees' Union.

Jan holds a Bachelor of Arts from the University of British Columbia and a Master of Business Administration from Simon Fraser University.

Central 1's Board/ Committee Memberships	Attendance at Meetings during 2019		
	Attendance	Term in 2019	% of Meetings Attended
Board of Directors	20/22	Jan 1 – Dec 31	91%
Member, Human Resources Committee	5/5	Jan 1 – Dec 31	100%
Member, Risk Review and Investment & Loan Committee	13/15	Jan 1 – Dec 31	87%
Other Current Boards/Committee Memberships			
Board Chairperson, Vancouver City Savings Credit Union			
Areas of Expertise			
Credit Union/Cooperative Sector, Risk Management, Regulatory Expertise, Governance Expertise, Human Resources Experience, Community Engagement			

Rob Paterson

Toronto, Ontario

Director since 2014
Currently serving a second term (2017-2020)

Rob is President and Chief Executive Officer of Alterna Savings and Credit Union and ALTERNA BANK, since April 2013. Prior to joining Alterna, Rob worked in financial services for over 25 years and held executive positions with such companies as CIBC, JP Morgan Chase, AON Corp, and McKinsey & Company. He sits on the boards of The Co-operators, and Alterna Bank. Furthermore, Rob advises many fintech start- ups across Canada.

Rob gives back to the community through involvement with non-profit and academic organizations. He is a Director and Vice Chairman of Enactus Canada – "a community of student, academic and business leaders enabling progress through entrepreneurial action."; a supporter of Candlelighters, a not-for-profit organization supporting children and families going through cancer treatment; and sits on the advisory board of the University of Western Ontario Arts School.

In his work, Rob is a pioneer of emerging payment and mobile technologies, and has championed innovative lending solutions. He has worked with top brands around the world in financial services and technology positioning himself as a leader, and mentor,in the Fintech space. Rob holds a Bachelor of Arts degree from the University of Western Ontario.

Central 1's Board/ Committee Memberships	Attendance at Meetings during 2019		
	Attendance	Term in 2019	% of Meetings Attended
Board of Directors	18/22	Jan 1 – Dec 31	82%
Member, Conduct Review and Corporate Governance Committee	6/8	Jan 1 – Dec 31	75%
Chairperson, Technology & Innovation Committee	9/9	Jan 1 – Dec 31	100%
Other Current Boards/Committee Memberships			
Director, CS Alterna Bank			
Director, Enactus Canada			
Director, Co-operators Life Insurance Company & Co-operators General Insurance Company			
Member, Dean's Advisory Board - Carleton University, Sprott School of Management			
Advisor to SASAH, University of Western Ontario			
Areas of Expertise			
Credit Union/Cooperative Sector, P&L Ownership, Financial Acumen, Risk Management, Individual F.I. Liquidity, Regulatory Expertise, Technology Business Expertise, Governance Experience, Human Resources Experience, Community Engagement			

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Dr. Blaize Horner Reich

Vancouver, British Columbia

Director since 2015 (Outside Director)
Currently serving a second term (2018-2021)

Blaize is currently the RBC Professor of Technology and Innovation at the Beedie School of Business at Simon Fraser University (SFU). From 2014-2015, she was the Dean of the Beedie School of Business at SFU.

Prior to SFU, she was an information technology (IT) professional and consultant to industry in both Canada and Asia. She is the past Advisory Board Chair for RADIUS and is the founding academic leader of the Business Technology Management program, an initiative of Information Technology Association of Canada. She has served on several corporate, industry and not for profit boards, and currently serves on the BCAA board and the Academic Member Advisory group for the Project Management Institute.

Blaize holds a Bachelor of Arts in Economics, Master of Science degree and a Ph.D. in Business – Information System Strategy from the University of British Columbia. She is a certified director (ICD.D) and an Academic Fellow of the International Consulting Management Association.

Central 1's Board/ Committee Memberships	Attendance at Meetings during 2019		
	Attendance	Term in 2019	% of Meetings Attended
Board of Directors	19/22	Jan 1 – Dec 31	86%
Chair, Human Resources Committee	5/5	Jan 1 – Dec 31	100%
Member, Technology & Innovation Committee	10/10	Jan 1 – Dec 31	100%
Other Current Boards/Committee Memberships			
Director, British Columbia Automobile Association			
Areas of Expertise			
Financial Acumen, Risk Management, Regulatory Expertise, Technology Business Expertise, Governance Experience, Human Resources Experience			

Launi Skinner

Vancouver, British Columbia

Director since 2017
Currently serving a first term (2017-2020)

Launi is the Chief Executive Officer of First West Credit Union, one of Canada's leading credit unions with $12 billion in assets under administration, 226,000 members and 1,700 employees. Launi leads visioning and strategic direction for First West Credit Union.

Before joining First West Credit Union, Launi served as president of Starbucks U.S. Known for inspiring change and achieving results, Launi has been recognized as one of Canada's Most Powerful Women and as one of Fortune Magazine's 50 Most Powerful Women's feature "Four Women to Watch." Launi is currently a board member for Rocky Mountaineer and Science World.

In the community she is a past event Chairperson for the Vancouver YWCA Women of Distinction Awards and has received an Honorary Doctorate of Technology from British Columbia Institute of Technology.

Central 1's Board/ Committee Memberships	Attendance at Meetings during 2019		
	Attendance	Term in 2019	% of Meetings Attended
Board of Directors	17/22	Jan 1 – Dec 31	77%
Member, Audit and Finance Committee	3/4	Jan 1 – Dec 31	75%
Member, Human Resources Committee	4/5	Jan 1 – Dec 31	80%
Other Current Boards/Committee Memberships			
Director, Rocky Mountaineer			
Director, Science World			
Areas of Expertise			
Credit Union/Cooperative Sector, P&L Ownership, Financial Acumen, Risk Management, Individual F.I. Liquidity, Regulatory Expertise, Governance Experience, Human Resources Experience, Community Engagement			

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Sanjit (Sunny) Sodhi

Toronto, Ontario

Director since 2019
Currently serving a first term (2019-2022)

Sunny Sodhi is Chief Strategy and Corporate Affairs Officer at Meridian Credit Union, responsible for overseeing Enterprise Strategy and Corporate Development, Innovation, Legal, Corporate Governance, and Government Relations functions within Meridian.

Prior to joining Meridian in 2014, Sunny focused his legal practice on advising domestic and international financial institutions on a broad array of complex corporate and regulatory matters. He practiced law in Toronto with Torys LLP and then Fasken Martineau DuMoulin LLP as a partner. He also practiced abroad with top international law firm Freshfields Bruckhaus Deringer LLP in its Singapore office, focusing on cross-border mergers and acquisitions.

Sunny graduated from the University of British Columbia with a Bachelor of Commerce (Honours), and from the University of Victoria with a Juris Doctor. He has been a member of the Bar in Ontario and New York since 2003.

Central 1's Board/ Committee Memberships	Attendance at Meetings during 2019		
	Attendance	Term in 2019	% of Meetings Attended
Board of Directors	17/18	May 1 – Dec 31	94%
Member, Conduct Review and Corporate Governance Committee	5/6	May 1 – Dec 31	83%
Member, Human Resources Committee	2/2	May 1 – Dec 31	100%
Other Current Boards/Committee Memberships			
Director: Meridian OneCap Credit Corporation / Motus Bank / Focal Healthcare Limited / Sikh Foundation of Canada			
Areas of Expertise			
Credit Union/Cooperative Sector, Financial Acumen, Legal, Corporate Governance, Human Resources Management, Government Relations, Corporate Communications, Enterprise Strategy			

Cheryl Wallace

Prince George, British Columbia

Director since 2019
Currently serving a first term (2019-2022)

Cheryl is the Director of the MBA Program at the University of Northern BC (UNBC). She provides leadership, financial oversight and strategic expertise to the MBA program. She plays a key role in recruiting students and developing an MBA program that is relevant to a diverse cross section of students that attend the program in Vancouver and Prince George. She has implemented a number of initiatives to build leadership skills and help students from the Vancouver and Prince George cohorts feel connected to UNBC and the north.

Cheryl is currently Board Chair of Integris Credit Union in Northern BC. She has lived in Prince George for 15 years originally moving from the Lower Mainland. She has served on various not for profit boards and provides volunteer financial literacy sessions to the community. She has senior level financial and operational experience in several industries including manufacturing, retail grocery, healthcare, not for profit and now post secondary education.

Cheryl is a Chartered Professional Accountant (CPA, CMA) and holds a Master of Business Administration (MBA) from UNBC.

Central 1's Board/ Committee Memberships	Attendance at Meetings during 2019		
	Attendance	Term in 2019	% of Meetings Attended
Board of Directors	18/18	May 1 – Dec 31	100%
Member, Audit and Finance Committee	3/3	May 1 – Dec 31	100%
Member, Nominations and Elections Committee	1/1	May 1 – Dec 31	100%
Other Current Boards/Committee Memberships			
Director: Integris Credit Union			
Areas of Expertise			
Credit Union/Cooperative Sector, Financial Acumen, Risk Management, Regulatory Expertise, Governance Experience, Human Resources Experience, Community Engagement			

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Rob Wellstood

Peterborough, Ontario

Director since 2015
Currently serving a second term (2018-2021)

Rob is currently President and Chief Executive Officer of Kawartha Credit Union, a position he has held since 2002. He was Controller from 1993-2002. Prior to joining Kawartha Credit Union he spent 10 years in public practice, first working for a national Chartered Accounting firm then in partnership in a family owned practice, and spent two years as a commercial lender with the Business Development Bank of Canada.

Rob has served on a number of boards in the not-for-profit and financial sectors and industry advisory committees.

Rob is a Chartered Professional Accountant, CPA, CMA, holds a Bachelor of Mathematics degree from the University of Waterloo.

Central 1's Board/ Committee Memberships	Attendance at Meetings during 2019		
	Attendance	Term in 2019	% of Meetings Attended
Board of Directors	20/22	Jan 1 – Dec 31	91%
Chair, Audit and Finance Committee	4/4	Jan 1 – Dec 31	100%
Member, Risk Review and Investment & Loan Committee	15/15	Jan 1 – Dec 31	100%
Other Current Boards/Committee Memberships			
Member, Ontario Pension Sub-Committee			
Areas of Expertise			
Credit Union/Cooperative Sector, P&L Ownership, Financial Acumen, Risk Management, Individual F.I. Liquidity, Regulatory Expertise, Governance Experience, Human Resources Experience, Community Engagement			

Board and Committee Meetings

Directors are expected to attend all Board and Committee meetings. While most meetings are planned a year in advance, from time to time a Board or Committee will schedule a meeting at short notice resulting in some directors not being able to attend the meeting. Directors are encouraged to attend meetings in person, but they may also participate by teleconference. The following tables set out a summary of the Board and Committee meetings held during 2019.

Board/Committee	Total Number of Meetings
Board	22
Audit and Finance Committee	4
Conduct Review and Corporate Governance Committee	8
Human Resources Committee	5
Legislative Committee	1
Nominations and Elections Committee	3
Risk Review and Investment & Loan Committee	15
Technology & Innovation Committee	10

The table below shows the attendance record for each director as set out in their director profiles.

Director	Committee Meetings	Board Meetings	Percentage of Meetings Attended
M. Falconer	15/15	18/18	100%
R. Hoevenaars	18/18	22/22	100%
A. Kaiser	19/19	22/22	100%
B. Kiss	19/20	22/22	98%
J. Kortram	11/11	21/22	97%
J. Lalonde	11/11	21/22	97%
S. McDade	16/16	22/22	100%
P. McPherson	25/25	22/22	100%
J. O'Brien	18/20	20/22	90%
R. Paterson	15/17	18/22	85%
B. Reich	15/15	19/22	92%
L. Skinner	7/9	17/22	77%
S. Sodhi	7/8	17/18	94%
C. Wallace	4/4	18/18	100%
R. Wellstood	20/20	20/22	95%

Governance Framework

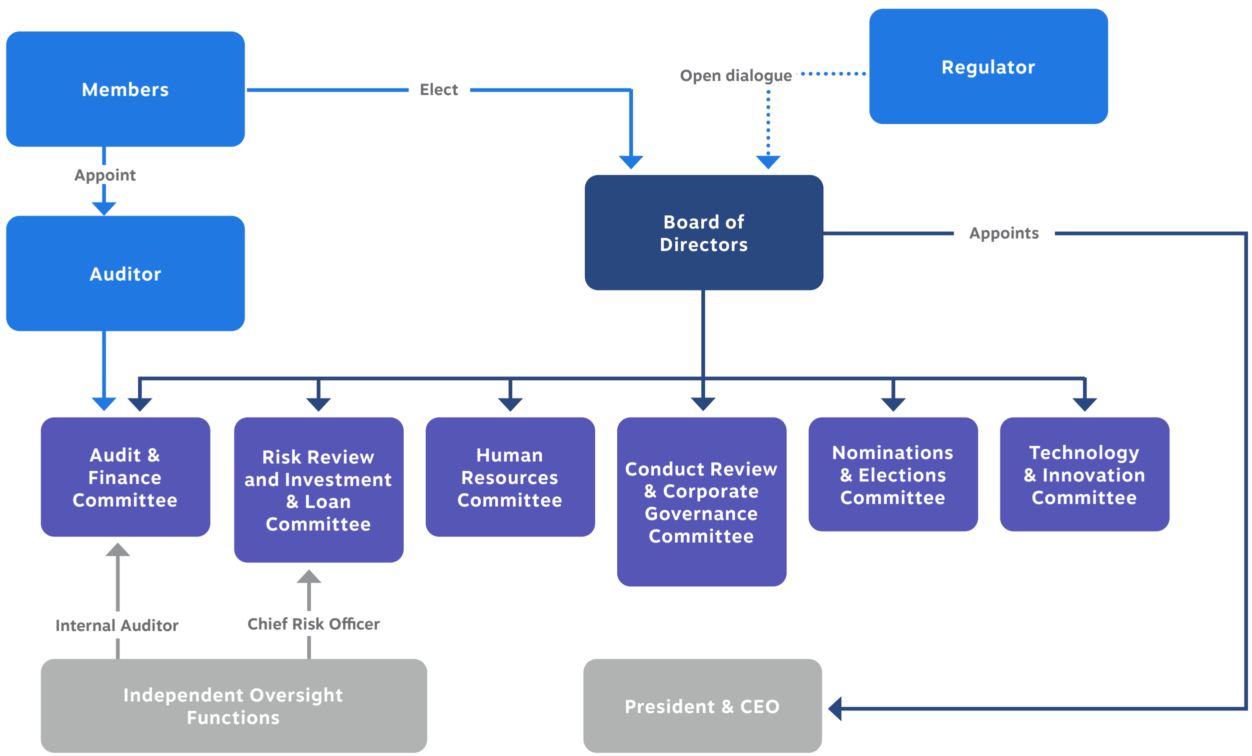
This framework provides an overview of the corporate governance structures, principles, policies and practices of the Board of Central 1, which together enable Central 1 to meet or exceed governance expectations of the British Columbia Financial Services Authority (BSFSA) (formerly FICOM), the Canadian Securities Administrators (CSA) and applicable legislation.

Our Board and management are committed to leadership in corporate governance and understand that good governance is central to the efficient and effective operation of Central 1 in a manner that ultimately enhances member value. Our corporate governance framework is subject to ongoing review, assessment and improvement. The Board proactively adopts governance policies and practices designed to align the interests of our Board and management with those of our members and other stakeholders, and to promote the highest standards of ethical behaviour and risk management at every level of the organization.

As a reporting issuer in certain jurisdictions of Canada, Central 1 is required to disclose certain corporate governance practices it has adopted.

Governance Structure

The fundamental relationship among the Board, management, members, and other stakeholders is established by our governance structure, as illustrated below.



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Board Mandate

Our Board is responsible for the overall stewardship of Central 1, on behalf of its members. It is responsible for supervising the management of the affairs and business of Central 1 in accordance with Central 1's Rules, the CUIA and the *Financial Institutions Act* (British Columbia) (FIA) and other applicable legislation and regulations. Our Board fulfills this responsibility both directly and by delegating certain authority to Board committees and Central 1's senior management.

Committees of the Board

Directors are required to serve on committees of the Board that carry out legislated and delegated duties. As at the date hereof, there are seven standing committees of the Board:

- Audit and Finance
- Conduct Review and Corporate Governance
- Human Resources
- Nominations and Elections
- Risk Review and Investment & Loan
- Technology & Innovation

The Board may also create special ad hoc committees from time-to-time to perform specific tasks on behalf of the Board. Terms of Reference for the Committees of the Board listed above can be found on Central 1's website (www.central1.com).

Each committee operates in accordance with Board-approved terms of reference. A written position description is in place for the Committee Chairperson. Each committee annually reviews its terms of reference to ensure that regulatory requirements and best practices are reflected, and recommends any changes to the Conduct Review and Corporate Governance Committee, which ultimately recommends changes to the Board. Each committee also assesses its effectiveness to ensure that it has successfully fulfilled its responsibilities as set out in its terms of reference through a biennial process overseen by the Conduct Review and Corporate Governance Committee.

Committee members are elected annually following Central 1's annual general meeting. The Conduct Review and Corporate Governance Committee recommends directors to each of the committees. Following each meeting, the committee Chairperson reports to the Board on the committee's activities and makes such recommendations as are deemed appropriate in the circumstance.

All meetings have scheduled in-camera sessions when members can discuss the committee operations and responsibilities without management present.

Committees have the authority to engage and determine funding for any independent counsel, consultants and advisors, as may be deemed necessary to carry out their responsibilities.

Audit and Finance Committee

Our management is responsible for the preparation, presentation and integrity of Central 1's financial statements, maintaining appropriate accounting and financial reporting principles, policies, internal controls and procedures designed to ensure compliance with accounting standards and applicable laws and regulations. The external auditors are responsible for planning and carrying out, in accordance with professional standards, an audit of Central 1's annual financial statements and reviews of Central 1's quarterly financial information. The Audit and Finance Committee's purpose is to review the adequacy and effectiveness of these activities and to assist the Board in its oversight of:

- the integrity of Central 1's financial statements;
- the external auditors' qualifications and independence;
- the performance of Central 1's internal audit function and external auditors;
- the adequacy and effectiveness of internal controls; and
- Central 1's compliance with legal and regulatory requirements affecting financial reporting.

The current members of the Audit and Finance Committee are set out in the table below with the education and experience that is relevant to each member's performance of his or her responsibilities as an audit committee member. Each member of the Audit and Finance Committee is "independent" and "financially literate" within the meaning of the rules of the Canadian Securities Administrators relating to audit committees.

The following table sets out the relevant education and experience of the members of the Audit and Finance Committee.

Audit and Finance Committee Member	Relevant Education	Met 2019 requirements for CPD*	Relevant Experience
Rob Wellstood (Chairperson)	B. Math, CPA, CMA	Completed	Current CEO, Kawartha Credit Union. Previously was Controller, Kawartha Credit Union (10 years) and worked in Public Accounting and Commercial Lending.
Mary Falconer	B. Comm, CPA, CMA	Completed	Current SVP Chief Financial Officer and Corporate Secretary, Prospera Credit Union. Previous experience as Group Controller and CFO
Angela Kaiser	B. Comm, CPA, CGA,CFP	Completed	Previous Board Member and Audit Chair, Prospera Credit Union. Chair of Finance, Delta Police Board. Treasurer, BC Cooperative Association. Prior Audit Chair, Stabilization Central Credit Union of B.C. Works in public accounting.
Launi Skinner	CPA, CGA	Completed	Current CEO, First West Credit Union. Previous President, Starbucks, U.S.
Cheryl Wallace	MBA, CPA, CMA	Completed	Current Director of MBA Program at UNBC. Previous senior level financial and operational experience in various industries.

*Continuing Professional Development for relevant professional designations.

External Auditor Service Fees

The table below shows the fees billed to Central 1 for professional services rendered by Central 1's external auditor KPMG LLP during the last two fiscal years:

	2019	2018
Audit Fees[(1)]	$ 908,300	$ 1,138,400
Audit-related Fees[(2)]	87,000	223,800
Tax Fees[(3)]	172,050	235,900
All Other Fees		
MLP Segregation Fees[(4)]	$ 68,250	$ –
Aviso Wealth Fees[(5)]	–	61,800
Other Fees[(6)]	60,500	35,000
Total[(7)]	$ 1,296,100	$ 1,694,900

(1) Audit fees in both years included audits of Central 1 and subsidiaries and quarterly reviews of Central 1. The 2018 amount included Aviso Wealth and Interac transactions, as well as Central 1's transition to IFRS 9.
(2) Audit-related fees in both years included audits of Central 1's Ontario Registered Retirement Plan and specified procedures over mortgage-backed securities. The 2018 amounts included fees related to the National IFRS 9 Credit Union project.
(3) Tax fees in both years included tax advisory and compliance fees for Central 1 and subsidiaries.
(4) MLP Segregation in 2019 included tax and advisory services related to the planned legal segregation of Central 1's Mandatory Liquidity Portfolio operating segment.
(5) Aviso Wealth in 2018 included tax and advisory services in support of the Aviso Wealth transaction, which involved Desjardins, five provincial credit union centrals, and CUMIS in the bringing together of the businesses of Qtrade, Credential, and NEI Investments. Advisory services primarily related to Due Diligence and Financial Advisory.
(6) All Other fees in both years primarily related to transaction advisory services.
(7) All fees are before Canadian Public Accountability Board and administration fee charges as well as applicable taxes.

The Terms of Reference of the Audit and Finance Committee are attached to this document as Appendix A. Central 1 is relying on the exemption in Section 6.1 of National Instrument 52-110 Audit Committees.

Pre-Approval of Services

The Audit and Finance Committee must pre-approve all audit and non-audit services, including the provision of tax advice (other than de minimus non-audit services provided to Central 1 and its subsidiaries, as defined in NI 52-110). The Chairperson is authorized to provide such pre-approval throughout the year, in accordance with applicable terms of reference with any such approvals being reported to the next regularly scheduled meeting of the Audit and Finance Committee.

Conduct Review and Corporate Governance Committee

The Conduct Review and Corporate Governance Committee is responsible for ensuring performance by Central 1 of the duties required of it by the CUIA and Parts 4 and 5 of the FIA. The Committee is also responsible for advising the Board in applying governance principles, monitoring developments in corporate governance and adopting best practices to the needs and circumstances of Central 1.

Human Resources Committee

The Human Resources Committee is responsible for advising the Board on succession planning of President and Chief Executive Officer (CEO), compensation and human resources principles and on related policies and practices. This committee provides its recommendation to the Board for compensation of the CEO in light of his or her performance and Central 1's performance, as well as the succession planning of CEO. In addition, the Committee approves the compensation of other senior management and oversees matters concerning Central 1's pension plans.

Legislative Committee

The Legislative Committee was responsible for analyzing legislative developments at the provincial level and recommending related strategies to the Board. Its members also advocated for legislative and regulatory change on behalf of the B.C. and Ontario credit union networks.

With the Government Relations role moving to the Canadian Credit Union Association in late 2018, it was determined that the primary role of the Legislative Committee being to advocate on behalf of credit unions in BC and Ontario was no longer required. At the Annual General Meeting in 2019, Central 1's membership approved rule changes removing the requirement for a Legislative Committee and the Committee was not populated for 2019/2020.

Nominations and Elections Committee

The Nominations and Elections Committee is responsible for overseeing the director nomination and election process. Its responsibilities include recruiting and recommending candidates for election to the Board. Committee members ensure that the competencies identified in the Board-approved skills and experience matrix are present on the Board to meet the current needs of Central 1's governance leadership and strategic intent. Central 1 is committed to building and sustaining a diverse and inclusive Board that both supports Central 1's strategy and reflects the credit union system it serves.

Risk Review and Investment & Loan Committee

The Risk Review and Investment & Loan Committee is responsible for overseeing the effective operation of all risk taking operations and risk management functions of Central 1 and ensuring appropriate risk governance processes are executed effectively and that investment, lending and other business operations of Central 1 are undertaken in a prudent and risk-informed manner.

The Committee reviews the risk, investment and lending activities of Central 1, the associated corporate policies and any significant and emerging events and related action plans and recommends any improvements or changes to the Board as deemed necessary or desirable. The Committee also monitors and oversees compliance with anti-money laundering and counter terrorism financing legislation and related policies.

Technology & Innovation Committee

The Technology & Innovation Committee is responsible for providing strategic and risk oversight of matters relating to innovation and technology. The duties and responsibilities of the committee include matters relating to digital and payments projects and programs, enterprise technology (including treasury) projects and programs and operations.

Management's Role In Board Effectiveness

There is a clear demarcation of roles and responsibilities between the Board and senior management that fosters an environment of transparency, confidence, and mutual trust in which the Board is able to constructively challenge and provide guidance to management.

The CEO is appointed by the Board and is responsible for managing the day-to-day affairs of Central 1. The CEO's key responsibilities involve working with the Board to determine the strategic direction of Central 1 and providing leadership to management in achieving strategy objectives. The CEO, together with senior management, is accountable for implementing the Board's decisions and is responsible for directing and overseeing the operations of Central 1.

The Human Resources Committee annually reviews and, if appropriate, recommends to the Board for approval, the CEO's goals and objectives and compensation.

Board Composition

Board Size

The Board may be composed of up to 13 directors who are required to be officers or directors of a Class A member and are elected or appointed by Class A members. In addition, the Board has the discretion to appoint up to two outside directors to fill skills and experience gaps on the Board, for a total of up to 15 directors.

Of the 13 directors who may be elected or appointed by Class A members, eight may be elected or appointed, as the case may be, by Class A members having their head office in B.C. The other five directors may be elected or appointed, as the case may be, by Class A members having their head office in Ontario. Despite directors being elected or appointed on a regional basis, directors who serve on Central 1's Board act for the organization as a whole. Central 1's Board is currently composed of 15 directors of which 13 were elected or appointed by Class A members and two were appointed by the Board.

Central 1 completes a review of its governance structure every three years. Governance structure for purposes of this review included factors such as the size and composition of the Board of Directors and the way directors are elected to the Board. In 2019, Central 1's Conduct Review and Corporate Governance Committee retained a consultant to assist it in its triannual governance review. Proposed changes to Central 1's governance structure are being considered by the Board.

Director Tenure

Directors serve for a term of three years, unless a shorter term is provided by the Rules or determined by the Board at the time of election or appointment in accordance with the Rules. No director may serve more than 12 consecutive years. Central 1 has no director retirement age policy.

Independence

All directors are independent of management. Having an independent Board is critical to effective oversight and good governance. Directors are asked annually to complete a questionnaire about their business and any other relationships they have with Central 1 (and its affiliates) and senior management.

Central 1's Board considers its directors to be independent on the basis that its directors are not considered to have a "material relationship" with Central 1 as defined in National Instrument 52-110-Audit Committees.

To facilitate the ability of the Board to function independently of management, the following structures and processes are in place:

- the role of Chairperson of the Board is separate from the role of CEO;
- there are no members of management on the Board; and
- directors hold in-camera sessions where members of management are not present at each Board and committee meeting

The Board has developed a written position description for the Chairperson of the Board. The Chairperson's duties include leading the Board in its management and supervision of the business and affairs of Central 1, including ensuring that all matters relating to the Board mandate are completely disclosed and discussed with the Board. The Chairperson also leads the Board in its oversight of management.

Director Nomination and Skills and Experience Matrix ("Skills Matrix")

In accordance with governance best practices and regulatory requirements, the Board, as a whole, is comprised of individuals from diverse backgrounds having specific skills and experience that match the financial, operational and risk oversight needs of Central 1. All directors are expected to have the personal attributes necessary to reflect the cooperative values of Central 1 and the credit union system.

Each year, the directors complete the Annual Director Self-Assessment of his/her perceived level of skills against the various elements in the Skills Matrix shortly after the Conduct Review and Corporate Governance Committee ("CRCGC") had its Q1 meeting. Results of the existing and newly appointed directors' Annual Director Self-Assessments, together with the information obtained from the Nominations and Elections Package for any newly elected director's skills competencies, is reported to CRCGC at its Q2 meeting. CRCGC, in consultation with the Board Chairperson, reviews the results of the Annual Director Self-Assessment to ensure the self-assessments are calibrated appropriately, identifying adjustments if/as needed. The Chairperson of the Board conducts follow up discussions with individual directors if/as needed to finalize the Annual Director Self-Assessment. CRCGC reviews the results and determine whether Central 1 has ideal Board composition; identifies any gaps that need to be filled; and reports any skill gap(s) to the Nominations and Elections Committee for recruiting the candidates in the upcoming year.

In the late 2019, the CRCGC engaged an external consultant to review the Skills Matrix and self-assessment process. An external consultant is engaged to participate in the candidate interviews to provide additional third party, external perspective, and unbiased feedback to the NEC.

Interlocking Directorships

The credit union network consists of three tiers. The first tier consists of local credit unions, the second tier consists of provincial central credit unions, each of which is controlled by first tier credit unions, and the third tier consists of Canadian Credit Union Association Cooperative (CCUA), which is owned by first tier credit unions.

Within the credit union network is a network of related corporations and subsidiaries of B.C. and Ontario credit unions, Central 1 and CCUA. This organizational structure results in a series of interlocking directorships and other relationships in which:

- a director of Central 1 is a member of a Class A member credit union and may be a director or an officer of a Class A member credit union of Central 1 and may be a director or officer of:

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  (i) a subsidiary of Central 1; or
  (ii) a corporation in which Central 1 or Central 1 and one or more local credit unions have a financial or other interest; and

- a senior officer of Central 1 may be a director, officer, or both, of a subsidiary of Central 1 or a director or officer of a corporation in which Central 1 has a financial or other interest.

The organizational structure of the credit union as explained above may contain an inherent potential for conflicts of interest between Central 1 or a subsidiary of Central 1 and a director or officer of Central 1 or subsidiary of Central 1. However, there are no existing or potential conflicts of interest that are material.

The CRCGC is required to resolve conflicts of interest that may arise and to ensure that Central 1's dealings with its related parties comply with federal and provincial legislation. The CRCGC is required to review Central 1's conflict of interest procedures biennially. The CRCGC undertook such a review in 2019.

Diversity

We are committed to building and sustaining a diverse and inclusive Board that both supports Central 1's strategy and reflects the credit union system. To support this, the Nominations and Elections Committee will, when identifying candidates to recommend for appointment/election to the Board:

- consider candidates who are highly qualified based on our Board-approved skills matrix;
- take into account that an inclusive board of directors should reflect the diversity of the communities that Central 1 serves; and
- conduct a search for candidates that meet the Board's skills and diversity criteria to help achieve its diversity aspirations.

In promoting diversity, the Nominations and Elections Committee recognizes that diversity encourages the inclusion of different perspectives and ideas, mitigates against groupthink and ensures opportunities to benefit from all available talent.

Central 1 also recognizes the increased diversity disclosure provisions set out in the *Canada Business Corporations Act* effective January 2020 with regards to diversity in nominating directors from designated groups as defined by the *Employment Equity Act*. To that effect, the Skills Matrix has been updated to broaden the diversity disclosure provisions. Section 5, Diversity, of the Skills Matrix lists age, gender, region, ethnicity/culture, board service, interlocking public directorships and expression of interest for any board/committee chairperson positions for Board succession planning.

It is noted that Central 1's Board does have term limits set out in its *Board Structure* document and summarized earlier in this document under the heading "Director Tenure".

The Board aspires towards a composition in which each gender comprises at least one-third of the directors. Currently the Board is comprised of fifty-three per cent women and forty-seven per cent men.

Board Operations

Chair of the Board

Each year, the directors elect a Chairperson. Mr. William Kiss is currently Chairperson of the Board.

Board and Committee Meetings

Central 1's directors are required to attend a number of scheduled meetings each year. These meetings include regularly scheduled Board meetings, planning sessions and a number of special meetings. In addition, each director is required to serve on Board committees.

Directors are expected to attend as many meetings as possible. Directors are to come to meetings thoroughly prepared, engage in meetings and make a sustained, positive contribution to the success of Central 1 and the credit union network as a whole.

In-camera Sessions

At each Board and committee meeting, the directors meet in-camera without management present.

Compensation

The Conduct Review and Corporate Governance Committee conducts a periodic review, not less than every three years, of the amount and the form of compensation of directors to provide market-competitive compensation. The maximum annual compensation that may be paid to directors is determined by Central 1's Class A members, who have set it at $800,000. Compensation paid to each director is in this report.

Key Policies

Central 1 has established policies to ensure that a culture of integrity is maintained throughout the organization. Some of the most important policies include:

- **Code of Conduct:** The Code of Conduct (Code) outlines the standards of conduct imposed by law, provides guidelines for honest and ethical conduct and offers guidance to help directors recognize and deal with ethical issues that may arise during their tenure. The Code applies to all of Central 1's directors, officers and employees. It is distributed to all directors, officers and employees and is available on Central 1's intranet site. Compliance with the Code is a condition of employment, or term of office in the case of directors. The Code is also available on Central 1's website (www.central1.com). Only in extraordinary circumstances and where it is clearly in the best interests of Central 1, the President and CEO or the Board may waive specific provisions of the Code. Any waiver of the Code for directors or officers of Central 1 may only be granted by the Board, and will promptly be disclosed as required by law.

All directors, officers and salaried employees are asked to acknowledge that they have read and understand the Code and undertake to abide by it. In April 2019, 100 per cent of Central 1's directors, officers and salaried employees provided their acknowledgement and agreement to abide by the policies.

- **Conflict of Interest Policies and Procedures:** These Policies and Procedures define conflicts of interest that may arise and how conflicts must be disclosed and managed. Directors and executive officers must ensure that they identify and avoid any actual, potential or perceived conflict of interest that might influence their decisions in their capacity as directors or executive officers of Central 1. Where the conflict can potentially interfere with or be perceived to interfere with a director's independent judgment, the director must either eliminate the interest or duty giving rise to the conflict or resign as a director of Central 1. Where a conflict of interest arises from a transaction or proposed transaction between Central 1 or an affiliate of Central 1, and any person (including a corporation) who is a related party of Central 1 because of a relationship with the director, the affected director and Central 1 shall comply with the requirements of Part 5 of the FIA, and, whenever the director has a direct or indirect interest in the transaction, by complying with the applicable provisions of the CUIA.
- **Ethical Reporting Policy:** Employees are often the first to realize there may be something wrong within an organization. They may not express their concerns, however, because they feel speaking up would be disloyal. They may also fear recrimination, harassment or victimization and feel it would be easier to ignore the concern. This policy establishes the framework which allows employees to report suspected wrongdoing, without fear of recrimination.
- **Disclosure Policy:** Central 1 issues timely, fair and accurate disclosure of material information relating to Central 1 to keep members and the public informed about its affairs in accordance with applicable laws. Respecting its Disclosure Policy is critical to maintaining integrity, and each director, executive officer and employee has an obligation to make sure they conduct themselves according to the policy and its objectives.

Sustainability Initiatives

As a co-operative organization we believe in People Helping People. Central 1 supports initiatives that contribute to the sustainability of its communities, and the environment.

In particular, Central 1 has worked to foster the development of cooperatives both at home and abroad. Central 1 is a sustaining member of both the BC Co-operative Association (BCCA) and the Ontario Co-operative Association (ON Co-op). A representative is appointed by Central 1's Board to sit on the boards of each these associations.

In 2019, Karen McDonald was appointed to a second term (1 year) to represent Central 1 on BCCA's board, serving on the Government Relations and Governance committees. Joel Lalonde continued his term (3-year) on ON Co-op's board serving as its Chair. He was also a member of the Finance and Governance & Membership committees.

Environmental Stewardship

Central 1 is an environmentally conscious organization that has a recycling program and composts to ensure we help reduce our environmental footprint. In addition, through its Lifestyle Incentive Program, staff can earn points for choosing sustainable commuting methods, namely walking, using transit or carpooling to work.

Volunteerism

Central 1's Community Impact Initiative is designed to support efforts to volunteer for causes employees are passionate about in the community. The program incorporates access to a Community Impact Fund and paid time off to support volunteer efforts. In addition, staff can earn points for the Lifestyle Incentive Program volunteering for internal and external groups. In 2019, various departments volunteered at the local food bank, the Sharing Farm, and shoreline clean-up. The Volunteer Impact Fund was established, in October 2019, to encourage staff who volunteer to submit an application for their organization stating why it should be considered for a $500 or $1,000 donation from Central 1. RainCity Housing; Big Brothers, Big Sisters of Langley; and Street Health were awarded funds following receipt of applications from long-time volunteers on Central 1's staff.

Corporate Social Responsibility (CSR) / Environmental Social and Governance (ESG) Activities

We have been moving forward on an action plan that activates CSR as a commonly held best practice across business lines. These proof points will help us build a case for an ELT/Board mandated integrated CSR policy.

Achievements in 2019:

- Completed current state assessment of CSR at C1 (result: "philanthropic" rating, which is the very beginning of a 4 point scale), identifying current activities, gaps, and opportunities
- Integrated CSR Discussion Paper
- Developed 18-month action plan to Dec 2020 in four strategic priority areas covering most business lines with 12 action areas (currently under review by management)
- Developed criteria for prioritizing action items to complement (dollars and resources)/impact criteria
- Developed Replicable Model for CSR initiatives at Central 1
- Enacted several internal culture-building initiatives, including organizational health initiative, CSR slack channel, CSR internal communications strategic plan, Volunteer Impact Fund, Powering Women events, Women in Tech events, and Minerva leadership scholarships.
- Co-sponsored the Gary Gillam Award to elevate the important work our members carry out that exemplifies social responsibility.
- Following on Central 1's signing of Principles for Responsible Investment in late 2018 and the creation of our Responsible Investing Framework, investment holdings in green and sustainable bonds have increased in our portfolio.
- Submitted our first voluntary disclosure to the UN-PRI for assessment.
- Joined the newly established CBIA (Canadian Bond Investors' Association) ESG (environment, social and governance) working group in May to advocate for more transparent ESG disclosure.
- Shortlisted for the "Best Overall Corporate Governance" category award by the Governance Professionals of Canada at the 2019 Excellence in Governance Awards. "Best Overall Corporate Governance" award honours organizations that demonstrate on ongoing commitment to corporate governance that adds value for the organization and their processes for continuous improvement.

Member Communication and Engagement

Central 1's Board of Directors and management provide regular communication to our members through a variety of channels including the following:

- Quarterly spotlight webinar and conference calls with invitations to credit union members' management, held following the corresponding Central 1 Board meetings and quarterly financial disclosure;
- Information posted on our website or secure website, providing regular updates on services, issues and initiatives;
- Informational webinars and events on relevant topics impacting members and/or their busines

In addition to communication, we also engage members through regular or special events to further strategic decisions for both Central 1 and our members, including:

- Twice annual regional meetings, attended by directors and management of member credit unions and Central 1, held in various locations throughout B.C. and Ontario where we communicate and engage our members on strategic issues impacting the system;
- Meetings or events to engage the Member Advisory Council (MAC), consisting of 17 representatives of credit unions of all regions and sizes for initial consultation and feedback on member concerns and needs;
- Engagement events and webinars to facilitate discussion and feedback on governance or strategic issues;
- One-on-one member support to address each member's unique needs and strategy, identifying opportunities to connect members for collaborative projects or develop new ways Central 1 can support our members; and
- The Member Forum held each spring in conference style to facilitate education on industry trends, discussion and engagement on key topics, networking, and the formal business of governance at the Annual General Meeting scheduled in connection with the event.

Director Orientation, Education and Development

Central 1 relies on the collective knowledge, experience and skill of each director and the Board for its effective governance and success. It is important that directors have the appropriate competency requirements in order to fulfill their oversight responsibilities to Central 1 and its members and thereby contribute to enhancing the credit union network.

Our Board recognizes that investing in ongoing education and development is an important component of effective governance of Central 1. A comprehensive

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approach to director orientation, education and development is necessary to ensure that all directors:

- Develop within the first year of being a director a basic understanding of each of the core business competencies, including financial literacy, risk management, liquidity management, legal and regulatory and Central 1 business and functions knowledge;
- Continue to deepen their education and improve their skills, professional qualifications, and experience. All directors are required to attend Central 1's in-house education sessions. These sessions are aimed at the core business competencies; and
- To assist individual directors who wish to pursue ongoing education or who volunteer to attend educational conferences and industry events, the Board provides each director with a $10,000 education allowance per three-year term of office.

This is supported by a monthly email to the Board from Corporate Secretary Office encouraging them to sign up for the conferences, courses and seminars. Additionally, the list of educational opportunities is organized and refreshed regularly to ensure alignment with the Skills Matrix.

New Director Orientation

Following election to Central 1's Board, new directors attend Central 1's director orientation. The Board Chairperson may assign to new directors a mentor from amongst fellow directors. Our Board Chairperson and mentor will be invited to attend the orientation session. The Conduct Review and Corporate Governance Committee oversees the orientation program. The goals of the director orientation program are to:

- Ensure new directors fully understand the formal governance structure, the role of the Board, its committees and the individual performance expectations set out in the individual Director's Terms of Reference.
- Help new directors understand Central 1, its operations and working environment, including:
  - strategic priorities, initiatives and key performance indicators;
  - summary details of principal assets, liabilities, significant commitments and major stakeholders;
  - organizational structure;
  - major risks and risk management strategy;
  - operational or financial constraints imposed by legislation or otherwise;
  - Central 1's Code of Conduct; and
  - Director's Conflict of Interest Policy.
- Build links to the individuals who make up Central 1, including:
  - opportunities to meet and get to know fellow directors,
  - meetings with the CEO and the executive management team
  - visits to the Central 1 offices to meet employees; and
  - build an understanding of Central 1's main relationships, including those with members and stakeholders.

Mandatory Education

New directors are required to complete Level A: Foundations of Governance of the Credit Union Director Achievement training program or a training program offered by CUES.

Ongoing Director Education

During 2019, all directors attended a number of in-house education sessions. The following is a list of education sessions held in 2019:

Attendees	Session
Board Members	Payments Modernization: Bank of Canada perspective / Global & National perspectives
Board Members	AML and Compliance
Board Members	Mandatory Liquidity Pool (MLP) Trusts and Creditor Remoteness

In addition to in-house training sessions, the following table shows the additional professional development reported to be completed by the Board in 2019.

Director	Continuing Formal and Informal Education Sessions in 2019
Mary Falconer	Central 1 Member Forum CCUA National Conference Central 1 Momentum Conference Completed Chartered Professional Accountant CPD Requirements
Rick Hoevenaars	The Co-operators AGM & Conference and director education days Central 1 Member Forum CCUA National Conference Central 1 Momentum Conference Completed Chartered Professional Accountant CPD Requirements
Bill Kiss	The Co-operators AGM & Conference and director education days Central 1 Member Forum CCUA National Conference Central 1 Momentum Conference Celero Conference Completed Chartered Professional Accountant CPD Requirements

Director	Continuing Formal and Informal Education Sessions in 2019
Angela Kaiser	Central 1 Member Forum Completed Chartered Professional Accountant CPD Requirements
John Kortram	Central 1 Member Forum CUDA Shifting Sands Central 1 Momentum Conference CUDA Culture...a Game Changer CCUA Conference Canadian Credit Unions CCUA Open Banking Stabilization Central Credit Union Governance Symposium Internal: Insurance Governance and Oversight Internal: IT Governance Internal: Enterprise Risk
Joel Lalonde	Central 1 Member Forum CCUA National Conference
Shelley McDade	Central 1 Member Forum CCUA National Conference Central 1 Momentum Conference
Penny-Lynn McPherson	CCUA State of the System webinar Central 1 Member Forum Central 1 Momentum Conference
Jan O'Brien	Central 1 Member Forum CCUA National Conference
Rob Paterson	2019 CUES Symposium The Co-operators Ontario Delegate Regional Forum The Co-operators AGM & Conference and director education days Central 1 Member Forum Central 1 Momentum Conference Money 20/20 Europe Conference Money 20/20 USA Conference Finovate Conference Neino Canada Conference (presenter) Salesforce Canada Conference Portages 3 LLP & Montreal Fintech Conference
Blaize Reich	Central 1 Member Forum CCUA National Conference ICD Seminar, Purpose and Profit Central 1 Momentum Conference ICD Seminar, Governing Innovation Risk
Launi Skinner	Central 1 Member Forum CCUA National Conference Central 1 Momentum Conference

Director	Continuing Formal and Informal Education Sessions in 2019
Sanjit (Sunny) Sodhi	Central 1 Member Forum ICD Seminar, Purpose and Profit Completed Law Society of Ontario CPD Requirements Completed Institute of Corporate Director's Annual Continuing Education Requirement
Cheryl Wallace	Central 1 Member Forum CCUA National Conference Completed Chartered Professional Accountant CPD Requirements CUDA - Board Governance CUDA - Ethics CUDA - Culture...a game changer
Rob Wellstood	Central 1 Member Forum CCUA National Conference CPA Cybersecurity Frameworks Certificate CUSOURCE - Board Governance and Evolving Technology Landscape CUSOURCE -HR Governance CUSOURCE - Flag the Money for Executives 2019 Completed Chartered Professional Accountant CPD Requirements

Compensation Philosophy

Compensation Philosophy

The Board recognizes that strong corporate governance is a key ingredient to an organization's success and the Board has determined that, subject to the limits set by the members of Central 1 by resolution, the directors of Central 1 should be remunerated at approximately the 50th percentile of director compensation for comparable entities. That group is determined from time to time, by the Board, on the recommendation of the Conduct Review and Corporate Governance Committee, giving due consideration to the qualifications, liability, experience and involvement in value-added decision making commensurate with Central 1's size, complexity and functions.

Compensation for directors of Central 1 falls into the following four categories:

- annual retainer;
- meetings fees for attendance at Board and committee meetings;
- per diem compensation for travel time, attending meetings and other work performed on behalf of Central 1; and
- reimbursement for reasonable expenses incurred in connection with authorized work performed on behalf of Central 1.

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Compensation Review

Director Compensation is reviewed not less than every three years to ensure directors are appropriately compensated for their contributions. The Conduct Review and Corporate Governance Committee undertook to review director compensation in 2018. Recognizing that an in-depth review was conducted by Mercer Canada in 2015 resulting in changes to directors' compensation effective May 1, 2016, management was directed to update a list of compensation paid in comparable entities for the Committee's review. The Conduct Review and Corporate Governance Committee reviewed the update and recommended to the Board that no changes be made. Central 1's Board accepted the recommendations of the Conduct Review and Corporate Governance Committee at its meeting on September 7, 2018.

Director Compensation and Expense Policy

Annually the Conduct Review and Corporate Governance Committee will review the Director Compensation and Expense Policy as set forth in the Committee's Terms of Reference. This review is made to ensure that the compensation being provided to the Board falls in line with the best practices of good governance. The annual review covers the perquisites and reasonable expense reimbursement provided to the Board but does not review core compensation items which is scheduled to be reviewed every three years. After approval of the changes to the expense policy at the committee level, the changes are provided to the Board for their approval.

In 2019, no changes were recommended following the annual review.

The following table sets out the types of compensation paid to Central 1's directors.

Type of Compensation	
Annual Director Retainer (except Chairperson)	$18,000
Annual Chairperson Retainer	$45,000
Annual Vice Chairperson Retainer	$24,000
Committee Chairperson (other than the Chairperson of the Audit and Finance Committee or the Risk Review & Investment and Loan Committee)	$6,000
Chairperson of the Audit and Finance Committee and Risk Review & Investment and Loan Committee	$12,000
AGM/Special Meeting Fee	$0
Board and Committee Meeting Fee	meetings less than 30 minutes: $0 meetings equal to or less than 4 hours: $500 meetings more than 4 hours: $800
Per Diem Fees for Central 1 business events or functions etc.	meetings equal to or less than 4 hours: $500 meetings more than 4 hours: $800
Per Diem Fees for Travel Time	For travel less than 4 hours: $0 For travel 4 hours or more: $500
Reasonable Expenses for Meetings and Business Events	Actual
Expenses for Spousal/Companion Event	$0
Technology Allowance To support the purchase of personal computer equipment (e.g. iPad or other handheld technology necessary to assist the director in carrying out his or her duties to Central 1)	Up to $1,500 per 3-year term
For basic voice/data plan For costs incurred in relation to internet connection and email address	Up to $75/month

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2019 Director Compensation

The following table sets out the value of fees and other compensation paid to directors of Central 1 during 2019.

Director	Annual Cash Retainer	Meeting Fees	Total Remuneration (Annual Cash Retainer and Meeting Fees)[1]
Elmer Epp (to April 30, 2019)	$7,495	$5,100	$12,595
Mary Falconer (from May 1, 2019)	$12,379	$20,800	$33,179
Kerry Hadad (to April 30, 2019)	$5,622	$8,800	$14,422
Rick Hoevenaars	$29,999	$36,100	$66,099
Angela Kaiser	$29,999	$23,400	$53,399
Bill Kiss	$45,001	$37,100	$82,101
John Kortram	$22,027	$35,000	$57,027
Joel Lalonde	$18,002	$28,400	$46,402
Shelley McDade	$19,973	$19,000	$38,973
Penny-Lynn McPherson	$18,002	$30,600	$48,602
Jan O'Brien	$18,002	$17,600	$35,602
Rob Paterson	$23,999	$29,100	$53,099
Blaize Reich	$23,999	$24,800	$48,799
Launi Skinner	$18,002	$16,800	$34,802
Sanjit (Sunny) Sodhi (from May 1, 2019)	$12,379	$20,700	$33,079
Cheryl Wallace (from May 1, 2019)	$12,379	$16,200	$28,579
Rob Wellstood	$29,999	$23,500	$53,499
Total	$347,258	$393,000	$740,258

[1] The above compensation may not be paid directly to Directors. At the direction of a Director, some or all of the compensation is paid to the credit union of which they are an officer or director.

Board and Committee Evaluations

The Conduct Review and Corporate Governance Committee manages the process of assessing the Board and its committees. It also manages director peer reviews.

Board and committee assessments are conducted on a biennial basis. In intervening years, director and chair peer reviews are carried out. The Committee retains an external consultant to design and analyze the results of the evaluation of Board and committee effectiveness and the director peer review process.

In 2019, a whole Board and Committees assessment was conducted by an external consultant. Upon receipt of the results, the consultant facilitated a session with the directors at the February Board meeting addressing concerns raised during the assessment. The consultant also provided a summary of the evaluation and facilitated session to the Conduct Review and Corporate Governance Committee.

Communication with Members

Central 1 is committed to communicating with its members and its stakeholders. Members and other interested parties can contact the Board, the Board Chairperson or any director by email: corporatesecretary@central1.com.

Interaction with the Regulators

The Board regularly meets with BCFSA to discuss Central 1's risk profile and control environment and maintains open lines of communication with them on significant developments, including changes to the Board and senior management.

Our Total Rewards Philosophy

Central 1's compensation philosophy is designed to attract, retain and motivate the high-performing employees needed to deliver our products and services to our member credit unions and to their members. We believe the compensation that the CEO receives should be aligned with the contribution they make to the organization's overall short-term and long-term objectives. The compensation program is designed to:

- Reflect Central 1's goals and objectives.
- Be competitive within the cooperative financial and credit union community.
- Be affordable in line with the realities of the market.

An equitable balance is sought between establishing cash compensation (both base and at risk incentive pay) to attract qualified people from the financial and non-financial community and providing non-cash benefits commensurate with those in the credit union system. Overall the program is primarily cash-based. Central 1 does not grant options, stock appreciation rights, shares, units or other compensation securities as part of its compensation framework and has no outstanding equity compensation plans.

CEO Cash Compensation

Base Salary

Base salary for our CEO is determined by the Board in February, in line with individual performance and the median level of the designated market.

The designated market for Central 1 includes large B.C.-based credit unions, other credit unions with a significant asset base, western-based financial institutions, and member-driven organizations, as well as specific organizations for positions not found within this comparator group. Statistics on the assets under management and total number of full-time equivalents is used to ensure relevant comparisons are made.

Every three years, an outside consultant conducts a market review of the salary of our CEO. The external consultant analyzes the custom survey data, giving careful consideration to the scope and complexity of the role, and also to peer comparisons within the credit union sector.

Short Term Incentive Program

The short-term incentive program is designed to reward the achievement of performance objectives in the short term by providing a cash incentive.

Central 1's Board establishes the performance objectives for our CEO as well as the business plan for Central 1 and its operating budget.

Our Board reviews the performance of our CEO at the end of each year and its evaluation determines the amount of incentive compensation that is awarded to the CEO.

Our Board also determines the target and maximum incentive payments for the CEO. These targets are a percentage of base salary and are calculated based on actual earnings in the year.

Short-term Incentive Compensation Targets for 2019

	Target Incentive Payment	Maximum Incentive Payment (150 per cent of target)
President & CEO	60 per cent of base salary	90 per cent of base salary

Due to the strategic nature of the CEO, a higher percentage of the at risk pay is aligned with the organizational performance metrics as outlined in the table below.

	Collective Weighting	
Role	Organizational Performance Metrics	Individual Performance Metrics
President & CEO	70 per cent	30 per cent

The program is designed to ensure that unnecessary risks are not encouraged through taking a balanced approach including member satisfaction and limits paid out for each measure.

Long Term Incentive Program

The long-term incentive program (LTIP) is designed to direct and reward the executive to long term strategic success. This is complemented with the short-term incentive program which is designed to direct and reward the in-year operationalization of the strategy.

The design of the program is based on a rolling cycle method (cliff vesting), whereby performance/deferral periods for most cash LTIP are three years, in light of the Salary Deferral Arrangement (SDA) rule under the *Canadian Income Tax Act*.

Central 1's Board establishes the measures and targets at the start of each cycle and measures performance at the end of such cycle. These are typically called Cliff Vest or Rolling Cycles. Each LTIP cycle, the Board can elect different metrics and weighting depending on the strategic direction of the company.

Long-term Incentive Compensation Targets for 2019

	Target Incentive Payment	Maximum Incentive Payment (150 per cent of target)
President & CEO	60 per cent of base salary	90 per cent of base salary

Our Board reviews the performance of the CEO based on 4 Driver key metrics: Internal Management Practices, Client Centricity, System Leadership and Key Strategic Initiatives. A balanced scorecard approach (based on key performance indicator (KPI) categories) was created to structure the LTIP to recognize external, internal, system and strategic initiatives. Financial metrics are used as a gateway metric.

The Board retains a 10% discretionary adjustment to recognize extenuating circumstances.

Other Cash-Based Compensation

Central 1 offers a market-competitive perquisite program to the CEO, including an automobile allowance.

Non-Cash Benefits

The CEO receives non-cash benefits including employer-paid benefits, healthcare benefits, Group RRSP contributions, Supplemental Executive Retirement Plan (SERP) benefits and access to an executive medical program.

The Group RRSP provides a retirement benefit based on employee and employer contributions that are accumulated with investment earnings. Under the Group RRSP, employer contributions are matched to employee contributions of six per cent of salary. Since the *Income Tax Act* imposes maximums on benefits provided under registered retirement plans, Central 1 provides supplemental retirement benefits through the SERP.

This enables our CEO to receive the benefit that they would have received if the *Income Tax Act* limits were not imposed on the registered plans. This benefit is further enhanced in that earnings under the SERP include 50 per cent of the annual incentive payment. On an annual basis, the Board has determined the notional rate of return to be Consumer Price Index (CPI) +3%.

Appendix A

Audit and Finance Committee Terms of Reference

Approved: February 21, 2020

1.1 PURPOSE

The Audit and Finance Committee ("Committee") is a committee of the Board of Directors (the "Board") to which the Board has delegated responsibility for oversight over the financial reporting process and audit (external and internal).

Management is responsible for the preparation, presentation and integrity of Central 1's financial statements and for maintaining appropriate accounting and financial reporting principles and policies, and internal controls and procedures designed to ensure compliance with accounting standards and applicable laws and regulations.

The external auditors are responsible for planning and carrying out, in accordance with professional standards, an audit of Central 1's annual financial statements and reviews of Central 1's quarterly financial information.

The Committee's purpose is to review the adequacy and effectiveness of these activities and to assist the Board in its oversight of:

a) integrity of Central 1's financial statements
b) budgets, forecasts and financial performance indicators
c) external auditors' qualifications and independence
d) performance of Central 1's internal audit function and external auditors
e) adequacy and effectiveness of internal controls
f) Central 1's compliance with legal and regulatory requirements affecting financial reporting.

The Committee has oversight over budgets. The Committee acts as liaison between the external auditors, internal auditors and the Board. The Committee assists the Board in meeting its responsibilities in ensuring that the review of Central 1's financial operations and that of its subsidiaries, by the external auditor provides an independent report on the integrity of the financial data and reporting.

The Committee ensures compliance with financial and accounting policies and the Committee may make recommendations to the Board on any matters pertaining to the financial reporting process, including the audit process and internal controls.

The Committee derives its authority from the Board and Article 14A, Rule 6 of Central 1's Constitution and Rules. For the purposes of performing its duties, the Committee shall have the right at all reasonable times to inspect the books and records of Central 1, and its subsidiaries, and to discuss with management, the officers, and external and internal auditors such information and matters pertaining to the financial reporting of Central 1, as it deems necessary.

1.2 COMPOSITION AND TERM OF OFFICE

1.2.1 The Committee shall consist of a minimum of five (5) directors. The members of the Committee shall be elected or appointed annually by the Board at the first meeting of the Board following Central 1's annual general meeting ("AGM") to hold office until the next AGM, unless the member becomes unable to serve or is removed by the Board. A casual vacancy may be filled, and additional members of the Committee may be appointed by the Board, to hold office until the next AGM.

1.2.2 Each member of the Committee must be able to read and understand financial statements to the level of detail and complexity to which Central 1 reports, including the notes attached thereto.

1.2.3 The members of the Committee must be independent as defined in the Board Structure section of the Board Manual and the majority of the members of the Committee shall not be officers or employees of Central 1 or an affiliate of Central 1.

1.2.4 No more than one representative from any one credit union is permitted to serve on the Committee, except where one representative is serving as an ex-officio member of the Committee.

1.2.5 The Chairperson of the Risk Review and Investment and Loan Committee shall be an ex-officio member of the Committee, if not otherwise appointed to the Committee.

1.2.6 The Chairperson of the Board of Directors shall be an ex-officio member of the Committee.

1.2.7 The Committee shall elect one (1) of its members to be its Chairperson. The Chairperson of the Committee shall act in accordance with the Position Description: Committee Chairperson section of the Board Manual.

1.3 OBJECTIVES/DELIVERABLES

1.3.1 Oversight of External Auditors:

a) **Selection:** the Committee shall annually recommend to the Board the appointment, reappointment or termination of the external auditor. This recommendation shall be done sufficiently in advance of the next annual meeting of Central 1 to allow the Board to seek membership approval. At regular

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intervals (not greater than every 5 years), the Committee will assess Central 1's external audit requirements and review the appropriateness of undertaking a full Request for Proposal (RFP) process, with such RFP process to be undertaken at the option of the Committee, if it so determines. The Committee shall report annually to the Board on the performance of the external auditor.

b) **Independence:** the Committee shall oversee the process to determine the independence of the external auditor. The Committee shall obtain and review a formal written statement from the external auditor describing all relationships between Central 1 and the external auditor that may impact upon its independence. The Committee shall actively discuss with the external auditor any disclosed relationships or services that might impact on the independence or objectivity of the external auditor. The Committee shall report annually to the Board on the independence of the external auditor.

c) The Committee shall annually review and approve Central 1's policy regarding the hiring of members of the external audit team and former external audit teams.

Related Information: Appendix 1 - Central 1 Credit Union Audit and Finance Committee Restriction on Employment of Members of External Audit Team

1.3.2 Compensation of External Auditors

Upon resolution of members of Central 1 that the remuneration of the external auditors is to be set by directors, the Committee will have the responsibility for recommending the remuneration of the external auditors to the Board. In the case of an external auditor appointed to fill a casual vacancy, the Committee shall have sole responsibility for setting the compensation of such auditor without resolution of the members.

1.3.3 Pre-approval of Services

The Committee shall pre-approve all audit and non-audit services, including the provision of tax advice (other than "de minimus" non-audit services provided to Central 1 and its subsidiaries as defined in NI 52-110). If necessary, the Chairperson shall be authorized to provide such pre-approval throughout the year, with any such approvals being reported to the next regularly scheduled meeting of the Committee

The Committee shall oversee Central 1's policy on services provided by its external auditor.

Related Information: Appendix 2 - Central 1 Credit Union Audit and Finance Committee Pre-Approval of Services Provided by Central 1's External Auditor

1.3.4 Reporting of External Auditors.

a) The external auditors shall report directly to the Committee, and the Committee shall have responsibility for overseeing the activities of the external auditors, including resolution of any disagreements between management and the external auditors regarding financial reporting. The Committee shall review, prior to the commencement of the audit, the audit engagement letter, audit plans and scope of the external audit, identifying special areas of concern to the external auditor. The Committee shall annually approve the audit plan. The Committee will monitor the audit process, the annual audit report and the findings of the examination after its completion.

b) **Accounting Policies:** the Committee shall review with management and the external auditors the appropriateness of accounting policies and approve any changes thereto.

c) **Reports:** the Committee shall review all written or oral reports made by the external auditor. Such reports may include:

   i. Current and prospective changes in accounting policies and practices;

   ii. Alternative treatment of financial information within generally accepted accounting principles;

   iii. Review of transactions or investments, as brought forward by either the auditors or management, which could adversely affect the financial wellbeing of Central 1; and

   iv. Any other written communications between the external auditor and Central 1's management.

d) **Review of Reportable Events:** the Committee shall review all reportable events (occurrences in the relationship between Central 1 and the external auditor which may have been a contributing factor in the resignation or termination of the external auditor) including disagreements, unresolved issues or consultations, as defined in NI 52-102, whether or not there is a change of the auditors.

e) **In-Camera Meetings:** the Committee shall have an in-camera meeting with the external auditors at every Committee meeting, at which the external auditors are in attendance.

1.3.5 Oversight of Internal Auditor

a) **Oversight:** The AVP, Internal Audit shall report directly to the Committee, and the Committee shall have responsibility for reviewing and approving the Internal Audit Policy; overseeing the activities of the internal audit function , including reviewing and approving the annual internal audit plan and identifying special areas of concern for internal audit review.

The Committee will monitor internal audit activities and the findings of examinations, including the status of identified control weaknesses and management's corrective action.

The Committee will review and concur in the appointment, replacement, reassignment, or dismissal of the AVP, Internal Audit. On behalf of the Committee, the Chairperson shall provide input concerning the performance review and compensation of the AVP, Internal Audit.

The Committee will regularly review the organizational structure of the internal audit function and annually review and approve the function's budget and resources.

b) **Reports:** The Committee shall receive and review all written or oral reports made by Internal Audit and, in particular, recommendations for changes in internal control procedures or processes. The AVP, Internal Audit will report to the Committee the response or determination of management with respect to any findings or recommendations.

The Risk Review and Investment and Loan Committee shall be copied on Internal Audit reports prepared for the Committee.

1.3.6 Review of Financial Statements

The Committee shall review and discuss with management and the external auditors Central 1's annual audited financial statements and Central 1's unaudited quarterly financial statements as well as non-consolidated financial statements and summarized financial statements. In addition, the Committee shall review the financial statements of Central 1's subsidiaries.

In reviewing the financial statements, the Committee shall, as applicable:

a) Ensure that they are complete and consistent with the information known to the Committee;

b) Review the contents of management's representation letters to the external auditors;

c) Discuss with management and the external auditors whether they reflect appropriate accounting policies;

d) Discuss any actual or proposed changes in accounting or financial reporting and consider their impact on the financial statements;

e) Discuss any related party transactions; and

f) Discuss any unusual, complex or significant events, such as legal actions, claims or contingencies or areas where significant judgment has been exercised, such as valuations, provisions and reserves.

The Committee will recommend to the Board the approval of Central 1's consolidated financial statements, non-consolidated financial statements and summarized financial statements.

1.3.7 Review of Financial Disclosures

The Committee shall review the contents of all periodic public disclosure documents (other than the annual corporate governance disclosure approved by the Conduct Review and Corporate Governance Committee and statement of executive compensation approved by the Human Resources Committee) and event driven disclosure documents for which the Committee's review is deemed necessary by the Disclosure Committee before release, including the Management Discussion & Analysis, any prospectus and any financial report, statement or return (including associated press releases) that requires the approval of the Board before filing or release and make recommendations to the Board as it deems advisable.

The Committee must satisfy itself that adequate procedures are in place for the review of Central 1's public disclosure of financial information extracted from or derived from the financial statements (i.e. press releases, information posted to Central 1's website and any other form of public communication). While this information is currently vetted through the Disclosure Committee, the Committee must assess the adequacy of the disclosures made by management through the Disclosure Committee and the adequacy of management representation on that Committee. The Committee shall review the Disclosure Policy at least every two years and, if deemed advisable, recommend changes to the Board.

The Committee shall review the return of Central 1 that is to be filed with the Superintendent under Section 127(1) of the FIA and any other reports, transactions or matters required to be reviewed by the Committee under the Financial Institutions Act or Credit Union Incorporation Act, and to the extent any returns are required to be approved by the Board, make recommendations to the Board regarding such returns.

1.3.8 Controls and Procedures

a) **Oversight:** The Committee shall provide oversight of Central 1's internal accounting controls, of its disclosure controls and procedures and of its Ethical Reporting Policy. The Committee shall require management to implement and maintain appropriate systems of internal control, including internal controls over financial reporting and for the prevention and detection of fraud and error. The Committee shall receive and review reports from other board committees with regard to matters that could affect financial reporting, including the major financial and business risks to which Central 1 is exposed, and management's actions to monitor and control such exposures.

b) **External Auditor Reporting:** The Committee shall consider the external auditors' management letters, recommendations and comments with respect to accounting treatment and internal controls and management's responses and subsequent follow-up of any identified weaknesses.

c) **Internal Auditor:** The Committee shall meet with the internal auditor and with management to discuss the effectiveness of internal control procedures and shall approve recommendations for improvements.

d) **CEO/CFO Certification Program:** The Committee shall oversee Central 1’s CEO/CFO Certification program and the meeting of its obligations under that program.

e) **Procedures for Complaints:** The Committee shall establish procedures for the receipt, retention and treatment of complaints received by Central 1 regarding accounting, internal accounting controls or auditing matters. The Committee shall also establish procedures for the confidential, anonymous submission by Central 1’s employees of their concerns regarding questionable accounting and internal controls over auditing matters.

f) **Additional Powers:** The Committee shall have such other duties as may be delegated to it by the Board, from time to time.

g) The Committee shall receive material of the Risk Review and Investment & Loan Committee.

Related Information: Ethical Reporting Policy

1.3.9. Oversight of Budgets

a) The Committee shall review, annually, Central 1’s Operating Budget, Dues Budget and Capital Asset Budget and recommend their approval to the Board.

b) least biennially, the Chief Financial Officer will present the Budget Policy to the Committee for review and recommendation to the Board.

1.4 MEETINGS AND PROCEDURES

1.4.1 The Committee shall meet as it deems necessary to fulfill its duties hereunder, but no less than once each quarter. The time and location of the meetings and the procedures to be followed at such meetings shall be determined, from time to time, by the Committee.

The Board Chairperson, the Committee Chairperson, any two (2) members of the Committee, the AVP, Internal Audit, the external auditors, or the Corporate Secretary may call meetings of the Committee. The external auditor shall be given notice of, and shall have the right to appear before, every Committee meeting.

The Committee may meet in person, by conference call or by other electronic means.

1.4.2 Whenever possible, seven (7) days’ notice of the meeting shall be provided, in writing, to members of the Committee, the external auditors and any invited persons. The agenda and required reports shall be circulated to the Committee (via Diligent or e-mail) one week in advance of the meeting date, whenever possible.

1.4.3 A quorum at any meeting of the Committee shall be a majority of the members of the Committee, excluding any ex -officio members. Decisions of the Committee will be by an affirmative vote of the majority of those members of the Committee voting at a meeting. The Committee may also act by resolution in writing consented to by all the members of the Committee.

1.4.4 The external auditor, the internal auditor, and the provincial Superintendent of Financial Institutions shall have the right to appear before and be heard at any meeting of the Committee and to request the Committee Chairperson to consider any matter that the requisitioning party believes should be brought to the attention of Directors or members.

1.4.5 The Chairperson of the Committee shall appoint a Secretary who need not be a director to keep minutes or other records of the meeting.

1.4.6 The Committee will meet *“in-camera”* at each meeting with only the members of the Committee present.

1.4.7 The Committee will meet “in-camera” with Internal Audit at every meeting at which Internal Auditor is in attendance.

1.4.8 At least quarterly, the Committee shall meet *“in-camera”* with the Chief Financial Officer.

1.4.9 The Committee may invite any director, officer or employee of Central 1 or any other person, as appropriate, to attend meetings of the Committee to assist in the discussion and examination of the matters under consideration by the Committee, including: the external auditor, external counsel, Internal Audit, Chief Risk Officer, the President and Chief Executive Officer or any member of executive management.

1.5 MANAGEMENT AND RESOURCES

1.5.1 The Committee shall be resourced by the Chief Financial Officer.

1.5.2 The Committee shall have the authority to engage and determine funding for any independent counsel, accountants, and other external consultants and resources, as it may deem necessary to carry out its responsibilities, provided that all contracts for such services shall be reviewed, where appropriate, by Central 1’s Legal Department and that any contract in excess of $10,000 must be approved by the Chairperson of the Board or the Board prior to execution. The Committee shall report to the Board on any undertakings to engage such advisors, including the level of compensation.

1.6 RECORDS

The official records of the Committee including all meeting material and minutes are maintained by the Office of the Corporate Secretary. Minutes of every meeting shall be recorded and available to Committee members and the Board.

1.7 ACCOUNTABILITY

The Committee is accountable to the Board. The Chairperson of the Committee shall report the proceedings of each meeting and all recommendations made by the Committee at such meeting to the Board, at the Board's regularly scheduled meeting.

1.8 EVALUATION OF COMMITTEE EFFECTIVENESS

The Committee shall annually review and assess the adequacy of its mandate. As part of this review, the Committee will review and assess the adequacy of its Terms of Reference on an annual basis taking into account all legislative and regulatory requirements applicable to the Committee, as well as any best practice guidelines, and, if appropriate will recommend changes to the Conduct Review and Corporate Governance Committee. The Committee shall assess its effectiveness in fulfilling its mandate through its inclusion in reviews of Central 1 Committees led by the Conduct Review and Corporate Governance Committee.

1.9 COMMITTEE OUTPUT

The major annual activities of the Committee are outlined in the schedule on the following page.

1.10 AMENDMENTS

The Board must authorize substantive amendments to these Terms of Reference. The Committee may make administrative amendments, including amendments related to dates, organization, and similar matters.

Routine Outputs – Audit and Finance Committee

Routine Outputs	Q1	Q2	Q3	Q4	Comments
Audited Financial Statements – year end	•				
Interim Consolidated Financial Report		•	•	•	
Management Discussion & Analysis (MD&A)	•	•	•	•	
Financial Report	•	•	•	•	
External Audit Report	•				
Interim Review Findings Report		•	•	•	
Internal Audit Report	•	•	•	•	
Review the Procedures for Ethical Reporting	•	•	•	•	
Annual Report to Board on performance and independence of external auditor	•				
Election of Chairperson		•			
Provincial Examination (if applicable)		•			
Subsidiary Financial Statements	•				
Set Meeting Dates for Following Year	•				
Audit Plan and engagement letter			•		
Auditor remuneration			•		
Review Committee's Terms of Reference, including all policies under Committee oversight			•		
Review Finance Policies (when applicable) • Budget • Disclosure • Ethical Reporting • Internal Audit • Procurement					
Committee Self-Assessment – Approve process			•		
Committee Self-Assessment – Review Results (In-Camera)				•	
Assess the adequacy of the processes and procedures followed by the Disclosure Committee and the adequacy of management representation on that Committee, if and as needed.	•	•	•	•	
Central 1's Operating, Dues and Capital Asset Budgets				•	
Internal Audit Plan				•	
Incentive Plan • Approve Year End Results • Approve Targets for Next Year	•				

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Appendix 1

Central 1 Credit Union Audit & Finance Committee — Restriction on Employment of Members of External Audit Team

Approved: February 21, 2020

1.1 PURPOSE

To maintain the independence of the External Auditor and to prevent a potential conflict of interest Central 1 shall not employ a key member or former key member of the external audit firm in a financial reporting oversight role until a period of one year or more has elapsed from the date the financial statements, on which that person participated in an audit, review or attestation engagement capacity, were filed with the relevant securities regulator. For the purposes of this policy, a key member includes all partners involved in the audit, review or attestation engagement and any employees of the auditor involved in the audit in a management or decision-making capacity.

Appendix 2

Central 1 Credit Union Audit & Finance Committee — Pre-Approval of Services Provided by Central's External Auditor

Approved: February 21, 2020

1.1 PURPOSE

Central 1's Audit & Finance Committee shall pre-approve all services to be provided by Central 1's external auditor. In addition to audit services, Central 1's external auditors may provide Central 1 with certain other services which are listed in the section below entitled Permitted Services. Central 1 may not engage its external auditors to perform services that are inconsistent with an auditors' independence. A description of prohibited services is included in the section below entitled Prohibited Services.

1.2 PERMITTED SERVICES

Central 1 may retain its external auditors to perform the following services:

1.2.1 Audit Services

- a) Audit Related Services – Tax Services
  - i. compliance services,
  - ii. Canadian & US tax planning services
  - iii. Commodity Tax Services
  - iv. Executive Tax Services
- b) Other Services
  - i. Valuation Services, except for financial reporting purposes
  - ii. Information Technology Advisory and Risk Management Services (this includes assistance in ensuring that technology processes are operating efficiently)
  - iii. Actuarial Services, except for items which are included in the financial statements
  - iv. Forensic and Related Services
  - v. Corporate Recovery Services (this includes tax recoveries such as Scientific Research & Experimental Development claims)
  - vi. Transaction Services (this includes providing assistance in structuring significant acquisitions)
  - vii. Project Risk Management Services (this includes providing project management services for systems implementations such as PeopleSoft)
  - viii. Operational Advisory and Risk Management Services (this includes information risk management which may be increased by a major structural change such as a merger)
  - ix. Regulatory and Compliance Services

1.2.2 Prohibited Services

Central 1 may not retain its external auditor to perform any service that is inconsistent with an auditor's independence. Prohibited services include, but are not limited to, the following:

a) bookkeeping or other services related to the audit client's accounting records or financial statements;

b) financial information systems design and implementation;

c) appraisal or valuation services for financial reporting purposes;

d) actuarial services for items recorded in the financial statements;

e) internal audit outsourcing services;

f) management functions;

g) Human Resources;

h) corporate financing activities;

i) legal services; and

j) expert witness services.

1.3 POLICY

For permitted services the following pre-approval policies will apply:

a) **Audit Services:** The Audit & Finance Committee will pre-approve all audit services provided by Central 1's external auditor through its recommendation of the external auditor at Central 1's AGM and through the Audit & Finance Committee's review of the external auditor's annual Audit Plan.

b) **Pre-Approval of Audit Related, Tax and Other Non-Audit Services:** On an annual basis, the Audit & Finance Committee will update the attached list of Permitted Services and pre-approve services that are recurring or otherwise reasonably expected to be provided. The Audit & Finance Committee will be subsequently informed of the services on the attached list for which the auditor has been actually engaged.

c) **Approval of Additional Services:** The Central 1 employee making the request will submit the request for service to the Chief Financial Officer. The request for service should include a description of the service, the estimated fee, a statement that the service is not a Prohibited Service and the reason that the external auditor is being engaged.

The Chief Financial Officer may approve an engagement for additional non-audit services if (i) the aggregate amount of fees for all non-audit services that were not pre-approved is reasonably expected to not exceed five (5) per cent of the total Audit Service fee during the fiscal year (ii) Central 1 did not recognize the services as non-audit services at the time of the engagement and (iii) the services are promptly brought to the attention of the Audit & Finance Committee and approved, prior to the completion of the audit, by the Audit & Finance Committee or the Chairperson of the Audit & Finance Committee. Recommendations in respect of all other engagements will be submitted by the Chief Financial Officer to the Chairperson of Audit & Finance Committee for consideration and approval. The engagement may commence upon approval of the Chairperson of the Audit & Finance Committee. The full Audit & Finance Committee will subsequently be informed of any additional services, at its next meeting.

Consolidated Financial Statements

Years ended December 31, 2019 and 2018

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Management's Responsibility for Financial Reporting

The management of Central 1 Credit Union (Central 1) is responsible for the integrity, objectivity, reliability and fair presentation of the accompanying consolidated financial statements. These consolidated financial statements were prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

These consolidated financial statements contain items that reflect management's best estimates and judgments of the expected effects of current events and transactions with appropriate consideration to materiality. The financial information presented elsewhere in this Annual Report is consistent with the information in the consolidated financial statements.

Central 1 management has designed and maintained a system of accounting, internal controls and supporting procedures to provide reasonable assurance as to the reliability and integrity of financial information and the safeguarding of the assets. The procedures include training and selection of qualified staff, and the establishment of an organizational structure that provides a well-defined division of responsibilities and accountability for performance. In addition, the systems include policies and standards of business conduct that are communicated throughout the organization to prevent conflicts of interest and unauthorized disclosure of information.

The Board of Directors, acting through its Audit and Finance Committee (the Committee), oversees management's responsibilities for the financial reporting and internal control systems. The Committee reviews the consolidated financial statements and recommends them to the Board of Directors for approval. Other key responsibilities of the Committee include reviewing the adequacy and effectiveness of internal controls, the performance of Central 1's internal audit function and external auditors, and the compliance with legal and regulatory requirements affecting financial reporting.

The B.C. Financial Services Authority conduct examinations and inquiries into Central 1's business and affairs as deemed necessary to satisfy themselves that the provisions of the appropriate legislation are being duly observed and that Central 1 is in sound financial condition.

KPMG LLP, the independent auditors appointed by the members, has performed an independent audit on the consolidated financial statements and issued their report, which follows. The auditors have full and complete access to, and meet periodically with, the Committee to discuss their audit and matters arising therefrom.

Mark Blucher
President & Chief Executive Officer

Sheila Vokey
Chief Financial Officer

Independent Auditors’ Report

To the Members of Central 1 Credit Union

Opinion

We have audited the consolidated financial statements of Central 1 Credit Union (Central 1), which comprise:

- the consolidated statements of financial position as at December 31, 2019 and December 31, 2018
- the consolidated statements of profit or loss and other comprehensive income for the years then ended
- the the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of Central 1 as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the **“Auditors’ Responsibilities for the Audit of the Financial Statements”** section of our auditors’ report.

We are independent of Central 1 in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management’s Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors’ report thereon, included in a document likely to be entitled “Annual Report”.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the Management’s Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors’ report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors’ report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors’ report thereon, included in a document likely to be entitled “Annual Report” is expected to be made available to us after the date of this auditors’ report.

If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing Central 1's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Central 1 or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Central 1's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Central 1's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Central 1's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause Central 1 to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants
February 21, 2020
Vancouver, Canada

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Consolidated Statement of Financial Position

As at December 31

(Thousands of dollars)	Notes	December 31, 2019	December 31, 2018
Assets			
Cash	(6)	$ 48,947	$ 811,360
Deposits with regulated financial institutions		4,928	6,078
Securities	(7)	6,292,095	13,286,020
Loans	(8)	1,999,168	1,939,247
Reinvestment assets under the Canada Mortgage Bond Program	(7)	686,953	580,457
Derivative assets	(9)	48,868	92,352
Settlements in-transit		429,874	32,845
MLP assets held for segregation	(11)	8,188,923	-
Property and equipment	(12)	26,226	19,447
Intangible assets	(13)	33,678	24,659
Investments in affiliates	(15)	78,096	76,961
Current tax assets		3,071	7,487
Deferred tax assets	(14)	-	4,289
Other assets	(16)	23,290	25,967
		$ 17,864,117	$ 16,907,169
Liabilities			
Deposits	(17)	$ 4,202,350	$ 10,973,365
Debt securities issued	(19)	2,083,476	1,958,045
Obligations under the Canada Mortgage Bond Program	(20)	919,086	1,040,493
Subordinated liabilities	(21)	221,457	422,192
Obligations related to securities sold short	(18)	67,547	139,371
Securities under repurchase agreements		643,526	381,053
Derivative liabilities	(9)	52,228	82,880
Settlements in-transit		674,572	748,227
MLP liabilities held for segregation	(11)	7,788,501	-
Deferred tax liabilities	(14)	913	-
Other liabilities	(23)	97,223	70,603
		16,750,879	15,816,229
Equity			
Share capital	(24)	440,076	429,937
Retained earnings		659,906	652,343
Accumulated other comprehensive income (loss)		5,474	(1,489)
Reserves		2	26
Total equity attributable to members of Central 1		1,105,458	1,080,817
Non-controlling interest		7,780	10,123
		1,113,238	1,090,940
		$ 17,864,117	$ 16,907,169
Guarantees, commitments, contingencies and pledged assets	(32)		

See accompanying notes to the Consolidated Financial Statements

Approved by the Directors:

Bill Kiss
Chairperson

Robert Wellstood
Chairperson
Audit and Finance Committee

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Consolidated Statement of Profit

For the Years Ended December 31

(Thousands of dollars)	Notes	December 31, 2019	(Represented[1]) December 31, 2018
Interest income			
Securities		$ **139,028**	$ 130,449
Deposits with regulated financial institutions		**161**	201
Loans		**55,970**	55,178
Reinvestment assets under the Canada Mortgage Bond Program		**2,527**	5,100
		197,686	190,928
Interest expense			
Deposits		**78,230**	65,270
Debt securities issued		**54,825**	58,953
Subordinated liabilities		**8,613**	12,618
Obligations under the Canada Mortgage Bond Program		**12,422**	16,232
		154,090	153,073
Interest margin		**43,596**	37,855
Gain on disposal of financial instruments	(25)	**26,954**	3,986
Change in fair value of financial instruments	(26)	**778**	(7,146)
Net financial income		**71,328**	34,695
Impairment loss on financial assets		**615**	289
		70,713	34,406
Non-financial income	(27)	**135,548**	140,976
Gains from system affiliates	(27)	**-**	83,158
Net financial and non-financial income		**206,261**	258,540
Non-financial expense			
Salaries and employee benefits		**93,187**	78,849
Premises and equipment		**4,616**	1,283
Other administrative expenses	(28)	**102,703**	104,061
		200,506	184,193
Profit before income taxes		**5,755**	74,347
Income taxes (recovery)	(29)	**(905)**	2,498
Profit from continuing operations		**6,660**	$ 71,849
Profit from discontinuing operations, net of tax	(11)	**27,512**	13,480
Profit		$ **34,172**	$ 85,329

[1] Comparative information has been represented to reflect the presentation of discontinuing operations. Refer to Note 11.

See accompanying notes to the Consolidated Financial Statements

Consolidated Statement of Comprehensive Income

For the Years Ended December 31

(Thousands of dollars)	December 31, 2019	(Represented[1]) December 31, 2018
Profit	$ 34,172	$ 85,329
Other comprehensive income from continuing operations, net of tax		
Items that may be reclassified subsequently to profit		
Fair value reserves (securities at fair value through other comprehensive income)		
Net change in fair value of debt securities at fair value through other comprehensive income	14,966	(3,477)
Reclassification of realized gains to profit	(7,043)	(1,289)
Share of other comprehensive loss of affiliates accounted for using the equity method	(325)	(520)
	7,598	(5,286)
Item that will not be reclassified subsequently to profit		
Net change in fair value due to change in own credit risk on financial liabilities designated under the fair value option	(4,061)	6,067
Net actuarial (loss) gain on employee benefit plans	(819)	3,072
Other comprehensive income from continuing operations, net of tax	2,718	3,853
Other comprehensive income (loss) from discontinuing operations, net of tax	4,550	(3,621)
Total comprehensive income, net of tax	$ 41,440	$ 85,561
Income tax expense (recovery) on items that may be reclassified subsequently to profit		
Net change in fair value of debt securities at fair value through other comprehensive income	$ 3,106	$ (733)
Reclassification of realized gains to profit	$ (1,481)	$ (270)
Share of other comprehensive loss of affiliates accounted for using the equity method	$ 294	$ (838)
Income tax expense (recovery) on items that may not be reclassified subsequently to profit		
Net change in fair value due to change in own credit risk on financial liabilities designated under the fair value option	$ (854)	$ 1,275
Net actuarial (loss) gain on employee benefits plans	$ (172)	$ 646
Total comprehensive income, net of tax, attributable to owners:		
Continuing operations	$ 9,378	$ 75,702
Discontinuing operations (see Note 11)	32,062	9,859
	$ 41,440	$ 85,561

[1] Comparative information has been represented to reflect the presentation of discontinuing operations. Refer to Note 11.

See accompanying notes to the Consolidated Financial Statements

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Consolidated Statement of Changes in Equity

For the Year Ended December 31, 2019

	Attributable to equity members								
(Thousands of dollars)	Share Capital	Retained Earnings	Fair Value & Affiliates Reserves	Liability Credit Reserve	Employee Benefits Reserve	Other Reserves	Equity Attributable to Members	Non-Controlling Interest	Total Equity
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 9 (Note 5)		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, net of tax									
Profit		34,742					34,742	(570)	34,172
Other comprehensive income, net of tax									
Fair value reserve (securities at fair value through other comprehensive income)			13,336				13,336		13,336
Share of other comprehensive loss of affiliates accounted for using the equity method			(325)				(325)		(325)
Liability credit reserve				(4,924)			(4,924)		(4,924)
Net actuarial loss on employee benefits plans					(819)		(819)		(819)
Total comprehensive income	–	34,742	13,011	(4,924)	(819)	–	42,010	(570)	41,440
Transactions with owners, recorded directly in equity									
Dividends to members		(27,512)					(27,512)		(27,512)
Related tax savings for Class "E" shares redemptions		2					2		2
Class "F" shares issued (Note 24)	10,139						10,139		10,139
Preferred shares redeemed by subsidiary							-	(1,773)	(1,773)
Transfer from reserves		(2)				(24)	(26)		(26)
Total contribution from and distribution to owners	10,139	(27,512)	–	–	–	(24)	(17,397)	(1,773)	(19,170)
Reclassification of liability credit reserve on derecognition[1]		305		(305)			-		–
Balance at December 31, 2019	**$ 440,076**	**$ 659,906**	**$ 10,688**	**$ (5,659)**	**$ 445**	**$ 2**	**$ 1,105,458**	**$ 7,780**	**$ 1,113,238**

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

Profit attributable to:	**2019**	2018
Members of Central 1	**$ 34,742**	$ 85,294
Non-controlling interest	**(570)**	35
	$ 34,172	$ 85,329

Total comprehensive income attributable to:	**2019**	2018
Members of Central 1	**$ 42,010**	$ 85,526
Non-controlling interest	**(570)**	35
	$ 41,440	$ 85,561

See accompanying notes to the Consolidated Financial Statements

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Consolidated Statement of Changes in Equity

For the Year Ended December 31, 2018

	Attributable to equity members									
(Thousands of dollars)	Share Capital	Contributed Surplus	Retained Earnings	Fair Value & Affiliates Reserves	Liability Credit Reserve	Employee Benefits Reserve	Other Reserves	Equity Attributable to Members	Non-Controlling Interest	Total Equity
Balance at December 31, 2017	$ 428,143	$ 72,897	$ 584,971	$ 20,880	$ -	$ (1,808)	$ 3,950	$ 1,109,033	$ 10,088	$ 1,119,121
Changes on initial application of IFRS 9			18,771	(8,067)	(11,789)		(2)	(1,087)		(1,087)
Restated balance at January 1, 2018	$ 428,143	$ 72,897	$ 603,742	$ 12,813	$ (11,789)	$ (1,808)	$ 3,948	$ 1,107,946	$ 10,088	$ 1,118,034
Total comprehensive income, net of tax										
Profit			85,294					85,294	35	85,329
Other comprehensive income, net of tax										
Fair value reserve (securities at fair value through other comprehensive income)				(14,616)				(14,616)		(14,616)
Share of the other comprehensive loss of affiliates accounted for using the equity method				(520)				(520)		(520)
Liability credit reserve					12,296			12,296		12,296
Net actuarial gain on employee benefits plans						3,072		3,072		3,072
Total comprehensive income	–	–	85,294	(15,136)	12,296	3,072	–	85,526	35	85,561
Transactions with owners, recorded directly in equity										
Dividends to members			(13,807)					(13,807)		(13,807)
Class “E” shares redemption or reacquisition	(11)	(72,897)	(38,702)					(111,610)		(111,610)
Related tax savings			14,806					14,806		14,806
Net Classes “A”, “B”, “C” and “F” shares issued	1,805							1,805		1,805
Transfer from reserves			73				(3,922)	(3,849)		(3,849)
Total contribution from and distributions to owner	1,794	(72,897)	(37,630)	–	–	–	(3,922)	(112,655)	–	(112,655)
Reclassification of liability credit reserve on derecognition[1]			937		(937)					–
Balance at December 31, 2018	$ 429,937	$ -	$ 652,343	$ (2,323)	$ (430)	$ 1,264	$ 26	$ 1,080,817	$ 10,123	$ 1,090,940

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

See accompanying notes to the Consolidated Financial Statements

Consolidated Statement of Cash Flows

For the Years Ended December 31

(Thousands of dollars)	Notes	December 31, 2019	December 31, 2018
Cash flows from operating activities			
Profit		$ **34,172**	$ 85,329
Adjustments for:			
Depreciation and amortization		**8,765**	8,124
Interest margin		**(80,927)**	(80,855)
Loss (gain) on disposal of financial instruments		**(50,894)**	22,534
Change in fair value of financial instruments		**23,581**	12
Impairment loss on financial assets		**692**	283
Impairment loss on non-financial assets		**2,920**	8,842
Equity interest in affiliates		**(818)**	-
Gains from system affiliates		**-**	(83,158)
Income taxes (recovery)		**(905)**	2,498
		(63,414)	(36,391)
Change in securities		**(1,088,468)**	1,121,758
Change in loans		**(59,453)**	223,730
Change in settlements in-transit		**(470,684)**	369,701
Change in deposits		**966,728**	(1,050,129)
Change in obligations related to securities sold short		**(74,319)**	43,238
Change in securities under repurchase agreements		**262,220**	-
Change in derivative assets and liabilities		**8,400**	1,454
Change in other assets and liabilities		**8,585**	(3,928)
Interest received		**359,607**	353,574
Interest paid		**(279,759)**	(268,007)
Income tax received (paid)		**8,689**	(25)
Net cash from (used in) operating activities		**(421,868)**	754,975
Cash flows from investing activities			
Change in deposits with regulated financial institutions		**1,199**	(88)
Change in reinvestment assets under the Canada Mortgage Bond Program		**(103,665)**	(35,153)
Change in property and equipment		**(4,685)**	(1,568)
Change in intangible assets		**(16,810)**	(3,609)
Change in investments in affiliates		**(348)**	148,481
Net cash from (used in) investing activities		**(124,309)**	108,063

See accompanying notes to the Consolidated Financial Statements

Consolidated Statement of Cash Flows *(continued)*

For the Years Ended December 31

(Thousands of dollars)	Notes	December 31, 2019	December 31, 2018
Cash flows from financing activities			
Change in debt securities issued	(22)	**118,925**	(220,947)
Change in lease liabilities	(22)	**(298)**	1,178
Change in obligations under the Canada Mortgage Bond Program	(22)	**(127,009)**	(150,080)
Change in securities under repurchase agreements	(22)	**-**	(119,438)
Change in subordinated liabilities	(22)	**(199,665)**	-
Dividends paid	(22)	**(13,807)**	(18,129)
Redemption of Class A shares	(24)	**-**	(384,768)
Issuance of Class F shares	(24)	**10,139**	386,547
Redemption of Class E shares	(24)	**-**	(74,838)
Reacquisition of treasury shares	(24)	**-**	(21,966)
Redemption of NCI preferred shares	(24)	**(1,773)**	-
Net cash used in financing activities		**(213,488)**	(602,441)
Increase (decrease) in cash		**(759,665)**	260,597
Cash - beginning of year		**811,360**	550,763
Cash - end of year		**$ 51,695**	$ 811,360
Cash comprise			
Cash		**$ 48,947**	$ 811,360
Cash held for segregation	(11)	**2,748**	-
Cash - end of year		**$ 51,695**	$ 811,360

See accompanying notes to the Consolidated Financial Statements

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Notes to the Consolidated Financial Statements

Years Ended December 31, 2019, and 2018

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 Consolidated Financial Statements include Central 1 and its subsidiaries.

Central 1 provides financial, digital banking and payment products and services for over 250 financial institutions across Canada, including its member credit unions in British Columbia (B.C.) and Ontario. The performance of the British Columbia credit union system and that of Central 1's member credit unions in Ontario (collectively referred to herein as the Ontario credit union system) plays an integral part in determining the results of Central 1's operations and its financial position.

2. Basis of presentation

(a) Statement of compliance

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

This is the first set of Central 1's annual financial statements in which IFRS 16, *Leases*, have been applied. Changes in accounting policies are described in Note 5.

With the exception of IFRS 16 adoption, the policies set in Note 3 below have been consistently applied to all the periods presented and by all subsidiaries included in the Consolidated Financial Statements.

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

The Consolidated Financial Statements were authorized for issue by the Board of Directors on February 21, 2020.

(b) Basis of measurement

The Consolidated Financial Statements have been prepared on the historical cost basis except for the following:

- Financial instruments at fair value through profit or loss (FVTPL) measured at fair value.
- Financial assets at fair value through other comprehensive income (FVOCI) measured at fair value.
- Derivative financial instruments measured at fair value.
- The assets and liabilities for defined benefit obligations recognized as the present value of the benefit obligation less the net total of the plan assets, plus unrecognized actuarial gains, less unrecognized actuarial past service costs and unrecognized actuarial losses.
- Recognized financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships adjusted for changes in fair value attributable to the risk being hedged.

(c) Functional and presentation currency

These Consolidated Financial Statements are presented in Canadian dollars, which is Central 1's functional currency. All amounts have been rounded to the nearest thousand, except as otherwise indicated.

(d) Use of estimates and judgements

In preparing the Consolidated Financial Statements in accordance with IFRS, management must exercise judgements and make estimates and assumptions that affect the application of Central 1's 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-employment 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. Accounting policies

Except for the changes explained in Note 5, Central 1 has consistently applied the following significant accounting policies to all periods presented in these Consolidated Financial Statements.

(a) Basis of consolidation

Subsidiaries

The Consolidated Financial Statements include the assets, liabilities, results of operations and cash flows of Central 1 and its subsidiaries: Central 1 Trust Company, C1 Ventures (VCC) Ltd., CUPP Services Ltd. (CUPP), 0789376 B.C. Ltd., Central Financial Corporation (1989) Ltd., Landmark Credit Limited, and Stabilization Fund Corporation. These subsidiaries are entities where Central 1 exercises control through its ownership of the majority of the voting shares. On October 17, 2019, the following three subsidiaries were dissolved:

- CU Financial Services Ltd.
- Central Data Systems Ltd.
- Inovera Solutions Inc.

Following the decision to transition out Central 1's insurance operations, Central 1 completed the sale of Credit Union Advantage Insurance Brokerage Ltd., a wholly owned subsidiary of Central 1, to Co-operators Financial Services Limited (The Co-operators) on April 1, 2019. On September 30, 2019, the insurance policies that were underwritten by CUPP expired and CUMIS General Insurance Company, a subsidiary of The Co-operators, renewed these insurance policies on October 1, 2019. Management of CUPP is planning to transition the remaining liability and wind up CUPP in 2021.

Management must exercise judgements in determining whether Central 1 must consolidate an entity. An entity is consolidated if Central 1 concludes that it controls the entity. The following circumstances may indicate a relationship in which, in substance, Central 1 controls and therefore consolidates the entity:

- Central 1 has power over the entity whereby Central 1 has the ability to direct the relevant activities (i.e., the activities that affect the entity's returns).
- Central 1 is exposed, or has rights, to variable returns from its involvement with the entity.
- Central 1 has the ability to use its power over the entity to affect the amount of the entity's returns.

The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases. The Consolidated Financial Statements have been prepared using uniform accounting policies across all subsidiaries for like transactions and other events in similar circumstances. All inter-company transactions and balances are eliminated on consolidation.

Non-controlling interest

Credit unions of British Columbia participate in insurance programs offered by CUPP and hold preferred shares of CUPP. Central 1 owns 100% voting rights of CUPP and 7% (December 31, 2018: 6%) non-voting rights, with the non-controlling interest (NCI) owning the remaining 93% (December 31, 2018: 94%) non-voting rights. NCI is presented as a separate component of equity in the Consolidated Statement of Financial Position, which represents the equity interests of credit unions of British Columbia, other than Central 1, in CUPP. The net profit attributable to non-controlling interest in CUPP is presented separately in the Consolidated Statement of Changes in Equity.

Affiliates

Affiliates are entities over which Central 1 has significant influence, but not control, over the operating and financial policies of the entities. Significant influence is presumed to exist when Central 1 holds between 20% and 50% of the voting rights, and/or exercise significant influence through Board representation.

Central 1's investments in affiliates are accounted for using the equity method of accounting and are initially recognized at cost, which includes the purchase price and other costs directly attributable to the acquisition. Subsequently, these investments are increased or decreased to recognize Central 1's share of the affiliates' profit or loss, other comprehensive income (OCI), the receipt of any dividends, and other movements in affiliates' equity.

For the purposes of applying the equity method for an investment that uses accounting policies that differ from Central 1, the affiliate's financial statements are adjusted to reflect Central 1's accounting policies.

Further information regarding Central 1's subsidiaries and affiliates is contained in Note 15 and Note 38.

(b) Foreign currency

Transactions in foreign currencies are translated into Canadian dollars at the spot exchange rate at the date of the transaction. Subsequently, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the spot exchange rate at the reporting date. Non-monetary assets and liabilities that are measured based on historical cost in foreign currencies are translated into Canadian dollars using the exchange rate at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated into Canadian dollars using the spot exchange rate when the fair value is determined.

Foreign currency differences arising on translation are generally recognized in non-financial income on the Consolidated Statement of Profit. However, foreign currency gains or losses arising from the translation of financial instruments measured at FVOCI that are denominated in foreign currencies are also included in the Consolidated Statement of Profit.

(c) Financial assets and financial liabilities

i. Recognition and initial measurement

Central 1 initially recognizes financial assets on the date on which they are acquired and recognizes financial liabilities on the date on which they are issued. Regular way purchases and sales of financial assets are recognized on the trade date at which Central 1 commits to purchase or sell the assets. A financial asset or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issuance. For a financial asset or financial liability measured at FVTPL, transaction costs are recognized immediately in profit or loss.

ii. Classification and subsequent measurement

a. Business model assessment

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

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

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

b. Contractual cash flows characteristics assessment

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

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

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

c. Financial assets

All financial assets are initially recorded at fair value and subsequently classified as measured at amortized cost, FVOCI or FVTPL.

Debt instruments measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- After the initial measurement, these instruments are carried at amortized cost. Interest income on these instruments is recognized using the effective interest rate method. Premiums, discounts and related transaction costs are amortized over the expected life of the instruments to interest income in profit or loss using the effective interest rate method. Impairment on these debt instruments is calculated using the ECL approach.

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

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

Subsequent to initial recognition, unrealized gains and losses on debt instruments measured at FVOCI are recorded in OCI, unless the instrument is designated in a fair value hedge relationship, in which case any changes in fair value due to changes in the hedged risk is recognized in profit or loss. Upon derecognition, realized gains and losses are reclassified from OCI to profit or loss. Foreign exchange gains and losses that relate to the amortized cost of the debt instruments are recognized in profit or loss.

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

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

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

Debt instruments designated at FVTPL
On initial recognition, Central 1 may irrevocably designate a financial asset at FVTPL that otherwise meets the requirements to be measured at amortized cost or at FVOCI. For financial assets designated at FVTPL, changes in fair value are recognized in the Consolidated Statement of Profit. All other financial assets are classified as measured at FVTPL.

Equity instruments measured at FVTPL
On initial recognition of an equity instrument that is not held for trading, Central 1 may irrevocably elect to present subsequent changes in FVOCI. This election is made on an investment-by-investment basis. Central 1 did not make such election and measured its equity instruments at FVTPL.

Reclassification
Financial assets are not reclassified subsequent to their initial recognition, except in the period after Central 1 changes its business model for managing those financial assets. There were no changes to any of Central 1’s business models for the year ended December 31, 2019.

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

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

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

For financial liabilities designated at FVTPL, all changes in fair value are recognized in the Consolidated Statement of Profit, except for changes in fair value arising from changes in the Central 1’s own credit risk which are recognized in OCI. Changes in fair value of liabilities due to changes in Central 1’s own credit risk, which are recognized in OCI, are not subsequently reclassified to the Consolidated Statement of Profit upon derecognition/extinguishment of the liabilities. Instead, these changes are reclassified from AOCI to retained earnings upon derecognition/ extinguishment of the liabilities.

Financial liabilities measured at amortized cost
Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

iii. Fair value measurement

Note 34 contains information on the measurement of financial assets and liabilities recognized in the Consolidated Statement of Financial Position at fair value.

iv. Derecognition

a. Derecognition of financial assets

Central 1 derecognizes a financial asset when the contractual rights to the cash flows of the financial asset expire, or when it transfers the right to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. When Central 1 neither transfers nor retains substantially all the risks and rewards of ownership related to a financial asset, it derecognizes the financial asset that it no longer controls.

In transactions which Central 1 neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset but it retains control over the asset, Central 1 continues to recognize the asset to the extent of its continuing involvement in that asset, determined by the extent to which it is exposed to changes in the value of the transferred asset. Any rights and obligations retained following the asset transfer are recognized as a separate asset or liability in the Consolidated Statement of Financial Position.

Where Central 1 enters into a transaction whereby it transfers assets but retains all or substantially all the risks and rewards of ownership, the transferred assets are not derecognized. Transfers of assets where Central 1 retains all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

On derecognition of a financial asset, the difference between the carrying value of the asset and the sum of the consideration received and any cumulative gain or loss that has been recognized in OCI is recognized as profit or loss.

b. Derecognition of financial liabilities

Central 1 derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired. Central 1 also derecognizes a financial liability when its terms are modified, and the cash flows of the modified liability are subsequently different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial liability are deemed to have expired. In this case, the original financial liability is derecognized and a new financial liability is recognized in fair value.

On derecognition of a financial liability, the difference between the carrying value extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

v. Offsetting

Financial assets and liabilities are offset and the net amount is presented in the Consolidated Statement of Financial Position when, and only when, Central 1 has a legally enforceable right to set off the recognized amounts and it intends to either settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions.

vi. Impairment of financial assets

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

- Commercial loans and lines of credit;
- Credit union loans and overdraft accounts;
- Loans to officers and employees;
- Debt instruments measured at amortized cost; and
- Debt instruments measured at FVOCI.

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

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

a. Determining the Stage

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

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

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

b. Assessment of significant increase in credit risk

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

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

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

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

c. Measurement of ECL

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

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

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

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

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

d. Expected Life

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

e. Definition of Default

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

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

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f. Incorporation of forward-looking information

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

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

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

g. Restructured financial assets

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

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

h. Presentation of allowance for ECL

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

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

i. Write-off

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

vii. Hedge accounting

The hedge accounting model under IFRS 9 aims to simplify hedge accounting, align the accounting for hedge relationships more closely with an entity's risk management activities and permit hedge accounting to be applied more broadly to a greater variety of hedging instruments and risks eligible for hedge accounting. The standard does not explicitly address the accounting for macro hedging activities, which is being addressed by the IASB through a separate project. As a result, IFRS 9 includes an accounting policy choice to retain IAS 39 for hedge accounting requirements until the amended standard resulting from the IASB's project on macro hedge accounting is effective.

Central 1 has elected the accounting policy choice to continue applying hedge accounting under the IAS 39 framework. The hedge accounting disclosures required by the related amendments to IFRS 7, *Financial Instruments: Disclosures*, however, are required for the annual period beginning on or after January 1, 2018. The disclosures require information about Central 1's risk management strategy and its effect on future cash flows, as described in Note 3(g). Detailed disclosures about the effect hedge accounting has had on Central 1's Consolidated Financial Statements are included in Note 9.

(d) Cash

Cash includes unrestricted cash balances held with financial institutions. Cash is carried at amortized cost in the Consolidated Statement of Financial Position.

(e) Deposits with regulated financial institutions

Deposits with regulated financial institutions are classified as amortized cost. These deposits are initially measured at fair value plus incremental direct transaction costs. Subsequently, these deposits are measured at amortized cost using the effective interest method. Interest income earned is included in the Consolidated Statement of Profit using the accrual basis of accounting.

(f) Obligations under the Canada Mortgage Bond (CMB) Program

Central 1's securitization activity primarily involves indirect securitizations whereby Central 1 facilitates the transfers of National Housing Act Mortgage-Backed Securities (NHA MBS) by its member credit unions by acting as a swap counterparty with Canada Housing Trust (CHT) and through the provision of administrative services. In such instances, indirect securitization transactions are off balance sheet and Central 1 records administration fees as other income when earned but Central 1 does not acquire an interest in the underlying mortgages.

Central 1 also participates in indirect securitization activities whereby Central 1 acts as a swap counterparty with CHT and receives a fee from its member credit unions for managing reinvestment assets.

Central 1 may also participate in direct securitizations by acquiring an interest in third-party MBS or insured mortgage pools from its member credit unions and subsequently transferring the associated MBS securities to CHT under the CMB Program.

Mortgages transferred to CHT continue to be recognized in Central 1's Consolidated Statement of Financial Position as, in the opinion of Central 1's management, these transactions do not result in the transfer of substantially all the risks and rewards of ownership of the underlying assets. Consideration received from CHT as a result of these transactions is recognized in Central 1's Consolidated Statement of Financial Position as secured borrowing.

(g) Derivative instruments

Derivatives may be embedded in other contractual arrangements (a 'host contract'). Central 1 accounts for an embedded derivative separately from the host contract when the host contract is not itself carried at FVTPL, the terms of the embedded derivative meet the definition of a derivative if they were contained in a separate contract, and the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. Separate embedded derivatives are accounted for depending on their classification and are presented in the Consolidated Statement of Financial Position together with their host contract.

Derivative instruments are measured at fair value in the Consolidated Statement of Financial Position, with changes in fair value recognized in profit or loss.

For risk management purposes, Central 1 designates certain derivatives to hedge fair value risk on select commercial loans and medium-term notes as hedging instruments in qualifying hedging relationships. Central 1 has not entered into any cash flow hedges at this time.

Hedge accounting is applied to financial assets and financial liabilities only when all of the following conditions are met:

- At the inception of the hedge, there is formal designation and documentation of the hedging relationship and Central 1's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.
- The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship.
- The effectiveness of the hedge can be reliably measured (i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured).
- The hedge is assessed on an ongoing basis and determined to have been highly effective throughout the financial reporting periods for which the hedge was designated.

(h) Loans

Loans are financial assets with fixed or determinable payments that are not quoted in an active market and that Central 1 does not intend to sell immediately or in the short term.

With the exception of a single portfolio of commercial loans, which are measured as at designated FVTPL, all loans are classified as amortized cost and initially measured at fair value plus incremental direct transaction costs on the trade date in the Consolidated Statement of Financial Position. They are subsequently measured at amortized cost using the effective interest method, net of allowances for ECL and any unearned interest. Interest income is recognized using the effective interest method, and loan origination fees and other fees received and paid are recorded in other income over the term of the loans.

(i) Securities purchased under reverse repurchase agreements and sold under repurchase agreements

Securities purchased under reverse repurchase agreements consist of the purchase of the security with a commitment by Central 1 to resell to the original seller on a specified date at a specified price. Financial assets acquired under reverse repurchase agreements, other than those acquired in securitization transactions, are classified as amortized cost in the Consolidated Statement of Financial Position. The difference between the cost of the purchase and predetermined proceeds to be received on a resale agreement is recorded in interest income.

A repurchase agreement consists of the sale of a security with a commitment by Central 1 to repurchase the security on a specified date at a specified price. Obligations related to securities sold under repurchase agreements are recorded at amortized cost in the Consolidated Statement of Financial Position. The difference between the proceeds received on the sale of the security and the amount that Central 1 agrees to repay under the repurchase agreement is recorded in interest expense.

(j) Property and equipment

Items of property and equipment, except for land, are measured at cost less accumulated depreciation and accumulated impairment losses. Land is recorded at cost net of any impairment losses. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, and any other costs directly attributable to bringing the assets to a working condition for their intended use. Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to Central 1. Ongoing repairs and maintenance are expensed as incurred.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and is recognized net within other income in the Consolidated Statement of Profit.

Depreciation is recognized in the Consolidated Statement of Profit on a straight-line basis over the estimated useful life of each part of an item of property and equipment, since this most closely reflects the pattern of consumption of future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods of significant items of property and equipment are as follows:

Buildings	50 years
Computer hardware	3 to 5 years
Furniture, fixtures and equipment	3 to 10 years
Leaseholds	Lesser of the useful life of the leasehold or the term of the lease

Depreciation methods, useful lives and residual values are reassessed at the end of each reporting period and adjusted if appropriate.

(k) Investment property

Central 1 holds investment property to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services, or for administrative purposes. When the use of a property changes such that it is reclassified as property and equipment, its carrying value at the date of reclassification becomes its cost for subsequent accounting.

Investment property are initially measured at cost and subsequently at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of investment property have different useful lives, they are accounted for as separate items (major components) of investment property.

Depreciation is recognized in the Consolidated Statement of Profit on a straight-line basis over the estimated useful lives of each part of an item of investment property. The estimated useful lives for the current and comparative periods are 50 years.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(l) Intangible assets

Software acquired by Central 1 is classified as an intangible asset and is measured at cost less accumulated depreciation and accumulated impairment losses.

Expenditures on internally developed software are recognized as an asset when Central 1 is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and reliably measure the costs to complete the development. The capitalized costs of internally developed software include all costs directly attributable to developing the software. Internally developed software is stated at capitalized cost less accumulated amortization and impairment.

Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization is recognized in the Consolidated Statement of Profit on a straight-line basis over the estimated useful life of the software, from the date that it is available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are three to ten years.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(m) Impairment of non-financial assets

The carrying amounts of Central 1's non-financial assets, other than investment property and deferred tax assets or liabilities, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows associated with the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of the asset exceeds its recoverable amount. An impairment loss recognized in prior periods for an asset is reversed if, and only if, there has been a change in the estimate used to determine the asset's recoverable amount since the last impairment was recognized. In this case, the impairment loss is reversed only to the extent that the carrying amount does not exceed the recoverable amount that would have been determined, net of depreciation, if no previous impairment loss had been recognized. Such reversal is recognized in the Consolidated Statement of Profit.

Significant judgement is applied in determining the non-financial asset's recoverable amount or value in use and assessing whether certain events or circumstances constitute objective evidence of impairment.

(n) Leases

Policy applicable before January 1, 2019

Central 1 as a lessee

Assets held by Central 1 under leases which transfer to Central 1 substantially all of the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, discounted at the interest rate implicit in the lease, if practicable, or else at Central 1's incremental borrowing rate. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases which are not recognized in the Consolidated Statement of Financial Position. Payments made under operating leases are recognized in the Consolidated Statement of Profit on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Central 1 as a lessor

Leasing agreements whereby Central 1 earns rental income on premises classified as investment property are classified as operating leases. Central 1 recognizes rental income on a straight-line basis over the term of the lease. Lease inducements are recognized as an integral part of the total lease income, over the term of the lease.

Policy applicable from January 1, 2019

Central 1 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 Consolidated Statement of Financial Position. On the 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.

Central 1 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.

(o) Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when one party agrees to compensate another party (the policyholder) if a specified uncertain future event (other than a change in a financial variable) adversely affects the policyholder. Any contracts not meeting the definition of an insurance contract are classified as investment contracts or service contracts, as appropriate.

(p) Financial guarantees

Financial guarantees are contracts that require Central 1 to make specified payments to reimburse the beneficiary for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Liabilities arising from financial guarantees are recognized initially at their fair value, and the initial fair value is amortized over the life of the related guarantee.

(q) Income taxes

Income tax expense comprises current tax and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the enacted tax payable or receivable on the taxable income for the year, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable or receivable in respect of previous years. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for the following temporary differences:

- the initial recognition of an asset or a liability in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and
- temporary differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset only if:

- there is a legally enforceable right to offset current tax liabilities against current tax assets;
- they relate to income taxes levied by the same tax authority on the same taxable entity; or
- they relate to income taxes levied by the same tax authority on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. In determining the amount of current and deferred tax, Central 1 takes into account the impact of uncertain tax positions and makes judgements, estimates and assumptions to assess whether additional taxes and interest may be due.

(r) Post-employment benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior reporting periods. Obligations for defined contribution pension plans are determined by the amounts to be contributed and recognized as expense in profit or loss when they are due in respect of service rendered before the end of the reporting period.

Central 1 participates in a multi-employer defined benefit plan in which plan assets and liabilities are pooled and the actuary does not determine an individual employer's own unfunded liability. Each member credit union is exposed to the actuarial risks of the other employers with the result that, in management's opinion, there is no reasonable way to allocate any defined benefit obligations. This plan is therefore accounted for on a defined contribution basis.

Defined benefit plans

A defined benefit plan, a plan no longer available for new entrants, is a post-employment benefit plan under which an employer promises a specified pension payment on retirement that is pre-determined by a formula. Central 1's net obligation in respect of defined benefits plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. It is calculated periodically by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for service in the current and prior periods and discounting that benefit to determine its present value using market yields at the end of the reporting period on high-quality corporate bonds.

Central 1 recognizes all actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments immediately in the Consolidated Statement of Comprehensive Income and all expenses related to defined benefit plans immediately in the Consolidated Statement of Profit.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in the Consolidated Statement of Profit on a straight-line basis over the average period until the benefits become vested. To the extent that benefits vest immediately, the expense is recognized immediately in the Consolidated Statement of Profit.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term incentive plans if Central 1 has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(s) Revenue recognition

Interest income and expense

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instruments to the gross carrying amount of the financial asset or the amortized cost of the financial liability. When calculating the effective interest rate for financial instruments other than credit-impaired assets, Central 1 estimates future cash flows considering all contractual terms of the financial instrument. For credit-impaired assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL. The calculation of effective interest includes transaction cost and fees, which include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves. For information on when financial assets are credit-impaired, see Notes 3(C)(vi) & 10.

Interest income and expense presented in the Consolidated Statement of Profit include:

- Interest income and expense on financial assets and liabilities measured at amortized cost calculated on an effective interest basis.
- Interest income and expense on securities measured at FVOCI calculated on an effective interest basis.
- Interest income and expense on other financial assets and liabilities measured at FVTPL based on the contractual terms of the instruments.

Changes in fair value of financial instruments

Changes in fair value of financial instruments included in the Consolidated Statement of Profit include:

- Fair value changes on derivatives.
- Fair value changes on loans at FVTPL.
- Fair value changes on financial assets and financial liabilities measured at FVTPL.
- Fair value changes on financial assets and liabilities under the CMB Program.
- Impairment charges on debt instruments measured at FVOCI that have been reclassified from OCI.
- The effective and ineffective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

When Central 1 designates a financial liability at FVTPL, the amount of change in the fair value of the liability that is attributable to changes in its credit risk is presented in OCI as a liability credit reserve.

Amounts presented in the liability credit reserve are not subsequently transferred to profit or loss. When these instruments are derecognized, the related cumulative amount in the liability credit reserve is transferred to retained earnings.

Other income

Nature of goods and services

Central 1 generates revenue primarily from providing products and services to its members and clients including credit union lending, access to securitization vehicles, digital banking technologies and payments processing solutions. Other sources of revenue include dues collected to fund certain services such as corporate secretary, economics, communication & public relations and annual general meeting. The consideration received does not include any significant financing components that are not included in the transaction price. Central 1's principal activities, separated by operating segments, from which Central 1 generates its revenue, are described below.

Wholesale Financial Services

Under Wholesale Financial Services (WFS), Central 1 earns revenues primarily from providing access to credit facilities and securitization vehicles.

a. Lending Fees

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

b. Securitization Fees

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

Digital Payment & Services

Under Digital Payment & Services, Central 1 earns revenues primarily from providing digital banking technologies and payment processing solutions.

a. Payment Processing and Other Fees

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

b. Digital Banking Fees

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

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

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

Implementation projects are billed based on a per hour basis. Revenue is recognized over time and accrued monthly and typically invoiced at the completion of the project. Contracts are typically completed within a one-year period resulting in no significant financing components.

c. Forge Retail Revenue

In 2019, Central 1 launched *Forge Retail Digital Banking Platform* (Forge), a full featured digital banking platform that encompasses a public website, a mobile application and online banking. Forge's clients are charged a perpetual fee and a monthly maintenance fee. As Forge clients can only benefit from the perpetual license when they pay the maintenance fee, the license fee and maintenance fee are not distinct items.

The perpetual fee is a one-off charge to the client to provide an ongoing access to the Forge platform. The perpetual fee revenue is recognised over time as performance obligations are met over the remaining useful life of the Forge platform at the time the fee is paid.

The maintenance fee is calculated and invoiced monthly based on the level of usage and therefore the maintenance fee revenue is recognised over time as performance obligations are satisfied as time passes.

Other Revenues

a. Operating Dues

Central 1 collects dues from credit union members to fund certain services such as corporate secretary, economics, communication & public relations, and annual general meeting. These value-added services give member credit unions access to a wealth of expertise, while remaining affordable through economies of scale. The assessment of operating dues funded functions is determined annually based on an operating dues budget which is subsequently approved by the Board of Directors and credit union members in the Annual General Meeting. The services are rendered over time and performance obligations are satisfied in the same manner; therefore, monthly recognition is appropriate.

b. Marketing Revenues

Central 1 has a full-service marketing agency that provides marketing and creative services in the areas of strategic marketing, event, and project management. The marketing group also prepares an annual research package with industry analysis. The standard marketing service contracts are one-off work requests and the annual research package consists of multiple reports being delivered. The performance obligations relating to standard marketing service contracts and the annual research package are satisfied upon completion of the contracts and delivery of the goods. Therefore, revenue is recognized at a point in time based on the right to invoice.

(t) Operating segments

Central 1's operations and activities are organized around a number of key operating segments in accordance with the aggregation criteria and quantitative thresholds under IFRS 8, Operating Segments. Management regularly monitors these segments' operating results for the purpose of making decisions about resource allocation and performance assessment. Segment results include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items including adjustments and other management reclassification, corporate taxes and residual unallocated revenue and expenses are included in "Other" segment. Further information is included in Note 31.

(u) Non-current assets held for sale and discontinuing operations

Non-current assets (and disposal groups) are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is satisfied when the asset is available for immediate sale in its present condition, management is committed to the sale, and it is highly probable to occur within one year. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell and if significant, are presented separately from other assets on the Consolidated Statement of Financial Position.

A disposal group is classified as a discontinuing operation if it meets the following conditions:

- It is a component that can be distinguished operationally and financially from the rest of the operations and
- It represents either a separate major line of business or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations.

Disposal groups classified as discontinuing operations are presented separately from continuing operations in the Consolidated Statement of Profit and Statement of Comprehensive Income. Further information is included in Note 11.

4. Use of estimates and judgements

The preparation of the Consolidated Financial Statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Judgement, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

(a) Critical accounting estimates and assumptions

Information about estimates and assumptions that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities during the years presented is disclosed as follows:

i. Expected credit loss

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

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

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

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

ii. Determining fair value of financial instruments

The determination of fair value for financial assets and liabilities requires the exercise of judgement by management. The determination of fair value of financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See Note 34 for further discussion.

iii. Income taxes

Central 1 computes an income tax provision in each of the jurisdictions in which it operates. However, the actual amounts of income tax expense only become final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the Consolidated Financial Statements. Estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions, before they expire, against future taxable income. The assessment is based upon enacted tax acts and estimates of future taxable income. To the extent estimates differ from the final tax provision, earnings would be affected in a subsequent period.

At the end of every reporting period, the income tax provision is based on an estimate of projected annual earnings by jurisdiction. The estimated average annual effective income tax rates are re-estimated at each reporting date, based on full-year projections of earnings by jurisdiction. To the extent that forecasts differ from actual results, adjustments are recorded in subsequent periods.

iv. Post-employment benefits

Central 1 sponsors defined benefit plans providing pension and other post-retirement benefits to employees. The expense and obligations associated with employee future benefits are calculated by actuaries using assumptions such as the expected return on assets available to fund pension obligations, the discount rate to measure obligations, the expected mortality, the expected rate of future compensation and the expected healthcare cost trend rate. If actual experience differs from the assumptions used, the difference is recognized in the Consolidated Statement of Comprehensive Income.

v. Own credit risk

For financial liabilities designated at FVTPL, changes in fair value are recognized in Consolidated Statement of Profit, except for changes in Central 1's own credit risk which are recognized in OCI. Central 1's own credit risk requires use of estimates for changes in Central 1's own credit spread.

(b) Critical judgements in applying accounting policies

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the Consolidated Financial statement is disclosed as follows:

i. Securitizations

In applying its policies on securitized financial assets, Central 1 has considered both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by Central 1 over the other entity:

- When Central 1, in substance, controls the entity to which financial assets have been transferred, the entity is included in these Consolidated Financial Statements and the transferred assets are recognized in Central 1's Consolidated Statement of Financial Position.
- When Central 1 transfers financial assets to an unconsolidated entity and it retains substantially all the risk and rewards relating to the transferred assets, the transferred assets are recognized in Central 1's Consolidated Statement of Financial Position.
- When Central 1 transfers substantially all the risks and rewards relating to the transferred financial assets to an unconsolidated entity, the assets are derecognized from Central 1's Consolidated Statement of Financial Position.
- When Central 1 neither transfers nor retains substantially all the risks and rewards relating to a transferred financial asset and it retains control of the transferred asset, Central 1 continues to recognize the transferred financial asset to the extent of its continuing involvement in that transferred financial asset.

Details of Central 1's securitization activities are given in Notes 7 and 20.

ii. Determining if control exists over an investee

Under IFRS 10, *Consolidated Financial Statements*, an entity must determine whether or not it is exposed to, or has rights to, variable returns from its involvement with the investees and has the ability to affect those returns through its powers over the investees. This requires the entity to use judgement to assess the nature of the operations of the investee, the degree to which it is able to direct those operations and the level of exposure that it has to the variable returns of the investees.

iii. Gains from system affiliates

The transactions surrounding Central 1's equity investees in 2018 resulted in a significant impact on Central 1's Consolidated Financial Statements. Management estimates and judgements were made to determine the fair values for Qtrade Canada Inc. (Qtrade), and Northwest & Ethical Investments LP (NEI) in the Aviso transaction. These judgements included assessing the applicability of valuation approaches for Central 1 and selecting the ranges of the fair values for Qtrade and NEI. Actual results may differ materially from these estimates and judgements. Refer to Note 27 for more information.

iv. Classification of financial assets

The classification of financial instruments is based on the contractual cash flow characteristics of a financial instrument and the business model under which it is held which requires critical judgements. Business model assessment involves determining how financial assets are managed in order to generate cash flows. The business model is reflective of how groups of assets are managed together to meet a particular business objective. The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are solely payments of principal and interest on the principal amount outstanding.

5. 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 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.

Transition impact of IFRS 16 adoption

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

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

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

(Thousands of dollars)		Jan 1 2019
Operating lease commitments at December 31, 2018	$	6,089
Effect of discounting those lease commitments using Central 1's incremental borrowing rate on January 1, 2019		(1,008)
Less: Recognition exemption for:		
Short-term leases recognized on a straight-line basis as expense		(73)
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 under IFRS 16	$	6,902
Existing finance lease liabilities as at December 31, 2018 under IAS 17		(1,178)
Net Impact on Lease liabilities	$	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 Consolidated Financial Statements.

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Amendment to IAS 12, *Income Taxes*

In the issued Annual improvements to IFRS Standards 2015-2017 Cycle, IASB amended IAS 12 to clarify that all income tax consequences of dividends are recognized consistently with the past transactions or events that generated the distributable profits – i.e. in profit or loss, OCI or equity. The amendment shall be applied for annual periods beginning on or after January 1, 2019 with early adoption permitted. Central 1 adopted this amendment on January 1, 2019 and the adoption did not have a material impact on the Consolidated Financial Statements.

6. Cash

(Thousands of dollars)	December 31, 2019	December 31, 2018
With Bank of Canada	$ **(18,816)**	$ 762,453
With other regulated financial institutions	**67,763**	48,907
	$ **48,947**	$ 811,360

7. Securities

(Thousands of dollars)	December 31, 2019	December 31, 2018
Securities FVTPL		
Government and government guaranteed securities	$ **2,269,281**	$ 6,787,033
Corporate and major financial institution securities AA low or greater	**1,150,700**	1,001,534
Other	**79,150**	884,179
Fair value	$ **3,499,131**	$ 8,672,746
Amortized cost	$ **3,477,475**	$ 8,668,069
Securities FVOCI		
Government and government guaranteed securities	$ **837,692**	$ 2,986,984
Corporate and major financial institution securities AA low or greater	**1,264,497**	451,091
Other	**690,775**	1,175,199
Fair value	$ **2,792,964**	$ 4,613,274
Amortized cost	$ **2,787,560**	$ 4,619,401
Total fair value	$ **6,292,095**	$ 13,286,020

Securities held for segregation

(Thousands of dollars)		December 31, 2019
Securities FVTPL		
Government and government guaranteed securities	$	4,365,925
Corporate and major financial institutions AA low or greater		959,335
Fair value	$	5,325,260
Securities FVOCI		
Government and government guaranteed securities	$	2,606,186
Corporate and major financial institutions AA low or greater		254,326
Fair value	$	2,860,512
Total fair value (Note 11)	$	8,185,772

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 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)		December 31, 2019		December 31, 2018
FVTPL				
Government and government guaranteed securities	$	521,887	$	559,701
Corporate and major financial institutions AA low or greater		44,967		20,756
Fair Value	$	566,854	$	580,457
Amortized cost	$	565,539	$	582,168
Amortized cost				
Assets acquired under reverse repurchase agreements	$	120,099	$	-
Total reinvestment assets under the Canada Mortgage Bond Program	$	686,953	$	580,457

8. Loans

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

(Thousands of dollars)	December 31, 2019	December 31, 2018
Amortized cost		
Due on demand		
Credit unions	$ 493,038	$ 363,083
Commercial and others	688	941
	493,726	364,024
Term		
Credit unions	15,499	175,732
Commercial and others	846,521	673,573
Reverse repurchase agreements	615,203	694,772
Officers and employees[1]	10,203	7,976
	1,487,426	1,552,053
	1,981,152	1,916,077
Accrued interest	2,808	2,446
Premium	2,188	3,980
	1,986,148	1,922,503
Expected credit loss	(1,383)	(999)
Amortized cost	1,984,765	1,921,504
Fair value hedge adjustment[2]	(2,898)	(4,660)
Carrying value	$ 1,981,867	$ 1,916,844

[1] Loans to officers and employees bear interest at rates varying from 2.50% to 2.72%.
[2] Central 1 enters into fair value hedges to hedge the risks caused by changes in interest rates.

(Thousands of dollars)	December 31, 2019	December 31, 2018
FVTPL		
Term		
Commercial and others	$ 16,694	$ 22,229
Accrued interest	53	49
Premium	31	81
Amortized cost	$ 16,778	$ 22,359
Fair value	$ 17,301	$ 22,403
Total loans	$ 1,999,168	$ 1,939,247

9. Derivative instruments

The following tables summarize the fair value and the notional amounts by term to maturity of derivative assets and liabilities:

	Notional amount by term to maturity				December 31, 2019 Fair value	
(Thousands of dollars)	1 year or less	1 to 5 years	Over 5 years	Total	Asset	Liability
Interest rate contracts						
Bond forwards	$ 66,700	$ -	$ -	$ 66,700	$ -	$ 213
Futures contracts	1,170,000	160,000	-	1,330,000	34	268
Swap contracts	9,015,662	25,379,711	742,994	35,138,367	105,966	108,801
	10,252,362	25,539,711	742,994	36,535,067	106,000	109,282
Foreign exchange contracts						
Forward contracts	380,803	-	–	380,803	2,140	2,220
Other						
Equity index-linked options	52,788	130,539	–	183,327	8,218	8,216
Total fair value before adjustment					116,358	119,718
Adjustment for offsetting					(67,490)	(67,490)
Fair value					**$ 48,868**	**$ 52,228**

The amounts that have been pledged and received as collateral are $8.2 million and $10.6 million, respectively as at December 31, 2019.

	Notional amount by term to maturity				December 31, 2018 Fair value	
(Thousands of dollars)	1 year or less	1 to 5 years	Over 5 years	Total	Asset	Liability
Interest rate contracts						
Bond forwards	$ 136,700	$ -	$ -	$ 136,700	$ 1,929	$ -
Futures contracts	540,000	350,000	-	890,000	-	107
Swap contracts	8,987,632	24,197,546	696,696	33,881,874	136,097	133,075
	9,664,332	24,547,546	696,696	34,908,574	138,026	133,182
Foreign exchange contracts						
Forward contracts	673,091	5,326	–	678,417	11,499	6,875
Other						
Equity index-linked options	54,647	161,536	–	216,183	5,228	5,224
Total fair value before adjustment					154,753	145,281
Adjustment for offsetting					(62,401)	(62,401)
Fair value					$ 92,352	$ 82,880

The amounts that have been pledged and received as collateral were $27.3 million and $10.8 million, respectively as at December 31, 2018.

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

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Hedge accounting

Central 1 uses interest rate swaps to hedge its exposure to changes in the fair value of select commercial loans and select medium term notes due to changes in interest rates. Interest rate swap terms are largely matched to the terms of the specific loans when they are designated as hedging. Central 1 has elected to adopt hedge accounting in respect of the swaps and the hedged items.

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

	December 31, 2019		December 31, 2018	
(Thousands of dollars)	Asset	Liability	Asset	Liability
Swap contracts	**$ 2,163**	**$ -**	$ -	$ 2,433

Hedging instruments are recorded at fair value, and the commercial loans and medium-term notes that are part of a hedging relationship are adjusted for the changes in value attributable to the risk being hedged (fair value hedge adjustment). To the extent that the change in the fair value of the derivative does not offset changes in the fair value of the hedged item (hedge ineffectiveness), the net amount is recorded directly in the Consolidated Statement of Profit.

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

(Thousands of dollars)	December 31, 2019	December 31, 2018
Change in fair value on hedging derivatives	**$ 4,596**	$ 723
Fair value hedge adjustment on loans and medium-term notes (Note 8 and 19)	**(4,278)**	(546)
Hedge ineffectiveness recorded in profit	**$ 318**	$ 177

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10. Expected credit loss

								December 31, 2019
(Thousands of dollars)		Stage 1		Stage 2		Stage 3		Total
ECL on financial assets at amortized cost								
Balance at January 1, 2019	$	838	$	164	$	-	$	**1,002**
Impairment loss on financial assets		273		108		-		**381**
Balance at December 31, 2019	**$**	**1,111**	**$**	**272**	**$**	**-**	**$**	**1,383**
ECL on financial assets at FVOCI[1]								
Balance at January 1, 2019	$	484	$	-	$	-	$	**484**
Adjustment for MLP assets held for segregation		(74)		-		-		**(74)**
Impairment loss on financial assets		234		-		-		**234**
Balance at December 31, 2019	**$**	**644**	**$**	**-**	**$**	**-**	**$**	**644**
Total ECL								
Balance at January 1, 2019	$	1,322	$	164	$	-	$	**1,486**
Adjustment for MLP assets held for segregation		(74)		-		-		**(74)**
Impairment loss on financial assets		507		108		-		**615**
Balance at December 31, 2019	**$**	**1,755**	**$**	**272**	**$**	**-**	**$**	**2,027**

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

								December 31, 2018
(Thousands of dollars)		Stage 1		Stage 2		Stage 3		Total
ECL on financial assets at amortized cost								
Balance at January 1, 2018	$	667	$	31	$	434	$	1,132
Impairment loss (recovery) on financial assets		171		133		(50)		254
Net write-off during the period		-		-		(384)		(384)
Balance at December 31, 2018	$	838	$	164	$	-	$	1,002
ECL on financial assets at FVOCI[1]								
Balance at January 1, 2018	$	425	$	30	$	-	$	455
Impairment loss (recovery) on financial assets		59		(30)		-		29
Balance at December 31, 2018	$	484	$	-	$	-	$	484
Total ECL								
Balance at January 1, 2018	$	1,092	$	61	$	434	$	1,587
Impairment loss (recovery) on financial assets		230		103		(50)		283
Net write-off during the period		-		-		(384)		(384)
Balance at December 31, 2018	$	1,322	$	164	$	-	$	1,486

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

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The following tables present the continuity in ECL as at December 31, 2019 and December 31, 2018.

(Thousands of dollars)	Stage 1	Stage 2	Stage 3	December 31, 2019 Total
ECL on financial assets at amortized cost				
Balance at January 1, 2019	$ 838	$ 164	$ -	$ **1,002**
Impairment loss (recovery) on financial assets				
Transfers in (out) to (from) Stage 1	(117)	-	-	**(117)**
Transfers in (out) to (from) Stage 2	-	117	-	**117**
Purchases and originations	432	-	-	**432**
Derecognitions and maturities	(67)	(21)	-	**(88)**
Remeasurements	25	12	-	**37**
Balance at December 31, 2019	**$ 1,111**	**$ 272**	**$ -**	**$ 1,383**
ECL on financial assets at FVOCI				
Balance at January 1, 2019	$ 484	$ -	$ -	$ **484**
Adjustment for MLP assets held for segregation	(74)	-	-	**(74)**
Impairment loss (recovery) on financial assets				
Purchases and originations	369	-	-	**369**
Derecognitions and maturities	(347)	-	-	**(347)**
Remeasurements	212	-	-	**212**
Balance at December 31, 2019	**$ 644**	**$ -**	**$ -**	**$ 644**

(Thousands of dollars)	Stage 1	Stage 2	Stage 3	December 31, 2018 Total
ECL on financial assets at amortized cost				
Balance at January 1, 2018	$ 667	$ 31	$ 434	$ 1,132
Impairment loss (recovery) on financial assets				
Transfers (in) out to (from) Stage 1	(143)	-	-	(143)
Transfers (in) out to (from) Stage 2	-	143	-	143
Purchases and originations	315	-	-	315
Derecognitions and maturities	(161)	(60)	-	(221)
Remeasurements	160	50	-	210
Net write-off during the period	-	-	(384)	(384)
Recoveries	-	-	(50)	(50)
Balance at December 31, 2018	$ 838	$ 164	$ -	$ 1,002
ECL on financial assets at FVOCI				
Balance at January 1, 2018	$ 425	$ 30	$ -	$ 455
Impairment loss (recovery) on financial assets				
Purchases and originations	348	-	-	348
Derecognitions and maturities	(173)	(30)	-	(203)
Remeasurements	(116)	-	-	(116)
Balance at December 31, 2018	$ 484	$ -	$ -	$ 484

The following table presents the credit risk exposure of loans measured at amortized cost as at December 31, 2019 and subject to impairment assessment under IFRS 9. Risk ratings were based on internal ratings as at December 31, 2019.

				December 31, 2019
(Thousands of dollars)	Stage 1	Stage 2	Stage 3	Total
Low Risk	$ 1,249,888	$ -	$ -	$ **1,249,888**
Medium Risk	710,004	-	-	**710,004**
High Risk	-	16,053	-	**16,053**
Not Rated	10,203	-	-	**10,203**
Total	**$ 1,970,095**	**$ 16,053**	**$ -**	**$ 1,986,148**

				December 31, 2018
(Thousands of dollars)	Stage 1	Stage 2	Stage 3	Total
Low Risk	$ 1,362,893	$ -	$ -	$ 1,362,893
Medium Risk	543,465	-	-	543,465
High Risk	-	9,719	-	9,719
Not Rated	6,426	-	-	6,426
Total	$ 1,912,784	$ 9,719	$ -	$ 1,922,503

Forward looking macroeconomic variables

The PD, LGD, and EAD inputs are used to estimates Stage 1 and 2 credit loss allowances are modelled based on macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in expected credit loss calculation includes a projection of all relevant macroeconomic variables used in the models for the forecast period. Depending on their usage in the models, macroeconomic variables are projected at a country, province or more granular level.

11. Held for segregation and discontinuing operations

Following approval by Central 1's Board of Directors on November 21, 2019, Central 1 submitted a segregation plan to B.C. Financial Services Authority (BCFSA) (formerly, the Financial Institutions Commission of British Columbia) to legally segregate the B.C. and Ontario MLPs into contractual trusts by December 31, 2020. Central 1 received BCFSA's acceptance of the segregation plan in December 2019 and commenced extensive member engagement in early 2020.

The planned transfer of assets and liabilities related to the MLP into contractual trusts has been accounted for in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. There is no measurement impact upon the classification of assets and liabilities related to the MLP as held for segregation in accordance with IFRS 5. At December 31, 2019, the operations of the MLP segment were excluded from the results from continuing operations. Financial information relating to the MLP operations are presented in Note 31 for "Segment Information" and with some additional details as given below:

a. Profit from discontinuing operations

(Thousands of dollars)	December 31, 2019	December 31, 2018
Net financial income including impairment on financial assets	$ 36,835	$ 23,620
Non-financial income (expense)	(528)	477
Net financial and non-financial income	36,307	24,097
Non-financial expense	8,795	10,617
Profit before income taxes	27,512	13,480
Income tax expense	4,129	2,398
Income tax benefit related to dividend accrued	(4,129)	(2,398)
Profit from discontinuing operations	$ 27,512	$ 13,480

b. MLP assets held for segregation

(Thousands of dollars)	December 31, 2019
Cash	$ 2,748
Securities	8,185,772
Other assets	403
MLP assets held for segregation	$ 8,188,923

c. MLP liabilities held for segregation

(Thousands of dollars)	December 31, 2019
Deposits	$ 7,788,430
Other liabilities	71
MLP liabilities held for segregation	$ 7,788,501

d. Cash flow from (used in) discontinuing operations

(Thousands of dollars)	December 31, 2019	December 31, 2018
Net cash from (used in) operating activites	$ (131,534)	$ 178,370
Net cash used in financing activities	(3,668)	(59,683)
Net cash from (used in) discontinuing operations for the year	$ (135,202)	$ 118,687

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12. Property and equipment

(Thousands of dollars)	Land and Building	IT Equipment	Fixtures	Total
Cost				
Balance at January 1, 2019	**$ 17,133**	**$ 17,169**	**$ 16,988**	**$ 51,290**
ROU assets on initial adoption of IFRS 16	**6,477**	**463**	**-**	**6,940**
Transfers	**128**	**-**	**-**	**128**
Acquisitions	**-**	**901**	**3,760**	**4,661**
Disposals	**-**	**(6,008)**	**(45)**	**(6,053)**
Balance at December 31, 2019	**$ 23,738**	**$ 12,525**	**$ 20,703**	**$ 56,966**
Balance at January 1, 2018	$ 17,133	$ 16,065	$ 18,440	$ 51,638
Acquisitions	-	1,117	451	1,568
Disposals	-	(13)	(1,903)	(1,916)
Balance at December 31, 2018	$ 17,133	$ 17,169	$ 16,988	$ 51,290
Depreciation				
Balance at January 1, 2019	**$ 10,783**	**$ 12,044**	**$ 9,016**	**$ 31,843**
ROU assets	**330**	**229**	**-**	**559**
Depreciation	**590**	**1,163**	**1,474**	**3,227**
Disposals	**-**	**(4,843)**	**(46)**	**(4,889)**
Balance at December 31, 2019	**$ 11,703**	**$ 8,593**	**$ 10,444**	**$ 30,740**
Balance at January 1, 2018	$ 10,189	$ 10,993	$ 9,334	$ 30,516
Depreciation	594	1,064	1,585	3,243
Disposals	-	(13)	(1,903)	(1,916)
Balance at December 31, 2018	$ 10,783	$ 12,044	$ 9,016	$ 31,843
Carrying value				
Balance at December 31, 2019	**$ 12,035**	**$ 3,932**	**$ 10,259**	**$ 26,226**
Balance at December 31, 2018	$ 6,350	$ 5,125	$ 7,972	$ 19,447

13. Intangible assets

(Thousands of dollars)		Externally Acquired		Internally Developed		Total
Cost						
Balance at January 1, 2019	**$**	**33,760**	**$**	**19,326**	**$**	**53,086**
Acquisitions		**42**		**16,808**		**16,850**
Impairment loss		**-**		**(4,261)**		**(4,261)**
Disposals		**(165)**		**-**		**(165)**
Balance at December 31, 2019	**$**	**33,637**	**$**	**31,873**	**$**	**65,510**
Balance at January 1, 2018	$	33,857	$	15,747	$	49,604
Acquisitions		30		3,579		3,609
Disposals		(127)		-		(127)
Balance at December 31, 2018	$	33,760	$	19,326	$	53,086
Amortization and impairment losses						
Balance at January 1, 2019	**$**	**16,197**	**$**	**12,230**	**$**	**28,427**
Amortization		**3,140**		**1,731**		**4,871**
Impairment loss		**-**		**(1,341)**		**(1,341)**
Disposals		**(125)**		**-**		**(125)**
Balance at December 31, 2019	**$**	**19,212**	**$**	**12,620**	**$**	**31,832**
Balance at January 1, 2018	$	12,779	$	2,160	$	14,939
Amortization		3,545		1,228		4,773
Impairment loss		-		8,842		8,842
Disposals		(127)		-		(127)
Balance at December 31, 2018	$	16,197	$	12,230	$	28,427
Carrying value						
Balance at December 31, 2019	**$**	**14,425**	**$**	**19,253**	**$**	**33,678**
Balance December 31, 2018	$	17,563	$	7,096	$	24,659

There was no reversal of impairment losses recognized as at December 31, 2019 and December 31, 2018.

14. Deferred tax assets and liabilities

(Thousands of dollars)	December 31, 2018	Recognized in profit or loss	Recognized in OCI	December 31, 2019
Deferred tax assets				
Employee future benefits	$ 3,799	$ 62	$ 173	**$ 4,034**
Equity interest in affiliates	474	236	-	**710**
Unused tax losses	19,315	(13,678)	(1,946)	**3,691**
Other	117	1,205	-	**1,322**
Total deferred tax assets	23,705	(12,175)	(1,773)	**9,757**
Deferred tax liabilities				
Financial instruments	(9,061)	8,482	-	**(579)**
Property and equipment	(5,406)	1,107	-	**(4,299)**
Employee future benefits	(1,693)	(58)	(1)	**(1,752)**
Equity interest in affiliates	(3,003)	(607)	(60)	**(3,670)**
Other	(253)	(117)	-	**(370)**
Total deferred tax liabilities	(19,416)	8,807	(61)	**(10,670)**
Net deferred tax assets (liabilities)[1]	$ 4,289	$ (3,368)	$ (1,834)	**$ (913)**

[1] Deferred tax assets and liabilities are assessed by legal entity and presented on a net basis on the Statement of Financial Position.

(Thousands of dollars)	December 31, 2017	Recognized in profit or loss	Recognized in OCI	December 31, 2018
Deferred tax assets				
Financial instruments	$ (842)	$ 842	$ -	$ -
Employee future benefits	3,803	(4)	-	3,799
Equity interest in affiliates	874	(612)	212	474
Unused tax losses	11,059	7,766	490	19,315
Other	(279)	396	-	117
Total deferred tax assets	14,615	8,388	702	23,705
Deferred tax liabilities				
Financial instruments	(13,698)	3,907	730	(9,061)
Property and equipment	(6,697)	1,291	-	(5,406)
Employee future benefits	(447)	(601)	(645)	(1,693)
Equity interest in affiliates	(2,158)	(739)	(106)	(3,003)
Other	-	(253)	-	(253)
Total deferred tax liabilities	(23,000)	3,605	(21)	(19,416)
Net deferred tax assets (liabilities)[1]	$ (8,385)	$ 11,993	$ 681	$ 4,289

[1] Deferred tax assets and liabilities are assessed by legal entity and presented on a net basis on the Statement of Financial Position.

15. Investments in affiliates

The ownership interest and carrying values of Central 1's investments in affiliates are as follows:

	(% of direct ownership outstanding)		(Thousands of dollars)	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
The CUMIS Group Limited	**27 %**	27 %	**$ 15,907**	$ 16,705
CU CUMIS Wealth Holdings LP	**35 %**	35 %	**42,048**	42,656
189286 Canada Inc.	**52 %**	52 %	**18,860**	15,972
Agility Forex Ltd.	**28 %**	28 %	**1,281**	1,628
			$ 78,096	$ 76,961

The Co-operators Group Limited acquired the insurance operations of The CUMIS Group Limited (CUMIS), an affiliate of Central 1. This transaction closed on March 31, 2018 resulting in Central 1 recognizing a gain of $26.4 million on its Consolidated Statements of Profit for the year ended December 31, 2018. Subsequent to the closing of the transaction, Central 1 still holds 27.0% ownership interest in CUMIS and continues to apply the equity method to account for its investment in CUMIS.

On April 1, 2018, the transaction to combine the businesses of Credential Financial Inc. (CFI), Qtrade Canada Inc. (Qtrade), and Northwest & Ethical Investments LP (NEI) was closed to form Aviso Wealth Inc (Aviso). At the closing of this transaction, Aviso is 100% owned by Aviso Wealth LP which was formed as a limited partnership between Desjardins Financial Holdings Inc. and CU CUMIS Wealth Holdings LP (Holdings LP), each a 50.0% partner. Before the formation of Aviso, Central 1 held 26.0% direct ownership in each of CFI and NEI and 13.5% indirect ownership in CFI through CUMIS. When Aviso was formed, Central 1 transferred its direct investments in CFI and NEI in exchange for a 34.68% direct ownership in Holdings LP. As a 50.0% shareholder of CFI, CUMIS also transferred its investment in CFI in exchange for a 33.3% direct ownership in Holdings LP, of which Central 1 indirectly holds 9.0% through CUMIS. This transaction resulted in Central 1 recognizing a gain of $37.4 million for the year ended December 31, 2018. Central 1 exercises significant influence over Holdings LP and thus uses the equity method to account for its investment in Holdings LP.

On January 31, 2018, Interac group completed its restructuring and formed Interac Corp. of which Central 1 directly owns 0.9% and indirectly owns 3.8% through its investment in 189286 Canada Inc (189286). This restructuring has resulted in Central 1 recognizing a $19.3 million gain on Central 1's Consolidated Statements of Profit during the first quarter of 2018, of which $4.0 million was from its direct ownership and $15.3 million from its indirect ownership in Interac Corp. through 189286.

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. During the quarter ended June 30, 2019, 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.

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16. Other assets

(Thousands of dollars)	December 31, 2019		December 31, 2018	
Investment property	$	**872**	$	1,108
Prepaid expenses		**10,226**		10,665
Post-employment benefits		**3,343**		3,058
Accounts receivable and other		**8,849**		11,136
	$	**23,290**	$	25,967

Contract balances

(Thousands of dollars)	December 31, 2019		January 1, 2018	
Receivables arising from contracts with customers				
Trade receivables	$	**7,884**	$	9,677
Contract assets		**738**		1,284
Total contract assets	$	**8,622**	$	10,961
Total contract liabilities	$	**4,929**	$	3,297

Investment property

(Thousands of dollars)	December 31, 2019		December 31, 2018	
Carrying value, beginning balance	$	**1,108**	$	1,216
Transfers (see Note 12)		**(128)**		-
Depreciation		**(108)**		(108)
Carrying value, ending balance	$	**872**	$	1,108
Fair value	$	**2,754**	$	2,471

Investment property comprises of spaces leased to third parties and Central 1 earns rental income on its investment property. The terms of existing lease agreements range between one and ten years. The lessees do not have an option to purchase the property on the expiry of the lease period.

The fair value of Central 1's investment property has been arrived at based on the internal and external market information of similar properties at the end of each reporting period.

17. Deposits

(Thousands of dollars)		December 31, 2019		December 31, 2018
Deposits designated as FVTPL				
Due within three months	$	**68,021**	$	551,048
Due after three months and within one year		**482,082**		1,698,918
Due after one year and within five years		**441,482**		4,450,854
		991,585		6,700,820
Accrued interest		**8,452**		48,373
Amortized cost	$	**1,000,037**	$	6,749,193
Fair value	$	**1,001,562**	$	6,697,026
Deposits held at amortized cost				
Due on demand	$	**1,524,881**	$	1,421,721
Due within three months		**850,346**		906,640
Due after three months and within one year		**684,544**		638,720
Due after one year and within five years		**135,882**		1,300,688
		3,195,653		4,267,769
Accrued interest		**5,135**		8,570
Amortized cost	$	**3,200,788**	$	4,276,339
Total carrying value	$	**4,202,350**	$	10,973,365

Deposits held for segregation

(Thousands of dollars)		December 31, 2019
Deposits designated as FVTPL		
Due within three months	$	**605,450**
Due after three months and within one year		**2,193,031**
Due after one year and within five years		**3,215,836**
		6,014,317
Accrued interest		**40,822**
Amortized cost	$	**6,055,139**
Fair value	$	**6,048,733**
Deposits held at amortized cost		
Due within three months	$	**417,344**
Due after three months and within one year		**117,363**
Due after one year and within five years		**1,201,402**
		1,736,109
Accrued interest		**3,588**
Amortized cost	$	**1,739,697**
Total carrying value (Note 11)	$	**7,788,430**

18. Obligations related to securities sold short

(Thousands of dollars)		December 31, 2019		December 31, 2018
Amortized cost	$	**66,927**	$	137,618
Fair value	$	**67,547**	$	139,371

19. Debt securities issued

(Thousands of dollars)		December 31, 2019		December 31, 2018
Amounts				
Due within three months	$	**892,441**	$	663,701
Due after three months and within one year		**39,235**		49,621
Due after one year and within five years		**1,147,089**		1,246,518
		2,078,765		1,959,840
Accrued interest		**5,973**		5,551
Amortized cost		**2,084,738**		1,965,391
Fair value hedge adjustment[1]		**(1,262)**		(7,346)
Carrying value	$	**2,083,476**	$	1,958,045

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

At December 31, 2019, a par value of $533.3 million was borrowed under the short-term commercial paper facility (December 31,2018 - $714.8 million) and a par value of $1.6 billion was borrowed under the medium-term note facility (December 31,2018 - $1.3 billion).

On December 6, 2019, Central 1 issued $300.0 million principal amount of Series 17 medium-term fixed rate notes due March 1, 2024. The notes bear interest at a fixed rate of $2.584%, payable semi-annually on June 6 and December 6 of each year, commencing June 6, 2020.

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

On November 1, 2017 Central 1 issued $500.0 million principal amount of Series 15 medium-term fixed rate notes due November 7, 2022. The notes bear interest at a fixed rate of 2.60%, payable semi-annually on May 7 and November 7 of each year, commencing May 7, 2018.

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

Central 1 has secured $200.0 million of unsecured letter of credit facilities with various financial institutions. The unsecured facilities rank equally with the outstanding notes and deposits. At December 31, 2019 and December 31, 2018, the amounts outstanding were $103.1 million and $96.0 million respectively.

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20. Obligations under the Canada Mortgage Bond Program

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

(Thousands of dollars)	December 31, 2019	December 31, 2018
Amounts		
Due within one year	$ **450,945**	$ 267,092
Due after one year and within five years	**468,432**	779,356
	919,377	1,046,448
Accrued interest	**380**	565
Amortized cost	$ **919,757**	$ 1,047,013
Fair value	$ **919,086**	$ 1,040,493

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

(Thousands of dollars)	December 31, 2019	December 31, 2018
FVTPL		
Total reinvestment assets under the Canada Mortgage Bond Program (see Note 7)	$ **566,854**	$ 580,457
Assets recognized as securities	**233,829**	433,677
Fair value	$ **800,683**	$ 1,014,134
Amortized cost		
Total reinvestment assets under the Canada Mortgage Bond Program (see Note 7)	$ **120,099**	$ -
Assets recognized in loans	**-**	30,643
Total underlying assets designated	$ **920,782**	$ 1,044,777

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21. Subordinated liabilities

(Thousands of dollars)	December 31, 2019	December 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	**(895)**	(1,231)
Accrued interest	**1,352**	2,423
Amortized cost	**$ 221,457**	$ 422,192

On July 6, 2016, Central 1 issued $21.0 million principal amount of Series 5 subordinated notes due July 6, 2026. The notes bear interest at a floating rate based on the 90-day Bankers' Acceptance rate plus 10 basis points, payable quarterly until July 6, 2021. Central 1 has the option to redeem the outstanding notes in whole or in part on or after July 6, 2021.

On October 14, 2016, Central 1 issued $200.0 million principal amount of Series 6 subordinated notes due October 14, 2026. The notes bear interest at a fixed rate of 3.06%, payable semi-annually, until, but excluding October 14, 2021, and thereafter at a floating rate based on the 90-day Bankers' Acceptance rate plus 198 basis points, payable quarterly. Central 1 has the option to redeem the notes on or after October 14, 2021.

Central 1 exercised the option to fully redeem $200.0 million principal amount of Series 4 subordinated notes on April 25, 2019.

22. Change in liabilities arising from financing activities

			Non-cash changes		
(Thousands of dollars)	December 31, 2018	Cash flow	Fair value	Other	December 31, 2019
Debt securities issued	$ 1,958,045	$ 118,925	$ 6,084	$ 422	**$ 2,083,476**
Obligations under the CMB Program	1,040,493	(127,009)	5,848	(246)	**919,086**
Subordinated liabilities	422,192	(199,665)	-	(1,070)	**221,457**
Dividends payable	13,807	(13,807)	-	27,512	**27,512**
Finance Lease[1]	1,178	(298)	-	5,724	**6,604**
	$ 3,435,715	$ (221,854)	$ 11,932	$ 32,342	**$ 3,258,135**

[1] IFRS 16 Adjustment, refer to Note 5

			Non-cash changes		
(Thousands of dollars)	December 31, 2017	Cash flow	Fair value	Other	December 31, 2018
Debt securities issued	$ 2,178,650	$ (220,947)	$ -	$ 342	$ 1,958,045
Obligations under the CMB Program	1,190,108	(150,080)	380	85	1,040,493
Subordinated liabilities	421,765	-	-	427	422,192
Securities under repurchase agreements	500,472	(119,438)	-	19	381,053
Dividends payable	18,129	(18,129)	-	13,807	13,807
	$ 4,309,124	$ (508,594)	$ 380	$ 14,680	$ 3,815,590

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23. Other liabilities

(Thousands of dollars)		December 31, 2019		December 31, 2018
Post-employment benefits (see Note 30)	**$**	**16,476**	$	15,361
Short-term employee benefits		**11,523**		8,506
Dividends payable (see Note 24)		**27,512**		13,807
Finance Leases		**6,604**		1,178
Provisions for unpaid claims*		**1,680**		1,713
Accounts payable and other		**33,428**		30,038
	$	**97,223**	$	70,603

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

24. 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 MLP together with all declared and unpaid dividends. Any surplus, after the distribution to the holders of Class F shares, shall be distributed rateably and proportionally among the holders of Class A, B, C, D, and E shares according to the number of shares held at that time. The amount paid to a member in respect of each Class E share held by that member shall not exceed $100 per Class E share.

(Thousands of shares)	December 31, 2019	December 31, 2018
Number of shares issued		
Class A – credit unions		
Balance at beginning of period	**43,359**	428,101
Issued during the period	**-**	13
Redeemed during the period	**-**	(384,755)
Balance at end of period	**43,359**	43,359
Class B – co-operatives		
Balance at beginning and end of period	**5**	5
Class C – other		
Balance at beginning and end of period	**7**	7
Class E – credit unions		
Balance at beginning of period	**2,154**	3,051
Redeemed during the period	**-**	(897)
Balance at end of period	**2,154**	2,154
Class F - credit unions		
Balance at beginning of period	**386,547**	-
Issued during the period	**10,139**	448,949
Redeemed during the period	**-**	(62,402)
Balance at end of period	**396,686**	386,547
Number of treasury shares		
Treasury shares - Class E		
Balance at beginning of period	**(264)**	(44)
Reacquired during the period	**-**	(220)
Balance at end of period	**(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. For the November in-cycle share call, Central 1 issued $8.9 million Class F shares with a price of $1 per share.

In addition to in-cycle share calls, 1.1 million shares were also 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. During the year ended December 31, 2019, 0.1 million shares were issued to a new Class A member.

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(Thousands of dollars)		December 31, 2019		December 31, 2018
Amount of share capital outstanding				
Outstanding $1 par value shares				
Class A – credit unions	**$**	**43,359**	$	43,359
Class B – cooperatives		**5**		5
Class C – other		**7**		7
Class F - credit unions		**396,686**		386,547
Outstanding $0.01 par value shares				
Class E – credit unions		**21**		21
	$	**440,078**	$	429,939
Amount of treasury shares				
Treasury shares		**(2)**		(2)
Balance at end of period	**$**	**440,076**	$	429,937

The dividend amounts are as follows:

(Thousands of dollars)		December 31, 2019		December 31, 2018
Dividend payable, balance at beginning of period	**$**	**13,807**	$	18,129
Declared during the period[1]		**27,512**		13,807
Paid during the period		**(13,807)**		(18,129)
Dividend payable, balance at end of period	**$**	**27,512**	$	13,807

[1] Starting 2018, dividends for all classes of shares will only be accrued once declared by Central 1's Board of Directors.

25. Gain on disposal of financial instruments

(Thousands of dollars)		December 31, 2019		December 31, 2018
Continuing operations				
Realized gain (loss) on securities as at FVTPL	**$**	**20,799**	$	(13,531)
Realized gain on securities as at FVOCI		**8,570**		1,568
Realized gain on derivative instruments		**1,894**		13,739
Realized gain on loans as at FVTPL		**7**		-
Realized gain (loss) on deposits designated as at FVTPL		**(504)**		596
Realized gain (loss) on obligations related to securities sold short		**(3,812)**		1,614
	$	**26,954**	$	3,986

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26. Change in fair value of financial instruments

(Thousands of dollars)	December 31, 2019	December 31, 2018
Continuing operations		
Securities as at FVTPL	**$ 18,895**	$ 20,688
Loans as at FVTPL	**479**	(41)
Activities under the Canada Mortgage Bond Program		
Reinvestment assets	**3,016**	(22)
Derivative instruments	**(5,770)**	(8,753)
Obligations under the Canada Mortgage Bond Program	**(5,848)**	(380)
Derivative instruments	**(4,287)**	(9,550)
Financial liabilities as at FVTPL		
Deposits designated as at FVTPL	**(6,840)**	(7,020)
Obligations related to securities sold short	**1,133**	(2,068)
	$ 778	$ (7,146)

27. Non-financial income and gains from system affiliates

			December 31, 2019
(Thousands of dollars)	Revenue arising from contracts with customers	Revenue arising from other sources	Total
Continuing operations			
Wholesale Financial Services			
Lending fees	$ 10,431	$ -	**$ 10,431**
Securitization fees	8,006	-	**8,006**
Foreign exchange income	-	7,820	**7,820**
Other	5,756	767	**6,523**
Digital & Payment Services			
Payment processing and other fees	60,997	-	**60,997**
Direct banking fees	34,388	-	**34,388**
System Affiliates			
Equity interest in affiliates	-	(818)	**(818)**
Income from investees	-	2,643	**2,643**
Other			
Membership dues	2,449	-	**2,449**
Other	3,109	-	**3,109**
	$ 125,136	$ 10,412	**$ 135,548**

			December 31, 2018
(Thousands of dollars)	Revenue arising from contracts with customers	Revenue arising from other sources	Total
Continuing operations			
Wholesale Financial Services			
Lending fees	$ 7,879	$ -	$ 7,879
Securitization fees	7,717	-	7,717
Foreign exchange income	-	7,254	7,254
Other	6,301	1,748	8,049
Digital & Payment Services			
Payment processing and other fees	61,597	-	61,597
Direct banking fees	32,114	-	32,114
System Affiliates			
Equity interest in affiliates	-	(2,710)	(2,710)
Income from investees	-	3,779	3,779
Gains from system affiliates[1]	-	83,158	83,158
Other			
Membership dues	11,951	-	11,951
Other	3,346	-	3,346
	$ 130,905	$ 93,229	$ 224,134

[1] Gains from system affiliates were generated from the 2018 transactions surrounding our equity investees. Refer to Note 15 for details.
Certain comparative figures have been reclassified to conform with the current period's presentation.

28. Other administrative expenses

(Thousands of dollars)	December 31, 2019	December 31, 2018
Continuing operations		
Cost of sales and services	**$ 10,281**	$ 15,083
Cost of payments processing	**18,324**	16,888
Management information systems	**23,997**	24,211
Professional fees	**37,887**	33,484
Flow through membership dues	**-**	6,097
Business development projects	**663**	980
Other	**11,551**	7,318
	$ 102,703	$ 104,061

29. Provision for income tax

Income tax reported in the Consolidated Financial Statements are as follows:

(Thousands of dollars)	December 31, 2019	December 31, 2018
Continuing operations		
Current income tax expense (recovery)	$ (4,273)	$ 104
Deferred income tax expense	3,368	2,394
Provision for income tax expense (recovery) in the statement of profit	(905)	2,498
Provision for income tax expense in the statement of OCI	893	80
Total provision for income tax expense (recovery) from continuing operations	(12)	2,578
Income tax benefit related to Class E share redemption	$ -	$ (14,806)

Central 1's effective tax rate differs from the amount that would be computed by applying the federal and provincial statutory rates of 26.9% (December 31, 2018 – 27.0%). The following table presents the effective tax rate from continuing operations.

	December 31, 2019	December 31, 2018
Continuing operations		
Combined federal and provincial statutory income tax rates	26.9 %	27.0 %
Credit union deduction	(9.5) %	(9.6) %
Tax credits	0.0 %	(0.3) %
Gain from system affiliates	0.0 %	(9.5) %
Non-capital loss in subsidiary recognized in the year	(34.5) %	0.0 %
Rate differential on equity interests in affiliates	(0.1) %	(0.7) %
Change in estimated future tax rates on deferred tax balances	0.0 %	2.9 %
Other	1.5 %	6.4 %
Effective income tax rate	(15.7) %	3.4 %

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30. Post-employment benefits

Central 1 provides various registered retirement plans for employees including defined benefit plans and defined contribution plans. A non-registered supplemental pension plan is also provided to eligible employees whose registered pension plan benefits are limited by the Income Tax Act. In addition to providing retirement plans, Central 1 also funds a non-pension retiree benefits plan for eligible employees

(a) Defined benefit plans

Subject to eligibility requirements, employees of Central 1 may be eligible to participate in one of the following defined benefit plans which are no longer available for new employees.

- The defined benefit plan under the B.C. Credit Union Employees' Pension Plan, which is a multi-employer plan governed by a Board of Trustees; and
- The single-employer defined benefit plan administered by Central 1 for certain Ontario-based employees.

The defined benefit pension plans are contributory and provide pension benefits based on the employee's years of service and average earnings for a limited period prior to retirement. The plan is a multi-employer contributory defined benefit pension plan governed by a 12-member Board of Trustees. The Board of Trustees is responsible for overseeing the management of the plan, including investment of the assets and administration of the benefits. Central 1 is one of several employers participating in the 1.75% Division of the B.C. Credit Union Employees' Pension Plan.

Every three years, an actuarial valuation is performed to assess the financial position of the multi-employer plan, the adequacy of the funding level, and to determine the present value of accrued pension benefits and recommended plan contributions based on projections of the employees' average compensation levels at retirement. The most recent actuarial valuation for the multi-employer plan, which was conducted as at December 31, 2018, indicated a going concern actuarial excess of $31.6 million for the 1.75% Division (December 31, 2015 - $25.1 million, unfunded liability) and a solvency deficiency of $99.5 million (December 31, 2015 - $123.0 million). Considering the funding and solvency status of the plan as at December 31, 2018, the recommended minimum required employer contribution rate remains the same at 14.80% starting from January 1, 2020.

As this is a multi-employer plan, the assets and liabilities are pooled and the actuary does not determine an individual employer's own unfunded liability. It is not possible to determine the portion of the deficit related to Central 1. The next actuarial valuation for the multi-employer plan should be performed no later than as at December 31, 2021 with results available in 2022.

The defined benefit pension option under the B.C. Credit Union Employees' Pension Plan is subject to the provisions under Pension Benefits Standards Act (the Act) regulated by the BCFSA. The Act prescribes that, with respect to a solvency deficiency, amortization payments must be made over a period not exceeding five years from the review date that established the solvency deficiency.

The single-employer plan is registered under the Ontario Pension Benefits Act and administered by Central 1 which is responsible over matters affecting the benefit entitlements earned by plan members and beneficiaries. As at December 31, 2016, the actuary reported that the single-employer plan had an excess of plan assets over actuarial liabilities for accrued pension benefits of $3.9 million. The solvency valuation indicated that the value of assets exceeds the actuarial liabilities by $1.6 million. Since both the going-concern excess surplus and the solvency surplus exceed the estimated employer normal cost contributions payable, Central 1 is prohibited from making contributions under the defined benefit component until the date of the next valuation. The next actuarial valuation is expected to be performed no later than December 31, 2019, with the results available in 2020.

Details of the single-employer defined benefit plan, as determined by the plan actuary as at year-end are as follows:

(Thousands of dollars)	December 31, 2019	December 31, 2018
Defined benefit obligation	**$ (15,043)**	$ (13,408)
Fair value of plan assets	**18,386**	16,466
Net defined benefit asset	**$ 3,343**	$ 3,058
Defined benefit obligation		
Defined benefit obligation, beginning of year	**$ (13,408)**	$ (13,914)
Current service costs	**(164)**	(167)
Employee contributions	**(53)**	(51)
Interest cost on accrued benefit obligation	**(521)**	(486)
Benefit payments	**537**	505
Actuarial gain (loss)	**(1,434)**	705
Defined benefit obligation, end of year	**$ (15,043)**	$ (13,408)
Fair value of plan assets		
Plan assets, beginning of year	**$ 16,466**	$ 16,999
Employer contributions	**10**	-
Employee contributions	**53**	51
Interest income on plan assets	**633**	587
Excess (shortfall) of actual returns on plan assets, excluding interest income	**1,799**	(601)
Benefit payments	**(537)**	(505)
Administration costs (other than costs from managing plan assets)	**(38)**	(65)
Plan assets, end of year	**$ 18,386**	$ 16,466

(Thousands of dollars)	December 31, 2019	December 31, 2018
Expense recognized in profit or loss		
Current service costs	**$ 164**	$ 167
Administration costs (other than costs from managing plan assets)	**38**	65
Interest cost on accrued benefit obligation	**521**	486
Interest income on plan assets	**(633)**	(587)
	$ 90	$ 131

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(Thousands of dollars)		December 31, 2019		December 31, 2018
Amounts recognized in other comprehensive income (OCI)				
Actuarial gain (loss) on defined benefit obligation	$	(1,434)	$	705
Actuarial gain (loss) on plan assets, excluding interest income		1,799		(601)
	$	365	$	104

	December 31, 2019	December 31, 2018
Actuarial assumptions used to determine defined benefit expense		
Weighted average discount rate on benefit obligation	3.90%	3.50%
Weighted average salary escalation	2.85%	2.85%
Expected return on plan assets	3.10%	3.90%
Actuarial assumptions used to determine accumulated benefit obligation		
Weighted average discount rate on benefit obligation	3.70%	3.25%
Weighted average salary escalation	2.85%	2.85%
Expected return on plan assets	3.00%	3.70%

Sensitivity of assumptions

Key economic assumptions used in measuring the accumulated benefit obligations and related expenses for the defined benefit option are outlined in the table below. The sensitivity analysis provided is hypothetical as changes in assumptions may not be linear and the sensitivities in each key variable have been calculated independently of the other key variables.

(Thousands of dollars)		Accumulated benefit obligation		2019 expense
Assumed discount rate				
Impact of 1% increase	$	1,736	$	24
Impact of 1% decrease	$	(2,161)	$	(34)
Weighted average salary escalation				
Impact of 1% increase	$	(461)	$	23
Impact of 1% decrease	$	408	$	(20)

(b) Defined contribution plans

Subject to eligibility requirements, employees of Central 1 may be eligible to participate in one of the following defined contribution plans.

- The money purchase option under the B.C. Credit Union Employees' Pension Plan, which is a multi-employer plan governed by a Board of Trustees;
- The single-employer money purchase option administered by Central 1 operated for Ontario employees; and
- The group registered retirement savings plan under the B.C. Central 1 Retirement Savings Plan (group RRSP).

Contributions for defined contribution plan and expense for group RRSP included in the Consolidated Statements of Profit were $2.6 million (December 31, 2018 - $2.5 million).

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(c) Retiree non-pension benefits

In addition to the base retirement plans, Central 1 provides post-retirement benefits consisting of extended health, Medical Services Plan, dental and life insurance premiums to employees that qualify.

Details of the unfunded non-pension retirement benefit program, as determined by the program actuary as at year-end, are as follows:

(Thousands of dollars)	December 31, 2019	December 31, 2018
Defined benefit obligation & net defined benefit liability	$ (11,825)	$ (10,722)
Defined benefit obligation		
Defined benefit obligation, beginning of year	$ (10,722)	$ (17,413)
Past service costs	-	3,589
Current service costs	(114)	(278)
Interest cost of accrued benefit obligation	(420)	(593)
Benefits payments	498	516
Actuarial liability experience gain	33	2,173
Actuarial liability demographic assumptions gain	-	496
Actuarial liability financial assumptions gain (loss)	(1,100)	788
Defined benefit obligation, end of year	$ (11,825)	$ (10,722)

(Thousands of dollars)	December 31, 2019	December 31, 2018
Expense recognized in profit or loss		
Past service costs	$ -	$ (3,589)
Current service costs	114	278
Interest cost on accrued benefit obligation	420	593
	$ 534	$ (2,718)
Amounts recognized in OCI		
Actuarial gain (loss) on obligation	$ (1,067)	$ 3,457

	December 31, 2019	December 31, 2018
Actuarial assumptions used to determine retiree non-pension benefit expense		
Weighted average discount rate on benefit obligation	3.00%	4.00%
Actuarial assumptions used to determine accumulated benefit obligation		
Weighted average discount rate on benefit obligation	3.00%	4.00%
Health care cost trend assumptions		
Health care cost trend rate on benefit obligation	7.00%	7.50%
Ultimate trend rate on benefit obligation	2.00%	5.00%
Year that the rate reaches the ultimate trend rate	2039	2024

Sensitivity of assumptions

Key economic assumptions used in measuring the accumulated benefit obligations and related expenses for non-pension retiree benefits are outlined in the table below. The sensitivity analysis provided is hypothetical as changes in assumptions may not be linear and the sensitivities in each key variable have been calculated independently of the other key variables.

(Thousands of dollars)		Accumulated benefit obligation		2019 expense
Assumed discount rate				
Impact of 1% increase	$	1,148	$	8
Impact of 1% decrease	$	(1,348)	$	(10)
Assumed overall health care cost trend rate				
Impact of 1% increase	$	172	$	6
Impact of 1% decrease	$	147	$	(5)

(d) Non-registered supplemental pension plan

Central 1 also offers supplemental pension retirement benefits to employees who meet the requirements.

Details of the unfunded supplemental pension plan, as determined by the plan actuary as at year-end, are as follows:

(Thousands of dollars)		December 31, 2019		December 31, 2018
Defined benefit obligation	$	(4,918)	$	(4,864)
Fair value of plan assets		267		225
Net defined benefit liability	$	(4,651)	$	(4,639)

(Thousands of dollars)		December 31, 2019		December 31, 2018
Defined benefit obligation				
Defined benefit obligation, beginning of year	$	(4,864)	$	(5,273)
Current service costs		(72)		(54)
Interest cost on accrued benefit obligation		(188)		(180)
Benefits paid		495		485
Actuarial gain (loss)		(289)		158
Defined benefit obligation, end of year	$	(4,918)	$	(4,864)
Expense recognized in profit or loss				
Current service costs	$	72	$	54
Interest cost on accrued benefit obligation		188		180
	$	260	$	234
Amounts recognized in OCI				
Actuarial gain (loss) on defined benefit obligation	$	(289)	$	158

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	December 31, 2019	December 31, 2018
Actuarial assumptions used to determine retiree non-pension benefit expense		
Weighted average salary escalation	**3.00%**	3.00%
Weighted average discount rate on benefit obligation	**3.00%**	4.00%
Actuarial assumptions used to determine accumulated benefit obligation		
Weighted average salary escalation	**3.00%**	3.00%
Weighted average discount rate on benefit obligation	**3.00%**	4.00%

Sensitivity of assumptions

(Thousands of dollars)	Accumulated benefit obligation
Assumed discount rate	
Impact of 1% increase	**$ (319)**
Impact of 1% decrease	**$ 337**

(e) Risks

The defined benefit plans and other post-employment plans expose Central 1 to a number of risks. The pension obligation is mainly impacted by the changes to the discount rate, longevity of plan members and future inflation levels. The pension plan assets are subject to market risk resulting from changes in interest rate, foreign exchange rates and credit and swap spreads.

31. 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.

Following the approval by Central 1's Board in November 2019 to submit an segregation plan to BCFSA to legally segregate the B.C. and Ontario MLPs into contractual trusts by December 31, 2020, and the acceptance of BCFSA of the segregation plan in December 2019, the MLP segment were classified as MLP assets and liabilities held for segregation on the Consolidated Statement of Financial Position. For futher details, refer to Note 11.

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.

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. In November 2019, Forge Retail platform became available for use. The development of the Forge Commercial Banking products is currently underway.

Payments operations encompass processing paper items and electronic transactions such as automated funds transfer and bill payments on behalf of member credit unions. The payment processing solutions under the *PaymentStream™* brand are secure and reliable tools that allow financial and corporate-sector clients to complete a variety of digital, paper and remittance transactions. They also provide cash management services, including automated funds transfers, bill payments and wire transfers.

System Affiliates

This segment includes Central 1's investments in equity shares of 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 15 and 38.

Other

The Other segment comprises enterprise level activities which are not allocated to business segments described above, including the costs of implementing certain strategic initiatives, other than ones included in the key segments of business above, and exploring strategic alternatives to support credit unions in the future.

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. 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.

Basis of presentation

The accounting policies used to prepare these segments are consistent with those followed in the preparation of Central 1's Consolidated Financial Statements as described in Note 3.

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.

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Results by segment

The following table summarizes the segment results for the year ended December 31, 2019:

(Thousands of dollars)	Mandatory Liquidity Pool*	Wholesale Financial Services	Digital & Payment Services	System Affliates	Other	Total
Net financial income (expense) including impairment on financial assets	$ 36,835	$ 72,441	$ (405)	$ (1,323)	$ -	$ **107,548**
Non-financial income	(528)	32,780	95,385	1,825	5,558	**135,020**
Net financial and non-financial income	36,307	105,221	94,980	502	5,558	**242,568**
Non-financial expense	8,795	43,876	129,482	23	27,125	**209,301**
Profit (loss) before income taxes	27,512	61,345	(34,502)	479	(21,567)	**33,267**
Income tax expense (recovery)	-	12,551	(5,993)	(255)	(7,208)	**(905)**
Profit (loss)	**$ 27,512**	**$ 48,794**	**$ (28,509)**	**$ 734**	**$ (14,359)**	**$ 34,172**
Total assets at December 31, 2019	**$ 8,307,382**	**$ 9,351,966**	**$ 23,694**	**$ 124,035**	**$ 57,040**	**$ 17,864,117**
Total liabilities at December 31, 2019	**$ 7,816,013**	**$ 8,886,244**	**$ 10,336**	**$ 7,084**	**$ 31,202**	**$ 16,750,879**

* Total assets and liabilities of the MLP segment includes certain assets and liabilities that are not held for segregation.

The following table summarizes the segment results for the year ended December 31, 2018:

(Thousands of dollars)	Mandatory Liquidity Pool	Wholesale Financial Services	Digital & Payment Services	System Affliates	Other	Total
Net financial income (expense) including impairment on financial assets	$ 23,620	$ 36,673	$ (346)	(1,921)	$ -	$ 58,026
Non-financial income	477	30,899	93,711	84,227	15,297	224,611
Net financial and non-financial income	24,097	67,572	93,365	82,306	15,297	282,637
Non-financial expense	10,617	33,166	110,828	2,127	38,072	194,810
Profit (loss) before income taxes	13,480	34,406	(17,463)	- 80,179	(22,775)	87,827
Income tax expense (recovery)	-	6,239	(3,184)	10,975	(11,532)	2,498
Profit (loss)	$ 13,480	$ 28,167	$ (14,279)	69,204	$ (11,243)	$ 85,329
Total assets at December 31, 2018	$ 8,044,322	$ 8,665,349	$ 12,688	123,359	$ 61,451	$ 16,907,169
Total liabilities at December 31, 2018	$ 7,567,642	$ 8,244,485	$ (33,179)	11,818	$ $25,463	$ 15,816,229

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

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32. 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)		December 31, 2019		December 31, 2018
Commitments to extend credit	**$**	**4,332,028**	$	4,525,950
Guarantees				
Financial guarantees	**$**	**622,600**	$	480,000
Performance guarantees	**$**	**100,000**	$	210,000
Standby letters of credit	**$**	**219,787**	$	201,090
Future prepayment swap reinvestment commitment	**$**	**1,339,232**	$	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 December 31, 2019 are $10.7 million, $472.7 million and $108.4 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 December 31, 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 December 31, 2019.

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.

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(Thousands of dollars)	December 31, 2019	December 31, 2018
Assets pledged to Bank of Canada & Direct Clearing Organizations[1,2]	$ **53,524**	$ 51,328
Assets pledged in relation to:		
Derivative financial instrument transactions	**8,169**	27,342
Securities lending	**15,922**	11,369
Obligations under the Canada Mortgage Bond Program	**202,193**	433,677
Reinvestment assets under the Canada Mortgage Bond Program	**686,953**	580,457
Securities under repurchase agreements	**643,526**	381,053
	$ **1,610,287**	$ 1,485,226

[1] Includes assets pledged as collateral for LVTS activities.
[2] Central 1 also acts as a Group Clearer on behalf of certain other credit union centrals. These centrals are required to pledge securities in respect of their LVTS settlements. Central 1 administers the collateral on their behalf. These securities are not included in the pledge assets.

33. Leases

Policy applicable from January 1, 2019

Right-of-use assets (ROU)

ROU assets relate to leased office premises and IT equipment and photocopiers that are presented within property and equipment in Note 12.

(Thousands of dollars)	December 31, 2019
Balance at January 1, 2019	$ **6,902**
Depreciation charge for the year	**(559)**
Additions	**38**
Balance at December 31, 2019	$ **6,381**

Amounts recognised in the Consolidated Statement of Profit for the year ended 2019 are as follows:

(Thousands of dollars)	December 31, 2019
Interest expense on lease liabilities	$ **265**
Depreciation charge for the year	$ **559**
Expense related to short term and low value leases	$ **385**

Total cash outflow for leases in 2019 is presented in the Statement of Cash Flows. Maturity analysis of lease liabilities as at December 31, 2019 is presented in the Note 35 along with the maturity analysis of other liabilities.

Policy applicable prior to January 1, 2019

Finance leases

Finance leases relate to computer equipment with lease terms of 36 months. Central 1 has options to purchase the equipment for a nominal amount upon completion of an optional 13-month lease extension. Central 1 has the right to return leased assets at the conclusion of the lease term or continue to rent them at the same monthly rate on a month-to-month basis. Central 1's obligations under finance leases are secured by the lessor's title to the leased assets.

(Thousands of dollars)		December 31, 2018
Due within one year	$	561
Due after one year and within three years		209
	$	770

Operating leases

Future minimum operating lease commitments are as follows:

(Thousands of dollars)		December 31, 2018
Due within one year	$	647
Due after one year and within three years		2,150
Due after five years		3,292
	$	6,089

Total lease payments charged to profit for the year ended December 31, 2018 was $0.9 million.

34. Financial instruments – Fair value

Certain financial instruments are recognized in the Consolidated Statement of Financial Position at fair value. These include derivative instruments, securities, loans and deposits designated at FVTPL, obligations related to securities sold short, reinvestment assets and obligations 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 values are determined using valuation techniques include: loans and deposits designated at FVTPL, derivative instruments, equity investments, and securities within the CMB Program. 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 discounted cash flows, 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. The estimated fair value would increase (decrease) if:

- the expected cash flows were higher (lower);
- the risk-free rate were lower (higher);
- the price volatility of the underlying asset were higher (lower).

Level 3 financial assets includes $32.1 million of equity investment securities that are measured at cost which is an appropriate estimate of fair value at the end of 2019 as the most recent available information is not sufficient to measure fair value. There have been no changes in this amount in the periods presented.

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, deposits at FVTPL, obligation related to securities sold short, derivative instruments, 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 designated at FVTPL and equity investments in Cooperative entities, where inputs are unobservable, are classified as Level 3 in the hierarchy.

Transfers into and out of Levels 1, 2, and 3 occur when there are changes to the relevant inputs which are consistent with the characteristics of the asset or liability. Transfers are recognized at the end of the reporting period.

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

(Millions of dollars)	Level 1	Level 2	Level 3	Amounts at Fair Value	Amounts at Amortized Cost[1]	December 31, 2019 Total Carrying Value
Financial assets						
Cash	$ –	$ -	$ -	$ -	$ 48.9	**$ 48.9**
Deposits with regulated financial institutions[1]	–	-	-	-	4.9	**4.9**
Securities	–	6,244.8	47.3	6,292.1	-	**6,292.1**
Reinvestment assets under the CMB Program	–	687.0	-	687.0	-	**687.0**
Loans	–	-	17.3	17.3	1,981.9	**1,999.2**
Derivative assets	–	48.9	-	48.9	-	**48.9**
MLP assets held for segregation	–	8,185.8	-	8,185.8	2.7	**8,188.5**
Total financial assets	–	15,166.5	64.6	15,231.1	2,038.4	**17,269.5**
Financial liabilities						
Deposits	–	1,001.6	–	1,001.6	3,200.8	**4,202.4**
Debt securities issued	–	-	–	-	2,083.5	**2,083.5**
Obligations under the CMB Program	–	919.1	–	919.1	-	**919.1**
Subordinated liabilities	–	-	–	-	221.5	**221.5**
Obligations related to securities sold short	–	67.5	–	67.5	-	**67.5**
Securities under repurchase agreements	–	-	–	-	643.5	**643.5**
Derivative liabilities	–	52.2	–	52.2	-	**52.2**
MLP liabilities held for segregation	–	6,048.4	–	6,048.4	1,740.0	**7,788.4**
Finance Lease	–	-	–	-	6.6	**6.6**
Total financial liabilities	$ –	$ 8,088.8	$ –	$ 8,088.8	$ 7,895.9	**$ 15,984.7**

[1]Amounts carried at amortized cost include financial instruments classified as amortized cost or other financial liabilities.

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

(Millions of dollars)	Level 1	Level 2	Level 3	Amounts at Fair Value	Amounts at Amortized Cost[1]	December 31, 2018 Total Carrying Value
Financial assets	$ –	$ 13,910.8	$ 70.5	$ 13,981.3	$ $2,734.3	$ 16,715.6
Financial liabilities	$ –	$ 7,959.8	$ -	$ 7,959.8	$ 7,037.6	$ 14,997.4

[1]Amounts carried at amortized cost include financial instruments classified as amortized cost or other financial liabilities.

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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 December 31, 2018		Purchases		Disposals		Transfers		Changes in fair value of assets in profit or loss		Fair Value at December 31, 2019
Equity shares	$	48.1	$	0.4	$	(1.3)	$	-	$	0.1	**$**	**47.3**
Loans		22.4		-		(5.1)		-		-		**17.3**
Total financial assets	$	70.5	$	0.4	$	(6.4)	$	-	$	0.1	**$**	**64.6**

(Millions of dollars)		Fair Value at December 31, 2017		Fair value at Jan 1 2018[1]		Purchases		Transfers		Changes in fair value of assets in profit or loss		Fair Value at December 31, 2018
Equity shares	$	9.9	$	42.1	$	4.0	$	-	$	2.0	$	48.1
Loans		11.4		11.4		11.0		-		-		22.4
Total financial assets	$	21.3	$	53.5	$	15.0	$	-	$	2.0	$	70.5

[1] These amounts reflect certain reclassifications made upon adoption of IFRS 9.

The following table set out the fair value of on-balance sheet and derivative instruments of Central 1 using the valuation methods and assumptions. Fair values have not been attributed to assets and liabilities that are no considered financial instruments, such as property and equipment.

(Millions of dollars)	Fair Value December 31, 2019	Fair Value December 31, 2018	Carrying Value December 31, 2019	Carrying Value December 31, 2018
Assets				
Cash	**$ 48.9**	$ 811.4	**$ 48.9**	$ 811.4
Deposits with regulated financial institutions[1]	**4.9**	6.1	**4.9**	6.1
Securities FVTPL	**3,499.1**	8,672.8	**3,499.1**	8,672.8
Securities FVOCI	**2,793.0**	4,613.2	**2,793.0**	4,613.2
Loans[2]	**1,987.0**	1,939.2	**1,999.2**	1,939.2
Reinvestment assets under the CMB Program	**687.0**	580.5	**687.0**	580.5
Derivative assets	**48.9**	92.4	**48.9**	92.4
MLP assets held for segregation	**8,188.5**	-	**8,188.5**	-
Liabilities				
Deposits designated as FVTPL	**$ 1,001.6**	6,697.0	**$ 1,001.6**	6,697.0
Deposits held at amortized cost[1]	**3,200.5**	4,278.7	**3,200.8**	4,276.3
Obligations related to securities sold short	**67.5**	139.4	**67.5**	139.4
Derivative liabilities	**52.2**	82.9	**52.2**	82.9
Debt securities issued[1]	**2,089.4**	1,945.7	**2,083.5**	1,958.0
Obligations under the CMB Program	**919.1**	1,040.5	**919.1**	1,040.5
Subordinated liabilities[1]	**224.3**	420.3	**221.5**	422.2
Securities under repurchase agreements	**643.5**	381.1	**643.5**	381.1
MLP liabilities held for segregations	**7,792.4**	-	**7,788.4**	-
Finance Lease	**6.6**	1.2	**6.6**	1.2

[1] Where the carrying values are at cost, the fair value calculations for these instruments are based on Level 2 inputs.
[2] Where the carrying values are at cost, the fair value calculations for these instruments are based on Level 3 inputs.

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35. Financial instruments – Risk management

The nature of Central 1's holdings of financial instruments exposes Central 1 to credit and counterparty, liquidity and funding, and market risk.

(a) Credit and counterparty risk

Credit and counterparty risk is the risk of loss or opportunity cost resulting from the default or failure of a borrower, endorser, guarantor, or issuer to fulfil their financial obligations as they come due. Central 1 incurs credit and counterparty risk through loans, payment services, and the purchasing of credit instruments, and entering into contracts with counterparties in return for bilateral value-exchange of services. Central 1 has direct control over the types and amounts of credit and counterparty risk it accepts.

In managing credit and counterparty risk exposure, Central 1 establishes policies and procedures that include:

- application of safe and sound, stringent lending and/or funding criteria to all credit exposures prior to their acquisition;
- clearly defined management and policy limits on the amount, types, and concentrations of credit risk;
- regular evaluation and assessment of existing credit risk exposures and allowances; and
- continuous monitoring of credit exposures so as to promptly identify deteriorating situations and take appropriate action.

Information regarding Central 1's key exposure to credit and counterparty risk is provided in Notes 7 and 8.

(b) Liquidity and funding risk

Liquidity and funding risk is the risk for Central 1 to have the potential inability to meet cash flows obligations in a timely manner due to an inability to generate sufficient cash from assets or funding sources. Central 1 also provides liquidity support to the credit union network in British Columbia and Ontario and considers the liquidity and funding risks for each of its member credit unions as part of Central 1's risk. Sound liquidity management by Central 1 ensures the safety of credit union members' deposits and the health of the credit union network.

Central 1's liquidity management framework is designed to ensure that reliable and cost-effective funding sources are available to satisfy current and prospective commitments of Central 1 and its member credit unions.

Diversification of funding sources provides flexibility and minimizes concentration risk. It is a crucial component of Central 1's overall liquidity management strategy.

Central 1 has established a comprehensive liquidity risk framework that is comprised of:

- a robust risk governance framework;
- investment strategies focused on maintaining sufficient unencumbered highly liquid assets to meet cash flow requirements in normal and stressed conditions;
- access to diversified funding sources – member deposits and capital markets;
- monitoring of credit union network liquidity, performance and financial health;
- an enterprise Contingency Funding Plan; and
- frequent measurement of portfolio liquidity.

Information regarding Central 1's high quality liquid securities is provided in Note 7. Information regarding Central 1's derivative liabilities, funding liabilities and off-balance sheet guarantees, commitments and contingencies is provided in Notes 9, 17, 18, 19, 20, 21, and 32.

Market risk

Market risk is the risk of loss resulting from unfavourable movements in interest rates, foreign exchange rates, and asset prices/yields. The level of market risk to which Central 1 is exposed varies depending on market conditions, future price and market movements and the composition of Central 1's investment, lending and derivative portfolios.

Central 1 manages its exposure to market risk through a range of governance and management processes. Central 1's policies detail the measurement of market risk and establish exposure limits in keeping with Central 1's overall risk appetite. Central 1 independently monitors exposure against limits, investigates any breaches and reports them at the appropriate level for review and action. This management framework is complemented by a series of rigorous stress test scenarios that are run on a regular basis.

Interest rate and credit spread risk

Central 1 regularly monitors its exposure to interest rate changes in order to assess their potential effects on financial margin. Central 1 Corporate Risk Management Policy defines exposure limits in relation to 1-day 99% Value at Risk (VaR). VaR provides a dollar estimate of loss due to 1-day movements in market risk factors at the 99% level. Interest rate VaR includes movements in sovereign and swap interest rate curves. Credit Spread VaR measures the loss associated with changes in credit spreads within the portfolio – CMB, Provincial, Bank and Corporate spreads. Central 1's exposure was largely due to potential movements in credit spreads, specifically widening credit spreads.

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Foreign exchange rate risk

Central 1 has assets and liabilities denominated in several major currencies and buys foreign currencies from, and sells these currencies to its member credit unions. The risk associated with changing foreign currency values is managed by applying limits on the amounts (short or long positions) that can be maintained in the various currencies, and by utilizing derivative exchange contracts to lessen the impact of on-balance sheet positions and through VaR management limits.

Information regarding Central 1's exposure to foreign currency risk is provided in Note 36.

Contractual repricing or maturity dates of financial instruments

The majority of the obligations is incurred in Central 1's role as a liquidity manager and consists of member deposits or short- and long-term notes. Central 1 also has contractual obligations to CHT under the CMB Program. Deposits in the mandatory liquidity pool are either required to be renewed with Central 1 by regulation or contract or are anticipated to be re-deposited with Central 1.

The following table summarizes the carrying amounts by the earlier of the contractual repricing or maturity dates for the following financial instruments:

(Millions of dollars)	Floating	Within 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Not Rate Sensitive	Total
Assets							
Cash	$ 48.9	$ -	$ -	$ -	$ -	$ -	$ 48.9
Deposits with regulated financial institutions	-	-	1.5	3.2	-	0.2	4.9
Securities FVTPL	-	112.5	514.4	2,756.7	50.0	65.5	3,499.1
Securities FVOCI	-	802.6	237.9	1,594.2	141.3	17.0	2,793.0
Loans	-	1,110.3	220.5	533.6	44.1	90.7	1,999.2
Reinvestment assets under the CMB Program	-	171.8	198.5	316.3	-	0.4	687.0
Derivative assets	-	-	-	-	-	48.9	48.9
MLP assets held for segregation	2.7	911.6	990.2	6,204.6	50.0	29.8	8,188.9
Lease assets[1]	-	-	-	-	-	9.2	9.2
Other assets	-	-	-	-	-	585.0	585.0
	$ 51.6	$ 3,108.8	$ 2,163.0	$ 11,408.6	$ 285.4	$ 846.7	$ 17,864.1
Liabilities							
Deposits	$ 1,525.6	$ 917.6	$ 1,166.6	$ 577.4	$ -	$ 15.1	$ 4,202.3
Debt securities issued	-	910.3	23.0	1,150.0	-	0.2	2,083.5
Obligations under the CMB Program	-	4.8	474.0	440.9	-	(0.6)	919.1
Subordinated liabilities	-	-	-	-	221.0	0.5	221.5
Obligations related to securities sold short	-	-	-	50.1	16.6	0.8	67.5
Securities under repurchase agreements	-	643.0	-	-	-	0.5	643.5
Derivative liabilities	-	-	-	-	-	52.2	52.2
MLP liabilities held for segregation	-	1,022.8	2,310.4	4,417.2	-	38.1	7,788.5
Lease liabilities[1]	-	0.3	0.3	1.7	6.9	-	9.2
Other liabilities	-	-	-	-	-	763.6	763.6
Equity	-	-	-	-	-	1,113.2	1,113.2
	$ 1,525.6	$ 3,498.8	$ 3,974.3	$ 6,637.3	$ 244.5	$ 1,983.6	$ 17,864.1
On-balance sheet gap	$ (1,474.0)	(390.0)	$ (1,811.3)	$ 4,771.3	$ 40.9	$ (1,136.9)	$ –
Off-balance sheet gap	$ (1,736.8)	(406.2)	$ 657.8	$ 1,375.9	$ 109.3	$ -	$ –
Total Gap – December 31, 2019	**$ (3,210.8)**	**$ (796.2)**	**$ (1,153.5)**	**$ 6,147.2**	**$ 150.2**	**$ (1,136.9)**	**$ –**
Total Gap – December 31, 2018	$ (3,282.3)	$ (557.4)	$ (455.2)	$ 5,465.7	$ 359.3	$ (1,530.1)	$ –

[1] Lease liabilities are presented in terms of outstanding lease commitments rather than at Net Present Value.

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36. Financial instruments – Foreign currency exposure

Central 1 has various financial instruments denominated in foreign currencies. The details of Central 1's financial instruments, which are denominated in U.S. dollars, are as follows:

(Thousands of U.S. dollars)	December 31, 2019	December 31, 2018
Assets		
Cash	**$ 17,356**	$ 26,572
Securities	**324,439**	726,979
Loans	**656**	7,460
Derivative assets	**-**	764
MLP assets held for segregation	**433,270**	-
Other	**50**	50
	775,771	761,825
Liabilities		
Deposits	**418,054**	787,420
Derivatives liabilities	**46**	3,000
MLP liabilities held for segregation	**422,508**	-
Other	**4,262**	6,371
	844,870	796,791
On-balance sheet exposure	**(69,099)**	(34,966)
Off-balance sheet exposure	**98,501**	53,439
	$ 29,402	$ 18,473

Central 1 does not have significant exposure to other foreign currencies.

37. 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.

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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 $43.4 million will provide regulatory capital to support strategic and operational initiatives over Central 1's planning cycle.

Regulatory capital

Central 1's capital levels are regulated under provincial regulations administered by the BCFSA. 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.

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 December 31, 2019 and December 31, 2018.

38. 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.

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)	December 31, 2019	December 31, 2018
Mortgage loans outstanding at the end of the year	**$ 1,179**	$ 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.

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The following table presents the compensation to key management personnel:

(Thousands of dollars)	December 31, 2019	December 31, 2018
Salaries and short-term employee benefits	$ 4,447	$ 3,416
Incentive	1,232	675
Post-employment benefits	262	203
Termination benefits	576	727
	$ 6,517	$ 5,021

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 Central 1 during the period.

Transactions with Board of Directors

The following table presents the aggregate remuneration received by Central 1's Board of Directors:

(Thousands of dollars)	December 31, 2019	December 31, 2018
Total remuneration	$ 740	$ 648

Significant subsidiaries

(% of direct ownership outstanding)	December 31, 2019	December 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.

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)	December 31, 2019	December 31, 2018
The Co-operators Group Limited	21%	21%
Canadian Credit Union Association	59%	59%

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Credit Unions in British Columbia and Ontario

Central Credit Unions

Central 1 Credit Union
Stabilization Central Credit Union of British Columbia

Credit Unions By Province

B.C. Region

Aldergrove Credit Union
BlueShore Financial Credit Union
Bulkley Valley Credit Union
CCEC Credit Union
Coastal Community Credit Union
Columbia Valley Credit Union
Community Savings Credit Union
Compensation Employees Credit Union
Creston & District Credit Union
East Kootenay Community Credit Union
First Credit Union
First West Credit Union
Grand Forks District Savings Credit Union
Greater Vancouver Community Credit Union
Gulf and Fraser Fishermen's Credit Union
Heritage Credit Union
Integris Credit Union
Interior Savings Credit Union
Khalsa Credit Union
Kootenay Savings Credit Union
Ladysmith & District Credit Union
Lake View Credit Union
Mount Lehman Credit Union
Nelson & District Credit Union
North Peace Savings and Credit Union
Northern Savings Credit Union
Osoyoos Credit Union
Prospera Credit Union
Revelstoke Credit Union
Salmon Arm Savings and Credit Union
Sharons Credit Union
Spruce Credit Union
Summerland & District Credit Union
Sunshine Coast Credit Union
Union Bay Credit Union
Vancouver Firefighters Credit Union
V.P. Credit Union
Vancouver City Savings Credit Union
VantageOne Credit Union
Westminster Savings Credit Union
Williams Lake and District Credit Union

Ontario Region

Adjala Credit Union Limited
Airline Financial Credit Union Limited
Alterna Savings and Credit Union Limited
Bay Credit Union Limited
Buduchnist Credit Union Limited
Comtech Fire Credit Union Limited
Copperfin Credit Union Limited
Creative Arts Savings & Credit Union Limited
DUCA Financial Services Credit Union Limited
Dundalk District Credit Union Limited
Education Credit Union Limited
Equity Credit Union Inc.
Estonian (Toronto) Credit Union Limited
Finnish Credit Union Limited
FirstOntario Credit Union Limited
Fort York Community Credit Union Limited
Frontline Financial Credit Union Limited
Ganaraska Credit Union Limited
Golden Horseshoe Credit Union Limited
Healthcare & Municipal Employees' Credit Union Limited
Health Care Credit Union Limited
Heritage Savings & Credit Union Incorporated
Italian Canadian Savings & Credit Union Limited
Kawartha Credit Union Limited
Kindred Credit Union Limited
Kingston Community Credit Union Limited
Korean Catholic Church Credit Union Limited
Korean (Toronto) Credit Union Limited
L.I.U.N.A. Local 183 Credit Union Limited
Libro Credit Union Limited
Luminus Financial Services & Credit Union Limited
Mainstreet Credit Union Limited
Member Savings Credit Union Limited
Meridian Credit Union Limited
Momentum Credit Union Limited
Motor City Community Credit Union Limited
Moya Financial Credit Union Limited
Northern Credit Union Limited
Ontario Educational Credit Union Limited
Ontario Provincial Police Association Credit Union Limited
Oshawa Community Credit Union Limited
Ottawa Police Credit Union Limited
PACE Savings & Credit Union Limited
Parama Credit Union Limited
Pathwise Credit Union Limited
PenFinancial Credit Union Limited
Quinte First Credit Union
Rapport Credit Union Limited
Resurrection Credit Union Limited
St. Stanislaus-St. Casimir's Polish Parishes Credit Union Limited
Smiths Falls Community Credit Union Limited
Southwest Regional Credit Union Limited
Sudbury Credit Union Limited
Taiwanese-Canadian Toronto Credit Union Limited
Talka Credit Union Limited
Tandia Financial Credit Union Limited
The Energy Credit Union Limited
The Police Credit Union Limited
Thorold Community Credit Union
Ukrainian Credit Union Limited
United Employees Credit Union Limited
Windsor Family Credit Union Limited
Your Credit Union Limited
Your Neighbourhood Credit Union Limited

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