

# Quarterly Report

For the First Quarter of 2020

## First Quarter 2020 Results

**First quarter 2020** consolidated financial results compared to the same period last year:

- Loss after tax of \$67.0 million, compared to profit after tax of \$25.1 million.
- Assets of \$18.5 billion, up 5.0 per cent from \$17.6 billion.
- Tier 1 capital ratio of 29.0 per cent, compared to 35.3 per cent.

Central 1 Credit Union's ('Central 1' or 'the organization') first quarter financial performance has been adversely affected by the monetary actions taken by central banks globally and the resultant repricing of risk premiums. The concern with the economic slowdown inflicted by the COVID-19 pandemic has driven a marked divergence between interest rates and credit spreads. Interest rates are at cyclical lows while credit spreads are elevated to levels not seen since the credit crisis of 2008.

As a primary liquidity provider to the credit union system, Central 1 manages its portfolio to ensure appropriate levels of liquidity to support the system during times of stress. Central 1 is focused on maintaining confidence in the system and committed to supporting members and clients.

*"Central 1 is focused on supporting our members and clients through this unprecedented time, ensuring the system's resilience and success now and through the months to come," said Mark Blucher, Central 1 President and CEO. "In mid-March, Central 1 enacted multiple elements of our Pandemic Response plan. We are unwavering in our focus and resolve in delivering critical and essential services; and continuing to provide innovative digital banking and payments products as our members and clients accelerate their digital transformation faster than ever."*

Central 1 has been powering financial institutions for more than 75 years. The organization has sustained success over the long-term, in part because of its unique place in the cooperative banking ecosystem and the ability to evolve its business. Central 1's scale, strength and expertise remain the source of its competitive advantage. The success of its members and clients, and the financial well-being of Canadians, continue to be Central 1's compass and purpose. Central 1 powers progress for more than 250 credit unions and other financial institutions, and by extension, more than five million customers from coast to coast.

The health and well-being of Central 1's employees, members, clients, and communities are a top priority. The organization is focused on continuing to maintain essential products and services, protecting essential business functions for the credit union system and clients.

Central 1 continues to monitor the impacts of a weaker economy and a lower rate environment on the credit union system. During the first quarter, Central 1 did not observe any unusual liquidity activities from the system. Prior to the World Health Organization's declaration that COVID-19 is a global pandemic and the Canadian government's domestic response, overall liquidity in the system was high relative to historic norms.

## Economic and Financial Markets Overview

The COVID-19 pandemic has had unprecedented impacts on the global economy. Its effects on human health are serious and worldwide, with many people having been infected. The measures required to contain the spread of the virus are also taking its toll economically as both large- and small-scale economic activities have been either shut down or scaled back tremendously. There have been significant resulting job losses and business and personal income has dropped sharply and suddenly and the shockwaves it has created have only just begun to reverberate throughout global economies. There is also great uncertainty as to how long the significant restrictive virus suppression measures put in place will last (in whole or in part), or if they may have to recommence once lifted. As such, governments around the world have also announced massive fiscal packages to help ease the burden on households and businesses as they suffer from the economic downturn. The long-term impacts of these suppression measures and fiscal packages cannot be measured or predicted at this time.

## First Quarter Consolidated Results



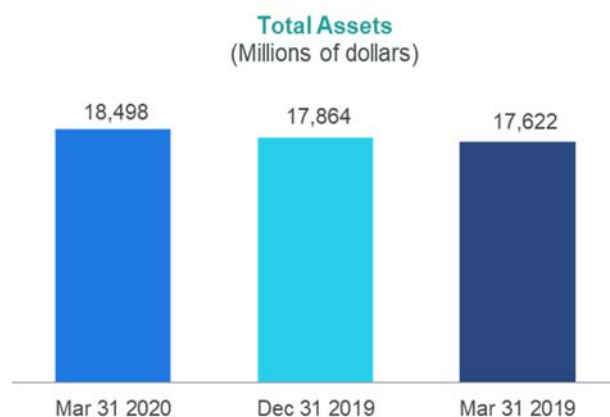
Overall, the extreme widening of credit spreads and rate cuts by the Bank of Canada (BoC) in reaction to the COVID-19 pandemic contributed to significant unrealized losses, leading to a loss after tax of \$67.0 million for the first quarter of 2020, compared to a profit after tax of \$25.1 million in the same period a year ago.

The Mandatory Liquidity Pool (MLP) reported a loss after tax of \$29.7 million for the first quarter of 2020, compared to a profit after tax of \$8.7 million in the same period last year. The result was primarily driven by a \$32.1 million increase in unrealized losses generated from the significant widening of credit spreads as concerns of an economic slowdown intensified due to the COVID-19 pandemic, and from the mark-to-market revaluation of deposits as a result of the 150 basis points worth of rate cuts by the BoC in March 2020. Interest margin also decreased by \$2.4 million as the portfolio was shifted into holding more short-term and highly liquid assets to ensure Central 1 is able to respond quickly and effectively to potential credit union needs.

Excluding the results from the MLP, Central 1's first quarter results saw a loss after tax of \$37.3 million, compared to a profit after tax of \$16.4 million in the same period a year ago. The decline originated from a \$42.2 million year-over-year increase in unrealized losses largely as a result of recent rate cuts by the BoC

and widening of credit spreads in relation to the COVID-19 pandemic. The deterioration in the macroeconomic environment as a result of the COVID-19 pandemic also led to a \$1.0 million increase in Central 1's expected credit loss (ECL) for the first quarter of 2020 compared to the same period last year. Non-financial income and non-financial expenses remained stable. Investments in strategic initiatives continued in the first quarter of 2020, consistent with the prior year and Central 1's long-term strategic plan, up \$7.3 million from the same period last year.

## Statement of Financial Position



Total assets at March 31, 2020 saw an increase of \$0.6 billion from December 31, 2019, resulting from credit unions holding more deposits with Central 1. In March 2020, \$400.0 million in medium-term notes matured. This maturity was largely funded in December 2019 by issuing \$300.0 million in medium-term notes.

Central 1 is currently well positioned to provide support to credit unions. The portfolio team actively increased the proportion of short term and cash assets at the beginning of the first quarter to maximize flexibility and responsiveness to any increased Central 1's liquidity needs. This reflected a combined increase of \$410.0 million in cash and liquid assets for both MLP and Treasury from December 31, 2019.

At the end of the first quarter, Central 1 took important steps to strengthen resilience for the credit union system. Central 1 accessed the capital markets on March 30, 2020 and raised \$150.0 million in a re-opening of its recent senior deposit note. The fundraising increases Central 1's ability to react swiftly in support of members and clients who are reviewing and employing liquidity strategies.

Commencing on April 2, 2020, Central 1 can employ the BoC's recently launched Commercial Paper Purchase Program to support the continuous functioning of financial markets. On April 28, 2020, Central 1 successfully completed a test to access the BoC's newly launched Standing Term Liquidity Facility. Access to these programs ensures Central 1 has a consistent and stable source of short-term market funding to support members and clients.

The organization is closely monitoring potential impacts to the credit union system and continuing to assess its access to all of the liquidity facilities announced by the BoC and the Canadian Mortgage and Housing Corporation. Central 1's priority is to support the credit union system as members and clients navigate these unprecedented times.

## **Treasury**

Treasury's (formerly, Wholesale Financial Services) net financial income declined \$55.8 million from the same period last year stemming from significant unrealized losses. While non-financial income was consistent, ECL increased \$1.0 million from the same period last year. The first quarter of 2020 saw a loss before tax of \$31.0 million compared to a profit before tax of \$23.8 million in the prior year. Despite significant unrealized losses, Treasury's cash and liquid assets at March 31, 2020 increased \$115.1 million from December 31, 2019, supported by growth in deposits.

The B.C. Financial Services Authority (BCFSA) relaxed regulatory constraints on borrowing to allow Central 1 greater flexibility to effectively respond and support credit unions during the COVID-19 pandemic. One of the measures, increasing Central 1's Treasury borrowing multiple from 15:1 to 18:1 as at March 23, 2020, provides Central 1 with approximately \$1.5 billion in additional borrowing capacity.

## **Digital & Payment Services**

Digital & Payment Services continued to invest in strategic initiatives in the first quarter of 2020, including the development of the Forge Digital Banking Platform (*Forge*) and payments modernization, with the amount invested being \$6.4 million higher than a year ago. Higher spending in strategic initiatives mainly contributed to an overall loss before tax of \$12.8 million compared to a loss before tax of \$4.0 million in the same period last year.

Central 1 continually monitors its Digital Banking and Payments platforms for performance and stability and recognizes a stable and enhanced digital banking platform is more important than ever to members, clients and their customers.

Central 1 is accelerating the development and implementation of our Forge Retail and Business suites. Central 1 also designed new digital banking tools for 175 clients, including the Canada Revenue Agency Direct Deposits via Financial Institutions program, designed to enable individuals and businesses with faster access to payments of important government support programs.

The organization is making good progress in advancing its payments strategy. Central 1 remains committed to continually enhancing its technologies and partnerships to ensure it is offering the most robust, cost-effective payments system – that is aligned to or exceeds Payments Canada and Interac requirements – and allows credit unions to innovate safely and efficiently.

## Mandatory Liquidity Pool

MLP's first quarter results were down \$47.6 million in net financial income. Widening credit spreads and mark-to-market revaluation of deposits as a result of the rate cuts by the BoC in March 2020 led to significant unrealized losses. Overall, MLP's loss before tax for the first quarter was \$36.0 million compared to a profit before tax of \$10.5 million in the first quarter of 2019.

In 2019, the Central 1 Board of Directors approved the submission of a plan to the BCFSA to legally segregate the B.C. and Ontario MLP by December 31, 2020. Central 1 received BCFSA's acceptance of the segregation plan in December 2019. The MLP is separately managed from Central 1's other business lines. The MLP is a liquidity reserve fund made up of B.C. and Ontario credit union deposits, as required by the *Financial Institutions Act* (British Columbia) or by contract, which are invested by Central 1 to provide liquidity for Central 1 credit unions members. Central 1 has seen growth in the mandatory deposits despite the economic upheaval caused by the COVID-19 pandemic, reflecting a \$294.9 million increase in MLP's cash and liquid assets at March 31, 2020 from December 31, 2019.

The regulatory environment in recent years has shifted towards ensuring MLP assets are creditor proof and bankruptcy remote. This requires segregating the MLP from Central 1's balance sheet to continue strengthening protection of the liquidity reserve fund managed by Central 1 on behalf of members. Under the segregation plan, Central 1 may continue to manage the funds for credit unions under terms established by the regulators and B.C. and Ontario member credit unions. Central 1 has started an extensive member engagement process which includes MLP Segregation Working Groups in B.C. and Ontario.

# Management's Discussion & Analysis

March 31, 2020

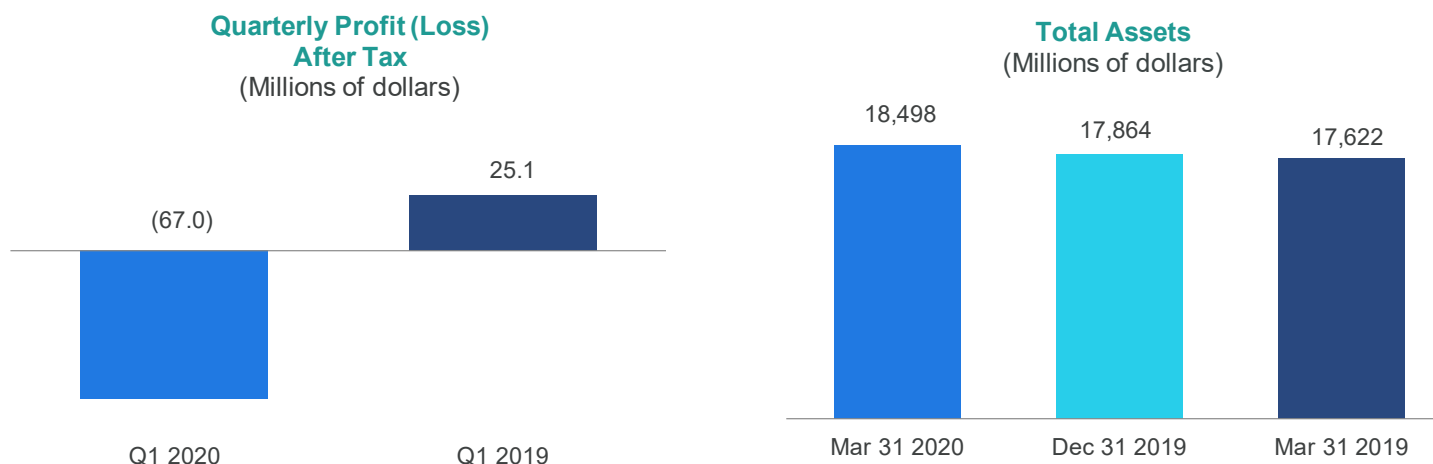
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In this Management's Discussion and Analysis (MD&A), unless the context otherwise requires, references to "Central 1", "we", "us" and "our" refer to Central 1 Credit Union and its subsidiaries. This MD&A is dated May 22, 2020. The financial information included in this MD&A should be read in conjunction with our Interim Consolidated Financial Statements for the periods ended March 31, 2020 and March 31, 2019 (Interim Consolidated Financial Statements), which were authorized for issue by the Board of Directors (the Board) on May 22, 2020. The results presented in this MD&A and in the Interim Consolidated Financial Statements are reported in Canadian dollars. Except as otherwise indicated, financial information included in this MD&A has been prepared in accordance with International Financial Reporting Standards (IFRS) as described in Note 2 of the Interim Consolidated Financial Statements. Additional information may be found on the System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com).

This MD&A also includes financial information about the credit union systems in British Columbia (B.C.) and Ontario. The B.C. credit union system is made up of all credit unions in B.C. except one credit union that has elected to become a federal credit union, while the Ontario credit union system is made up of only those credit unions that have elected to become our members. In the discussions presented in this report, the two provincial systems are individually referred to as the "British Columbia (B.C.) credit union system" or "B.C. system" and the "Ontario credit union system" or "Ontario system". Where the term "system" appears without regional designation, it refers to our total membership, encompassing credit unions in both provinces. Financial information for the B.C. system has been provided by the B.C. Financial Services Authority (BCFSA) and by the Financial Services Regulatory Authority for the Ontario system. The different provincial regulatory guidelines reduce the comparability of the information between the two systems. We have no means of verifying the accuracy of such information. This information is provided purely to assist the reader with understanding our results and should be read in the proper context. This financial information was prepared using the format and accounting principles developed by these regulators and are not fully consistent with IFRS. For instance, the net operating income reported in this MD&A is not equivalent to income from continuing operations under IFRS.

## Overall Performance



(Millions of dollars)	Mar 31 2020	For the three months ended		
		Mar 31 2019	Change	
Continuing operations				
Net financial income (expense), including impairment on financial assets	\$ (31.3)	\$ 23.4	\$	(54.7)
Non-financial income	32.3	33.9		(1.6)
Net financial and non-financial income	1.0	57.3		(56.3)
Non-financial expense	31.4	31.5		(0.1)
	(30.4)	25.8		(56.2)
Strategic initiatives	15.7	8.4		7.3
Income tax (recovery)	(8.8)	1.0		(9.8)
Profit (loss) after tax from continuing operations	\$ (37.3)	\$ 16.4	\$	(53.7)
Profit (loss) from discontinuing operations	\$ (29.7)	\$ 8.7	\$	(38.4)
Profit (loss) after tax	\$ (67.0)	\$ 25.1	\$	(92.1)

The 2019 results has been represented to reflect the presentation of discontinuing operations. For further details, please refer to Note 9 in our Notes to the Interim Consolidated Financial Statements.

Overall, our loss after tax for the first quarter of 2020 was \$67.0 million, compared to a profit after tax of \$25.1 million in the same period a year ago. First quarter financial performance has been adversely affected by the COVID-19 pandemic which led to three rate cuts by the Bank of Canada (BoC) and significant widening of credit spreads, resulting in significant unrealized losses.



## Continuing Operations

The first quarter results were negatively impacted by the BoC rate cuts in March 2020 and significant widening of credit spreads as a result of the impact from the COVID-19 pandemic which led to a \$42.2 million increase in unrealized losses from the same period last year. The first quarter results were also negatively impacted by an increase of \$1.0 million in our expected credit loss (ECL), reflective of the deterioration of the macroeconomic environment as a result of the COVID-19 pandemic. We saw stable non-financial income and non-financial expenses and investments in our strategic initiatives continued in the first quarter of 2020, consistent with last year and our long-term strategic plan, with the amount invested being \$7.3 million higher than the same period last year. The combined results saw an overall loss after tax of \$37.3 million in our first quarter compared to a \$16.4 million profit after tax in the same period a year ago.

## Discontinuing Operations

At March 31, 2020, the Mandatory Liquidity Pool (MLP) continues to be presented separately within the consolidated results following the approved segregation plan in 2019. The MLP reported a loss after tax of \$29.7 million for the first quarter of 2020, compared to a profit after tax of \$8.7 million in the same period last year, reflective of a \$32.1 million increase in unrealized losses generated from significant widening of credit spreads due to the COVID-19 pandemic and from the mark-to-market revaluation of deposits as a result of the rate cuts by the BoC during March 2020. Interest margin also decreased by \$2.4 million attributable to holding more short-term and highly liquid assets to ensure we are able to respond quickly and effectively to potential credit union needs. The lower interest margin was offset by higher foreign exchange income due to the stronger U.S. dollar.

	Mar 31 2020	For the three months ended	
		Mar 31 2019	Change
<b>Selected information</b>			
Return on average assets	-1.5%	0.6%	
Return on average equity	-24.9%	9.3%	
<b>Earnings per share (cents)<sup>(1)</sup></b>			
Basic/Diluted	(15.2)	5.8	(21.0)
Basic/Diluted from continuing operations	(8.5)	3.8	(12.3)
Basic/Diluted from discontinuing operations	(6.7)	2.0	(8.7)
<b>Weighted average shares outstanding (number of shares)</b>			
	440.1	430.0	10.1
<b>Average assets (millions of dollars)</b>			
	\$ 17,538.7	\$ 16,732.8	\$ 805.9

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

	Mar 31 2020	Dec 31 2019	As at Mar 31 2019
<b>Balance sheet</b> (millions of dollars)			
Total assets	\$ 18,497.8	\$ 17,864.1	\$ 17,621.6
<b>Regulatory ratios</b>			
Tier 1 capital ratio	29.0%	33.5%	35.3%
Provincial capital ratio	36.2%	42.1%	50.7%
Borrowing multiple	14.9:1	13.5:1	11.1:1
<b>Share Information</b> (thousands of dollars, unless otherwise indicated)			
Outstanding \$1 par value shares			
Class A - credit unions	\$ 43,359	\$ 43,359	\$ 43,359
Class B - cooperatives	\$ 5	\$ 5	\$ 5
Class C - other	\$ 7	\$ 7	\$ 7
Class F - credit unions	\$ 397,737	\$ 396,686	\$ 387,647
Outstanding \$0.01 par value shares with redemption value of \$100			
Class E - credit unions	\$ 21	\$ 21	\$ 21
Treasury shares	\$ (2)	\$ (2)	\$ (2)

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

The change in total assets correlates to the change in the size of our funding portfolios. The overall increase in total assets of \$0.6 billion from year-end was largely due to the strong growth in deposits, reflective of credit unions holding more short-term deposits to prepare for the uncertainty over the extent and duration from the impact of the COVID-19 pandemic.

Our provincial regulatory capital decreased due to the redemption of a \$200.0 million subordinated debt in early 2019 and a loss after tax of \$67.0 million in the first quarter of 2020. This lower capital balance coupled with an increase in total risk weighted assets (RWA), primarily due to an increase in total assets, resulted in a lower provincial capital ratio compared to a year ago. Tier 1 capital ratio declined primarily due to an increase in total RWA along with a decline in provincial regulatory capital due to a loss after tax of \$67.0 million. The borrowing multiple increased compared to the prior year-end as a result of a lower capital balance combined with the growth in mandatory and non-mandatory deposits. We were in compliance with all regulatory capital requirements as at the reporting periods ended March 31, 2020 and March 31, 2019.

## 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, the outlook for the Canadian economy and the provincial economies in which our member credit unions operate and the impacts of the COVID-19 pandemic. 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. The future outcomes that related to the forward-looking statements may be influenced by many factors and assumptions, including but not limited to: assumptions regarding general economic and market conditions; changes in government monetary, fiscal or economic policies; changes in currency and interest rates; the Canadian housing market; legislative and regulatory developments, including tax legislation and interpretation; failure of third parties to comply with their obligations to us; our ability to execute our strategic plans; critical accounting estimates and the effect of changes to accounting standards, rules and interpretations on these estimates; changes in competition; modifications to credit ratings; information technology and cyber security; developments in the technological environment and including assumptions set out under Economic Developments and Outlook below and elsewhere in this MD&A. 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, operational risks and risks and uncertainty from the impact of the COVID-19 pandemic.

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

Additional information about these and other factors can be found in the Factors That May Affect Future Results and Risk Review sections of our 2019 Annual Report.

## Economic Developments and Outlook

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

### Economic Environment



In the United States, the lockdown spurred by the COVID-19 pandemic has caused first quarter real gross domestic product (GDP) to contract 4.8 per cent, the first contraction since 2014. Second quarter estimates vary depending on the extent of the measures in place. Baseline estimates have a deep contraction of 30 per cent and upwards of 50 per cent. Consumer spending will take the biggest hit as people refrain from visiting physical retail locations in order to slow the spread of COVID-19. Tourism and transportation sectors have essentially ground to a halt and manufacturing is expected to contract as new orders drop and factories slow production as social distancing rules limit output. Agricultural and food processing is also impacted as farms struggle to bring in migrant workers and food processing plants shut down when outbreaks hit. Unemployment in the U.S. has been estimated to peak at 20 per cent, levels unseen since the Great Depression. Baseline scenarios have real GDP contracting 6.0 per cent for 2020 but if virus containment measures extend out through the summer and possibly into autumn, or are lifted but then are re-imposed, we would anticipate a contraction in GDP ranging from eight to 10 per cent.

Canada's economy has been significantly impacted in the first quarter, particularly those in the accommodations and food services, arts/entertainment/recreation, education and wholesale/retail industries as social distancing measures have essentially halted operations in those fields. Oil prices also decreased dramatically as global demand dropped significantly as a result of global lockdown measures, despite the deep cuts in output by OPEC+ nations. These combined effects have Central 1 Economics expecting first quarter real GDP to contract 10 per cent on an annualized basis followed by a 40 per cent contraction in the second quarter as the baseline scenario. Real GDP for the year is forecast to contract 7.8 per cent but could be greater if the economic recovery is slow and measures are extended, or the virus returns for a second wave and restrictive measures need to be reintroduced. Canada has already lost almost 3 million jobs as most service sectors have essentially shutdown. Unemployment is currently at 13 per cent, with the worst-case scenarios estimating unemployment of 20 per cent, reaching these levels by the end of the second quarter and potentially dragging further into the third quarter.

### Financial Markets

Financial markets around the world have been significantly impacted by the COVID-19 pandemic. With global economic activity expected to contract significantly, central banks around the world have responded, reducing interest rates sharply while also taking measures to support the financial markets through large-scale asset purchases as well as many other liquidity supporting measures. There is major uncertainty as to the duration and severity of the outbreak, severely affecting investment decisions. As such the value of riskier assets such as equities, emerging market assets, and corporate bonds are down sharply with volatility at very high levels. The outflows from risky assets to safer assets has resulted in a sharp drop in government bond yields and a rise of the U.S. dollar against the Canadian dollar. Central 1 Economics expects these yields to remain low, but to gradually and slowly rise as the economy recovers.

### Industry Regulation

The first quarter of 2020 saw unprecedented pace of change and short-term adjustments to the federal, B.C. and Ontario regulatory environments, as governments worked to manage the impacts of COVID-19 on individuals and businesses, and to equip financial institutions to play an essential role in helping Canadians weather the impacts of the pandemic. Key actions taken that relate to us included:

- BCFSa revised our MLP and Treasury borrowing multiples, to enable us to generate additional liquidity to assist credit unions with managing member demands. This was consistent with action the Office of the Superintendent of Financial Institutions took for federally regulated institutions.
- BCFSa agreed to allow B.C. credit unions to manage to supervisory liquidity ratios, and temporarily increased their commercial lending cap to 40 per cent.
- Credit unions, including Central 1, were deemed essential services by both the Province of B.C. and the Province of Ontario during the crisis.
- B.C. and Ontario credit unions were given permission to defer annual general meetings (AGM) beyond the legislated timeframe after their financial year-end. We chose to proceed with a virtual AGM. Voting closed on the AGM resolutions on May 5, 2020.

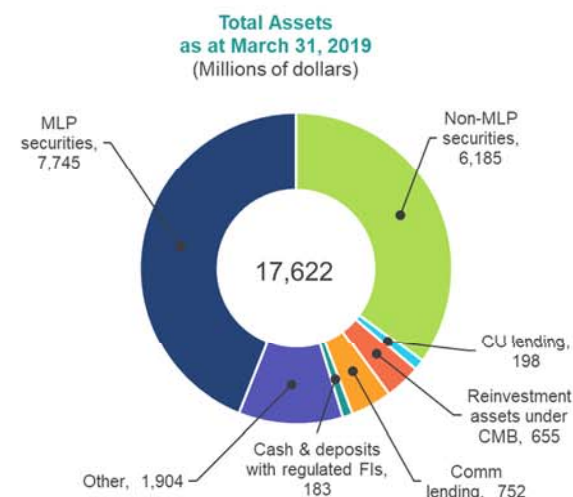
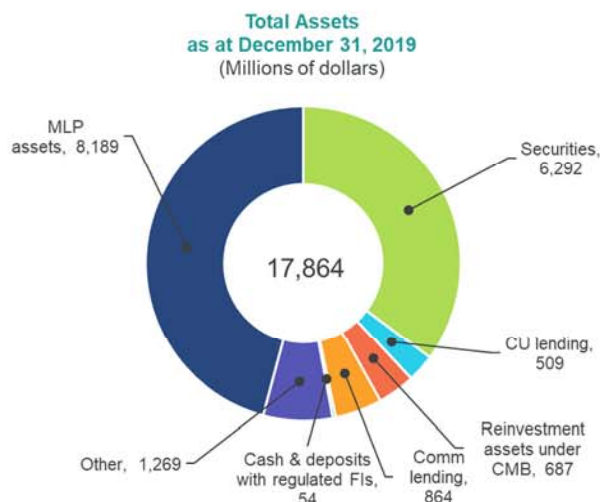
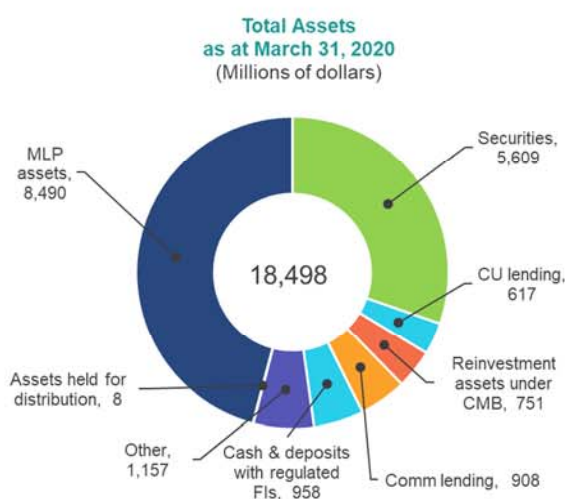
- Through the Canada Mortgage and Housing Corporation (CMHC), the Canadian federal government introduced the Insured Mortgage Purchase Program (IMPP), which enabled securitization of up to \$50.0 billion of insured mortgages, generating further liquidity options for financial institutions. We are engaging in this securitization alongside our credit union members.

Aside from the crisis caused by the COVID-19 pandemic, the B.C. government continued introducing regulations to enact changes made in 2019 to the *Financial Institutions Act* (FIA). To date, several new regulations have been approved, which primarily have been of a housekeeping nature. One key change enacted by regulation has been relaxation of the requirement to mail notices of meeting for AGMs, now allowing for electronic notification instead. This will result in cost savings for most credit unions, and is particularly significant for credit unions with large membership. Unfortunately, as the B.C. Ministry of Finance shifted focus to managing the impact of COVID-19, further work on FIA regulations was paused.

In Ontario, revisions to the *Credit Union and Caisses Populaires Act* were expected to be introduced in the spring 2020 legislative session, originally scheduled to commence in March 2020. This "business as usual" activity has been postponed as the Province of Ontario focuses on COVID-19 response measures and a truncated legislative session in respect of social-distancing requirements. Amendments to the *Mortgage Brokers, Lenders and Administrators Act* (MBLAA) have also been postponed until a return to "normal" legislative business at Queen's Park. As noted in the Q3 2019 report, Ontario's Ministry of Finance has indicated MBLAA amendments will contemplate registration exemptions for financial institutions with sufficient sophistication and regulatory oversight (for which we may qualify).

## Statement of Financial Position

### Total Assets

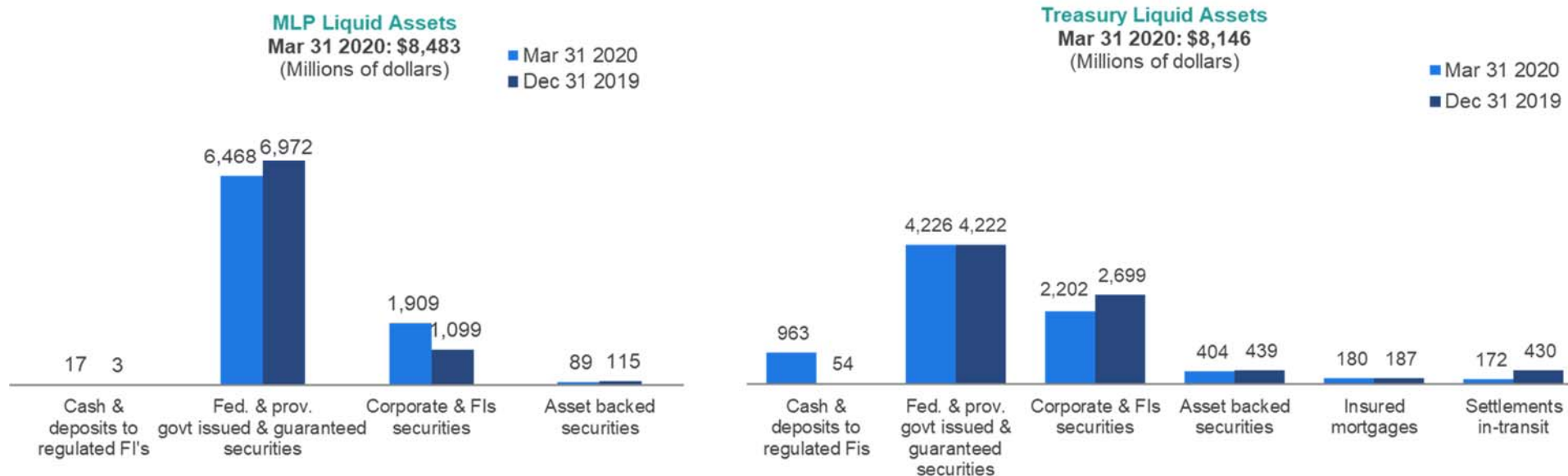


Total assets at March 31, 2020 saw an increase of \$0.6 billion from December 31, 2019, supported by the strong growth in our deposits, reflective of credit unions holding more short-term deposits. In March 2020, \$400.0 million in medium-term notes matured. This maturity was largely funded in December 2019 by issuing \$300.0 million in medium-term notes. In order to maximize the flexibility and responsiveness to any increased credit union liquidity needs during the COVID-19 pandemic, we re-opened the recently issued medium-term note at the end of March 2020 to raise an additional \$150.0 million.

At March 31, 2020, the assets and liabilities of the MLP segment were continued to be classified as MLP assets and liabilities held for segregation on our Interim Consolidated Statement of Financial Position following the approval from our Board in November 2019 of a plan to legally segregate MLP into contractual trusts.

At March 31, 2020, one of Central 1's subsidiaries' assets and liabilities were classified as held for distribution as a result of the planned distribution of the assets net of liabilities to its credit union shareholders by the end of 2020.

## Cash and Liquid Assets



# Management's Discussion and Analysis

As at May 22, 2020

Central 1 Credit Union | 9

Mar 31 2020  (Millions of dollars)	MLP**	Treasury					
	Liquid Assets	Liquid Assets	Securities Received as Collateral	Total Liquid Assets	Encumbered Assets	Unencumbered Assets*	
Cash and deposits with regulated financial institutions	\$ 17.3	\$ 962.7	\$ -	\$ 962.7	\$ -	\$ 962.7	
Federal and provincial government issued and guaranteed securities	6,468.2	3,530.2	695.5	4,225.7	1,731.5	2,494.2	
Corporate and financial institutions securities	1,909.3	2,201.5	-	2,201.5	12.2	2,189.3	
Asset backed securities	88.6	403.5	-	403.5	69.6	333.9	
Insured mortgages	-	180.4	-	180.4	70.3	110.1	
Settlements in-transit	-	172.3	-	172.3	-	172.3	
<b>Total</b>	<b>\$ 8,483.4</b>	<b>\$ 7,450.6</b>	<b>\$ 695.5</b>	<b>\$ 8,146.1</b>	<b>\$ 1,883.6</b>	<b>\$ 6,262.5</b>	

Dec 31 2019  (Millions of dollars)	MLP**	Treasury					
	Liquid Assets	Liquid Assets	Securities Received as Collateral	Total Liquid Assets	Encumbered Assets	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.



Mar 31 2019 (Millions of dollars)	MLP		Treasury				Encumbered Assets	Unencumbered Assets*
	Liquid Assets		Liquid Assets	Securities Received as Collateral	Total Liquid Assets			
Cash and deposits with regulated financial institutions	\$ -	\$	197.8	\$ -	\$ 197.8	\$	-	\$ 197.8
Federal and provincial government issued and guaranteed securities	6,931.5		3,288.1	962.9	4,251.0		1,618.4	2,632.6
Corporate and financial institutions securities	655.6		2,513.8	-	2,513.8		38.8	2,475.0
Asset backed securities	157.4		452.4	-	452.4		68.0	384.4
Insured mortgages	-		537.0	-	537.0		-	537.0
Settlements in-transit	350.7		386.3	-	386.3		-	386.3
Total	\$ 8,095.2	\$	7,375.4	\$ 962.9	\$ 8,338.3	\$	1,725.2	\$ 6,613.1

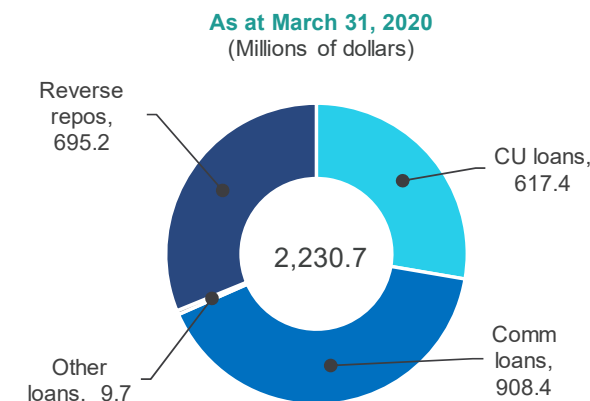
\*Unencumbered assets include high quality liquid assets that are marketable, can be pledged as security for borrowings, and can be converted to cash in a time frame that meets our liquidity and funding requirements.

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 by maintaining a portfolio of high-quality liquid assets within Treasury (formerly, Wholesale Financial Services) to support the liquidity requirements to ensure that credit unions have access to reliable and cost-effective sources of liquidity.

Central 1 has seen growth in the mandatory deposits despite the economic upheaval caused by the COVID-19 pandemic, reflecting a \$294.9 million increase in MLP's cash and liquid assets at March 31, 2020 from December 31, 2019. Cash and liquid assets from Treasury at March 31, 2020 were \$115.1 million higher compared to December 31, 2019.

## Loans



(Millions of dollars)	Mar 31 2020	Dec 31 2019	Mar 31 2019
Loans to credit unions	\$ 617.4	\$ 508.5	\$ 198.3
Commercial loans	908.4	863.9	750.2
Other loans	9.7	10.2	9.1
	918.1	874.1	759.3
Reverse repurchase agreements	695.2	615.2	962.5
	\$ 2,230.7	\$ 1,997.8	\$ 1,920.1

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

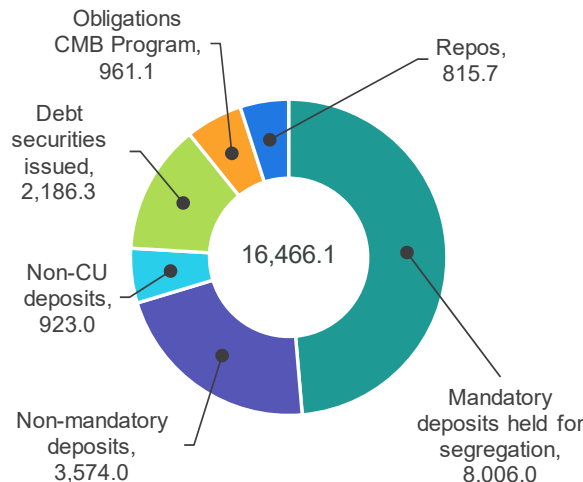


We provide clearing lines of credit and short- and medium-term loans to our members. All lending activities are closely integrated and coordinated within our liquidity management framework. Clearing lines of credit, available in two currencies, are used to cover cash requirements arising from the settlement 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 Interim Consolidated Statement of Financial Position.

We provide short-term loans to credit unions for their liquidity needs. While liquidity needs in the credit union system is expected to increase if the impact of the COVID-19 pandemic is prolonged, the increase in loans to credit union from December 31, 2019 was only \$108.9 million. The overall credit union system still shows greater liquidity during this pandemic as evidenced by an increase in our mandatory and non-mandatory deposits from credit unions as disclosed below.

## Funding

**As at March 31, 2020**  
(Millions of dollars)



(Millions of dollars)	Mar 31 2020	Dec 31 2019	Mar 31 2019
<b>Deposits</b>			
Mandatory deposits held for segregation	\$ 8,006.0	\$ 7,788.4	\$ -
Mandatory deposits	-	-	7,316.3
Non-mandatory deposits	3,574.0	3,592.1	3,308.4
Deposits from member credit unions	11,580.0	11,380.5	10,624.7
Deposits from non-credit unions	923.0	610.3	848.9
	12,503.0	11,990.8	11,473.6
<b>Debt securities issued</b>			
Commercial paper issued	652.7	531.8	714.2
Medium-term notes issued	1,310.6	1,551.7	1,252.0
Subordinated liabilities	223.0	221.5	425.2
	2,186.3	2,305.0	2,391.4
Obligations under the Canada Mortgage Bond (CMB) Program	961.1	919.1	1,083.4
Securities under repurchase agreements	815.7	643.5	495.0
	\$ 16,466.1	\$ 15,858.4	\$ 15,443.4

Our primary funding source for Treasury is credit unions' excess liquidity deposits. Further funding diversification is achieved through the issuance of commercial paper, medium-term notes, subordinated debt and participation in securitization programs. Subsequent to the quarter end, we can employ the BoC's recently launched Commercial Paper Purchase Program. Accessing this program ensures that we have a consistent and stable source of short-term market funding to support our members and clients. We also secured our access to the BoC's Standing Term Liquidity Facility which allows us to borrow from the BoC using a wide range of collateral, including mortgages.

Our total funding portfolios increased \$0.6 billion from December 31, 2019, primarily driven by the growth in mandatory and non-mandatory deposits from member credit unions.

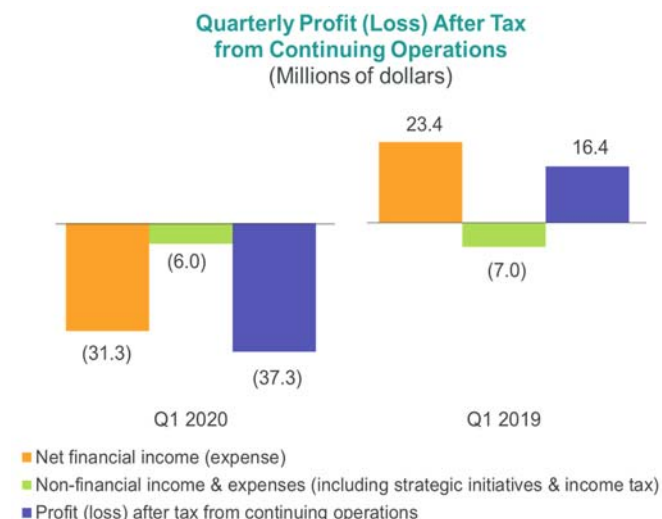
Our total borrowings remained relatively unchanged year-over-year. The total debt securities issued represented 13.3 per cent at March 31, 2020, compared to 14.5 per cent from December 31, 2019.

At the end of March 31, 2020, the total amount due under the Canada Mortgage Bond Program was \$961.1 million, down \$122.3 million from a year ago, due to the maturity of the balance payable to the Canada Housing Trust. Securities under repurchase agreements increased \$320.7 million compared to prior year due to increased volumes in securitization.

## Statement of Profit (Loss)

### Q1 2020 vs Q1 2019

#### Continuing Operations



Loss after tax from continuing operations for the first quarter of 2020 was \$37.3 million, compared to a profit after tax of \$16.4 million in the same period a year ago. A \$54.7 million decrease in net financial income and a \$7.3 million increase in strategic investments primarily contributed to the overall decline. The recent rate cuts by the BoC and widening of credit spreads as a result of the impact of the COVID-19 outbreak led to a \$42.2 million increase in unrealized losses from the same period last year.

The first quarter of 2020 saw an increase of \$1.0 million in our ECL, reflective of the deterioration in the macroeconomic environment due to the COVID-19 pandemic. Non-financial income and non-financial expenses were quite consistent compared to the same period last year. Investments in strategic initiatives continued into the first quarter of 2020, consistent with last year and our long-term strategic plan. The combined impact of these movements contributed to the overall loss after tax of \$37.3 million in our first quarter compared to a \$16.4 million profit after tax in the same period a year ago.

#### Discontinuing Operations



The MLP reported a loss after tax of \$29.7 million for the first quarter of 2020, compared to a profit after tax of \$8.7 million in the same period last year, reflective of a \$32.1 million increase in unrealized losses generated from significant widening of credit spreads due to the COVID-19 pandemic and from the mark-to-market revaluation of deposits as a result of a number of rate cuts by the BoC during March 2020. Interest margin also decreased by \$2.4 million attributable to holding more short-term and highly liquid assets to ensure we are able to respond quickly and effectively to potential credit union needs. This was offset by higher foreign exchange income due to the stronger U.S. dollar.

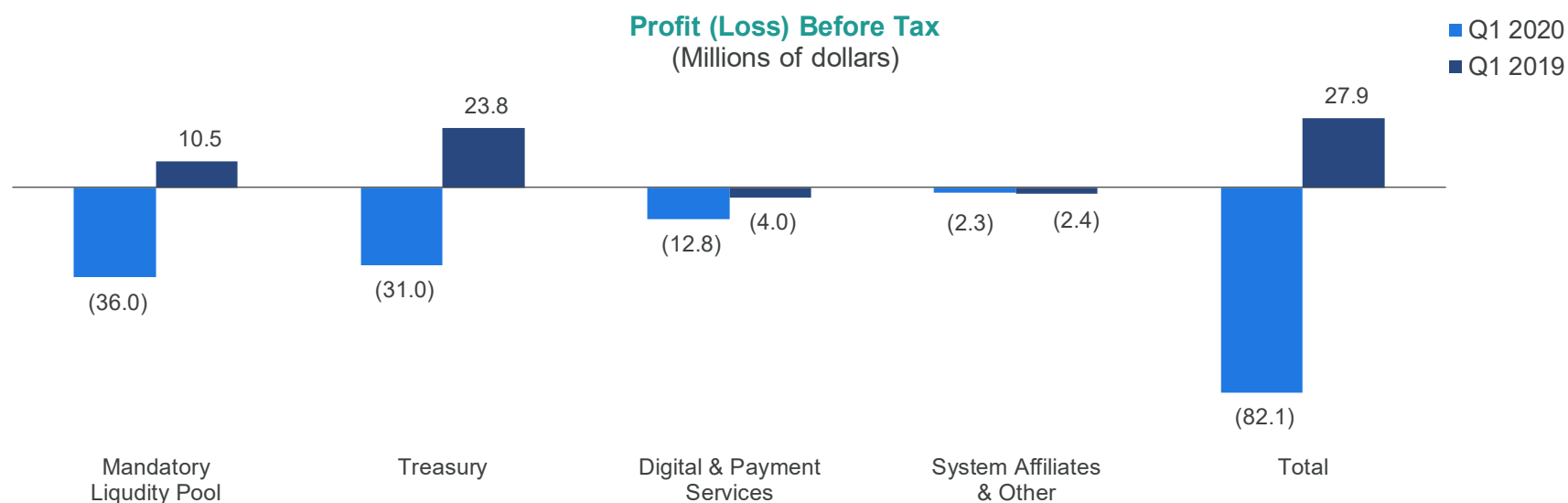
## Results by Segment

Our operations and activities are reported around three key business segments: MLP, Treasury, 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 by December 31, 2020. We received BCFSA's acceptance of the segregation plan in December 2019.

All other activities or transactions are reported in System Affiliates & Other including our investments in equity shares of system-related entities, other than the wholly owned subsidiaries. The costs of Corporate Support functions are attributed to business lines as appropriate, with unattributed amounts included in System Affiliates & Other.

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.

### Q1 2020 vs Q1 2019



For the three months ended March 31, 2020									
(Millions of dollars)		Mandatory Liquidity Pool		Treasury		Digital & Payment Services		System Affiliates & Other	Total
Net financial expense, including impairment on financial assets	\$	(35.1)	\$	(31.2)	\$	(0.1)	\$	-	(66.4)
Non-financial income		1.2		8.5		22.5		1.3	33.5
Net financial and non-financial income		(33.9)		(22.7)		22.4		1.3	(32.9)
Non-financial expenses		1.9		8.3		21.7		1.4	33.3
		(35.8)		(31.0)		0.7		(0.1)	(66.2)
Strategic initiatives		0.2		-		13.5		2.2	15.9
<b>Loss before tax</b>	<b>\$</b>	<b>(36.0)</b>	<b>\$</b>	<b>(31.0)</b>	<b>\$</b>	<b>(12.8)</b>	<b>\$</b>	<b>(2.3)</b>	<b>(82.1)</b>

For the three months ended March 31, 2019									
(Millions of dollars)		Mandatory Liquidity Pool		Treasury		Digital & Payment Services		System Affiliates & Other	Total
Net financial income (expense), including impairment on financial assets	\$	12.5	\$	24.6	\$	(0.1)	\$	(1.1)	35.9
Non-financial income		(0.3)		8.9		22.6		2.4	33.6
Net financial and non-financial income		12.2		33.5		22.5		1.3	69.5
Non-financial expenses		1.7		9.7		19.4		2.4	33.2
		10.5		23.8		3.1		(1.1)	36.3
Strategic initiatives		-		-		7.1		1.3	8.4
Profit (loss) before tax	\$	10.5	\$	23.8	\$	(4.0)	\$	(2.4)	27.9

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

## Mandatory Liquidity Pool

MLP's loss before tax in the first quarter of 2020 was \$36.0 million compared to a profit before tax of \$10.5 million in the same period a year ago. The MLP's results have been presented separately within the interim consolidated results on our financial statements. Please refer to the Statement of Profit (Loss) section of this MD&A for further details of MLP's results.

## Treasury

Treasury reported a loss before tax of \$31.0 million, compared to a profit before tax of \$23.8 million during the first quarter of 2019. The recent BoC rate cuts and widening of credit spreads in relation to the COVID-19 pandemic resulted in significant unrealized losses, up \$42.2 million from the first quarter of 2019. Treasury also saw an increase of \$1.0 million in ECL, reflective of the deterioration in the macroeconomic environment as a result of the COVID-19 pandemic. The non-financial income and non-financial expenses in the first quarter of 2020 remained stable compared to the first quarter of 2019.

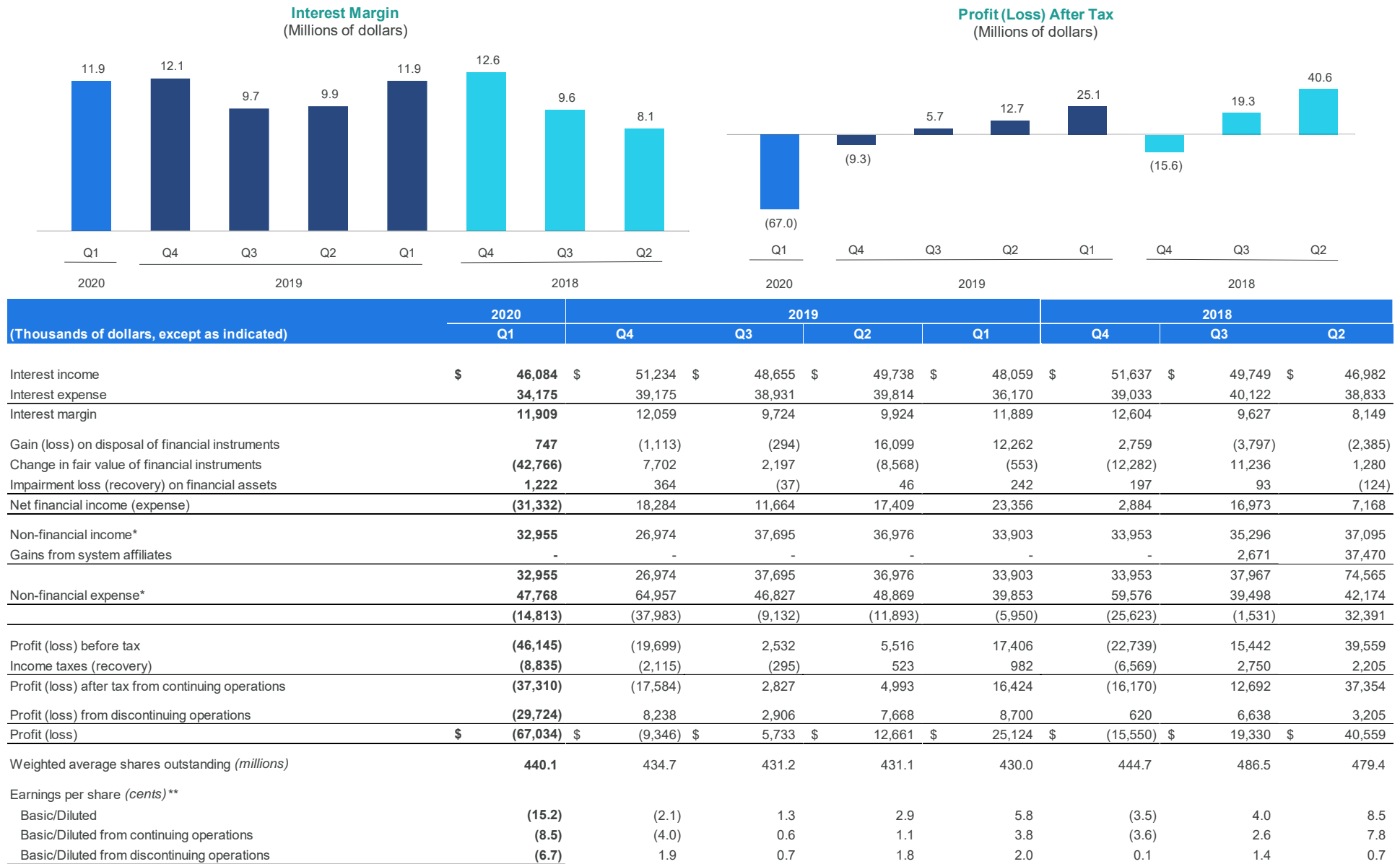
### Digital & Payment Services

Digital & Payment Services continued to invest in strategic initiatives in the first quarter of 2020, including the development of the *Forge Digital Banking Platform* (*Forge*) and payments modernization, with the amount spent being \$6.4 million higher than a year ago. Non-financial income was in line with the same period last year and non-financial expense was \$2.3 million higher primarily due to increased expenditures in digital banking area. Combined, this segment experienced a loss before tax of \$12.8 million compared to a loss before tax of \$4.0 million in the same period last year.

### System Affiliates & Other

During the first quarter of 2020, investments in our strategic initiatives continued, including the development of a new banking system. The increase in spending on our strategic initiatives was offset by lower non-financial expense, which led to this segment reporting a flat result from the same period last year.

## Summary of Quarterly Results



\*Non-financial income and non-financial expense includes investments in strategic initiatives and excludes gains from system affiliates

\*\*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.

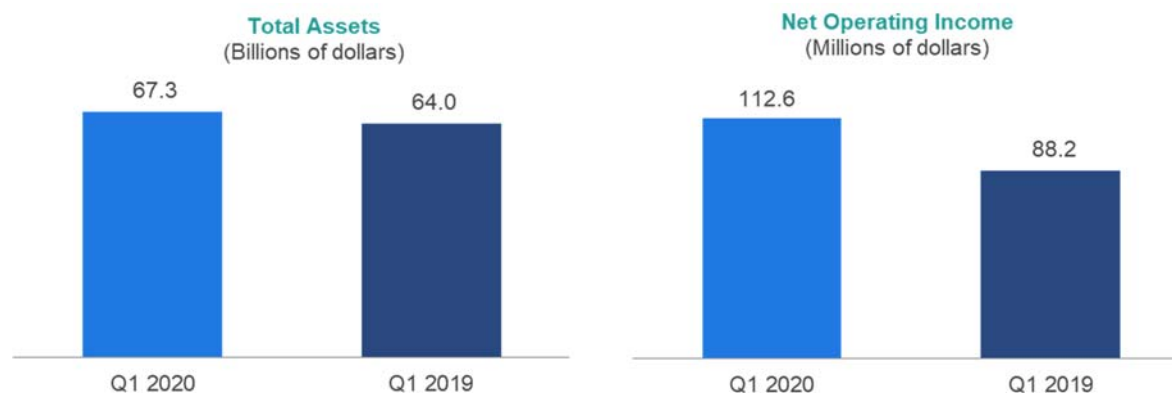
The 2019 and 2018 results has been represented to reflect the presentation of discontinuing operations. For further details, please refer to Note 9 in our Notes to the Interim Consolidated Financial Statements.

Interest margin from continuing operations peaked in the fourth quarter of 2018 but continued to perform well during 2019. This growth began to taper off in the first quarter of 2020 due to the three interest rate cuts by the BoC in response to the COVID-19 pandemic during the first quarter of 2020. We saw net realized and unrealized gains across all four quarters in 2019, but the rate cuts by the BoC and widening of credit spreads as a result of the impact from the COVID-19 pandemic led to significant unrealized losses from continuing operations for the first quarter of 2020.

Investments in our strategic initiatives continued in 2019 and 2020, consistent with our strategic plan, with a higher spend during 2019 mostly to develop *Forge*. Despite the increase in investments in our strategic initiatives during the first quarter of 2019, strong net financial income continued to drive our profit growth and non-financial income remained stable. We saw a loss from continuing operations in the fourth quarter of 2019, reflective of the provision for tax related matters and the expense recorded from the review of our intangible assets' carrying value during the quarter. The COVID-19 pandemic during the first quarter of 2020 reduced the fair value of our investment portfolios, generating a significant temporary loss from our continuing operations primarily driven by the BoC rate cuts and widening of credit spreads.

## System Performance

### British Columbia



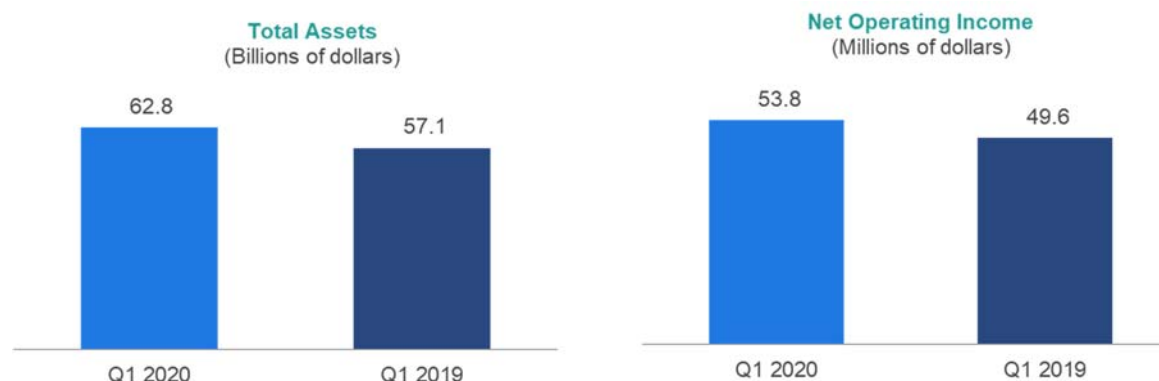
The B.C. system's net operating income for the first quarter of 2020 was \$112.6 million, up \$24.4 million or 27.7 per cent from the same period in 2019. Net interest income increased \$13.9 million or 4.6 per cent over the same period of last year, driven by higher loans interest. Non-interest income increased by \$32.4 million or 43.5 per cent year-over-year, led by equity investments and other non-interest income. Non-interest expense increased by \$22.0 million or 7.6 per cent, led by increases in loan losses and salaries and benefits.

Total assets increased \$3.3 billion or 5.2 per cent year-over-year to reach \$67.3 billion at the end of the first quarter. Asset growth was led by a 4.6 per cent increase in personal mortgages, a 7.3 per cent increase in commercial mortgages, and an 8.8 per cent rise in cash and investments. Total liabilities increased \$3.1 billion. Liability growth was led by a 5.2 per cent increase in non-registered term deposits and a 6.2 per cent rise in non-registered demand deposits.

The system's rate of loan delinquencies over 90 days was 0.31 per cent of total loans at the end of March 2020, up 16 basis points (bps) from a year ago. The B.C. system's loan loss expense ratio was 0.11 per cent annualized in the first quarter of 2020, up nine bps from a year ago.

The B.C. system's regulatory capital as a percentage of risk-weighted assets was 15.2 per cent at the end of March 2020, down 15 bps from a year ago. The aggregate liquidity ratio of the B.C. system, including that held by Central 1, was 15.5 per cent of deposit and debt liabilities, up 57 bps from a year ago. The B.C. system's return on assets was 0.69 per cent annualized in the first quarter, up 13 bps a year ago.

## Ontario



Net operating income for the first quarter of 2020 was \$53.8 million, up \$4.3 million or 8.7 per cent from a year earlier. Net interest income increased \$15.5 million over the same period last year to \$273.9 million, driven by growth in residential mortgages and commercial loans. Non-interest income increased \$11.7 million year-over-year or 21.3 per cent, led by securitization and other revenues. Non-interest expense increased \$23.0 million or 8.7 per cent, driven by other non-financial expense.

Total assets increased 10.1 per cent year-over-year to reach \$62.8 billion at the end of the first quarter of 2020. Asset growth was led by increases in residential mortgages growth of 10.6 per cent and commercial loans of 9.4 per cent. Liability growth was led by increases in non-registered deposits and borrowings.

The Ontario system's rate of loan delinquencies over 90 days was 0.37 per cent of total loans at the end of March 2020, up 7 bps year-over-year, with jumps in commercial loans and mortgages at 17 bps and personal loans at 13 bps. Provision for credit losses as a percentage of loans was 0.26 per cent, little changed from a year earlier. The Ontario system's loan loss expense ratio was 0.12 per cent annualized in the first quarter of 2020, up 4 bps from the prior year.

The Ontario system's regulatory capital as a percentage of risk-weighted assets was 13.3 per cent at the end of March 2020, up 68 bps from a year ago. The aggregate liquidity ratio, including that held by Central 1, was 13.0 per cent of deposit and debt liabilities, down 33 bps from a year ago. The Ontario system's return on assets was 0.35 per cent annualized in the first quarter, down 1 bps year-over-year.



## Off-Balance Sheet Arrangements

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

### Derivative Financial Instruments

(Millions of dollars)			Notional Amount	
	Mar 31 2020	Dec 31 2019	Mar 31 2019	
Interest rate contracts				
Bond forwards	\$ 90.7	\$ 66.7	\$ 132.0	
Futures contracts	835.0	1,330.0	1,745.0	
Swap contracts	34,886.7	35,138.4	33,754.8	
	35,812.4	36,535.1	35,631.8	
Foreign exchange contracts				
Foreign exchange forward contracts	330.7	380.8	401.6	
Other derivative contracts				
Equity index-linked options	169.8	183.3	203.4	
	\$ 36,312.9	\$ 37,099.2	\$ 36,236.8	

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 of their respective balance sheets. In the revised IMPP launched by the Government of Canada in March 2020 as part of its COVID-19 Economic Response Plan, we also act as a swap counterparty with the CMHC to provide support for our members' liquidity.

Derivatives are recognized in our Interim Consolidated Statement of Financial Position at fair value. The notional amounts of these derivatives are not presented on our Interim Consolidated Statement of Financial Position as they do not represent actual amounts exchanged. Counterparty credit risk arising from derivative contracts is managed within the context of our overall credit risk policies and through the existence of Credit Support Annex (CSA) agreements 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.

(Millions of dollars)	Mar 31 2020	Dec 31 2019	Mar 31 2019
Commitments to extend credit	\$ 4,450.5	\$ 4,332.0	\$ 4,889.7
Guarantees			
Financial Guarantees	\$ 662.6	\$ 622.6	\$ 512.5
Performance Guarantees	\$ 100.0	\$ 100.0	\$ 110.0
Standby letters of credit	\$ 213.3	\$ 219.8	\$ 199.1
Future prepayment swap reinvestment commitment	\$ 1,421.0	\$ 1,339.2	\$ 1,247.8

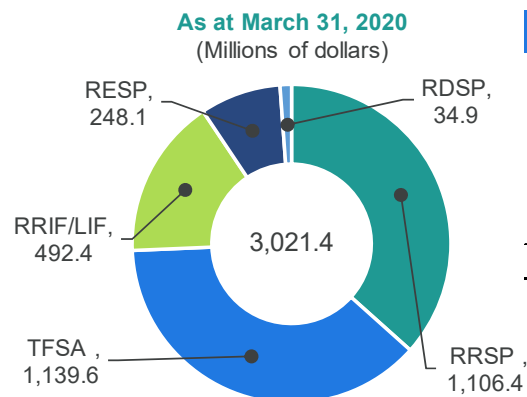
Comparative figures have been represented.

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

Commitments to extend credit, representing undrawn commitments, increased \$118.5 million from the year end. Financial guarantees increased \$150.1 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 \$173.2 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 \$10.0 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



(Millions of dollars)	Mar 31 2020	Dec 31 2019	Mar 31 2019
Registered Retirement Savings Plans (RRSP)	\$ 1,106.4	\$ 1,080.5	\$ 1,114.0
Tax-Free Savings Accounts (TFSA)	1,139.6	1,078.2	1,011.7
Registered Retirement Income Funds/Life Income Funds (RRIF/LIF)	492.4	495.3	456.6
Registered Education Savings Plans (RESP)	248.1	252.6	241.9
Registered Disability Savings Plans (RDSP)	34.9	32.7	28.9
	<b>\$ 3,021.4</b>	<b>\$ 2,939.3</b>	<b>\$ 2,853.1</b>

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

An overall increase in business from both Ontario and B.C., along with market value appreciation, contributed to a 5.9 per cent increase in total AUA from a year ago. Notable trends show that the AUA of Tax-Free Savings Accounts increased by 12.6 per cent from a year ago, reflective of its increasing popularity among investors as an alternative to the Registered Retirement Savings Plan which showed a slight decrease of 0.68 per cent due to the decreased sales and the mandatory plan conversion at age 71. All other registered products also had moderate increases from a year ago largely due to increased sales, contributions, Registered Retirement Income Fund transfers, together with market value appreciation over the past year.

Despite the COVID-19 pandemic, the first quarter of 2020 saw a slight increase in AUA from December 31, 2019. The current volatile economic environment had little to no impact on AUA due to the high concentration (approximately 98.5 per cent) of fixed income assets in investors' portfolios.

## Capital Management and Capital Resources

We manage capital to maintain strong capital ratios in support of the risks and activities of the organization while generating an appropriate rate of return for our members. In addition to the regulatory requirements, we maintain capital to meet the expectations of credit rating agencies, to accommodate credit union system growth and to maintain internal capital ratios. The longer-term strategic goal is to optimize the capital usage and structure using an economic capital model to provide a better return for the capital invested by the members.

### Capital Management Framework

Our capital management framework provides the policies and processes for defining, measuring, and allocating all types of capital across the organization. It defines the roles and responsibilities for assessing capital adequacy, dividends and management of regulatory capital requirements.

A key component of our capital management framework is the annual capital planning process that involves teams from across the organization. Capital planning has two key integrated components, the annual budget process which establishes operating targets for the organization and the Internal Capital Adequacy

Assessment Process in order to determine the required capital to cover material risks to which the organization is exposed. The capital planning process includes forecasted growth in assets, earnings and capital considering projected market conditions. These components are monitored throughout the year.

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

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

### Regulatory Capital

**\$1,030.0 million**

Tier 1 Capital

**\$1,150.5 million**

Net Capital Base

**14.9:1**

Borrowing Multiple

**36.2%**

Provincial Capital Ratio

(Millions of dollars)	Mar 31 2020	Dec 31 2019	Mar 31 2019
Share capital	\$ 441.1	\$ 440.1	\$ 431.0
Retained earnings	593.6	659.9	676.8
Less: accumulated net after tax gain in investment property	(4.7)	(4.7)	(4.7)
Tier 1 capital	1,030.0	1,095.3	1,103.1
Subordinated debt	221.0	221.0	421.0
Add: accumulated net after tax gain in investment property	4.7	4.7	4.7
Tier 2 capital	225.7	225.7	425.7
Total capital	1,255.7	1,321.0	1,528.8
Statutory capital adjustments	(105.2)	(105.3)	(109.9)
Net capital base	\$ 1,150.5	\$ 1,215.7	\$ 1,418.9
Borrowing multiple - Consolidated	14.9:1	13.5:1	11.1:1
Borrowing multiple - Mandatory Liquidity Pool	17.4:1	16.0:1	15.0:1
Borrowing multiple - Treasury	14.2:1	12.5:1	12.8:1

In determining regulatory capital, adjustments are required to the amount of capital reflected in our Interim Consolidated Statement of Financial Position. Deductions from capital are required for certain investments, including our substantial investments in affiliated cooperative organizations. The decrease in the net capital base as at March 31, 2020 compared to the balance at March 31, 2019 was due to the redemption of \$200.0 million subordinated debt in 2019 and a loss

after tax of \$67.0 million in the first quarter of 2020. 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, as well as distinct borrowing multiples on the MLP and Treasury segments. In response to the COVID-19 pandemic and market disruption, BCFSA introduced easing measures to provide financial support to B.C. credit unions and their members during this extraordinary time. These measures included to permit us to increase our borrowing multiple from 15.0:1 to 18.0:1 for the Treasury segment, effective March 23, 2020, and to increase our borrowing multiple from 17.0:1 to 20.0:1 for the MLP segment, effective March 31, 2020.

We manage the MLP's borrowing multiple through semi-annual Class F capital calls from our membership and manage the Treasury's 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. We issued 1.1 million Class F shares on March 27, 2020. At March 31, 2020, our consolidated borrowing multiple was 14.9:1 compared to 11.1:1 at March 31, 2019, as a result of the decrease in subordinated debt combined with an increase in mandatory and non-mandatory deposits.

We were in compliance with all regulatory capital requirements as at the reporting periods ended March 31, 2020 and March 31, 2019.

### Risk Review

This section of the MD&A should be read in conjunction with the Risk Review section of our 2019 Annual Report.

We manage risk and perform risk oversight based on a comprehensive risk governance framework, including risk management policies that establish frameworks, processes and a comprehensive risk appetite framework and statement for all of our risk activities and oversight operations.

We recognize that reputation is among our most important assets, and actively seek to maintain a positive reputation both for ourselves and for the credit union system. The potential for a deterioration of stakeholders' trust in the organization arises from a number of outcomes dealt with under the identified risk categories below. These potential impacts include revenue loss, litigation and regulatory action.

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

### COVID-19 Update

COVID-19 is causing sweeping social and economic changes and will continue to do so for an extended period of time. Given the variety of measures introduced by local, provincial and federal governments and the quantitative easing introduced by the BoC, forecasting the timing and extent of the economic downturn caused by COVID-19 is extremely difficult.

To date, we have been directly affected by social distancing measures requiring an almost 100 per cent work-from-home environment. Our workforce has adapted extremely well to the situation without a material drop in productivity. Other COVID-19 impacts to our business is discussed in the appropriate sections below.

### Strategic Risk

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

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

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

### Compliance Risk

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

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

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

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

### Counterparty Risk

Within the Treasury and Digital & Payment Services operations, we incur counterparty risk through entering into contracts with counterparties in return for a bilateral value-exchange of services. The counterparty risk is managed within the same adjudication process as credit risk.

Counterparty risk continues to be assessed by management as low given the quality of counterparties being government entities, banks with external credit ratings A-Low to AAA (Dominion Bond Rating Service), and our own credit union system where a robust internal risk rating regime is utilized.

### Credit Risk

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

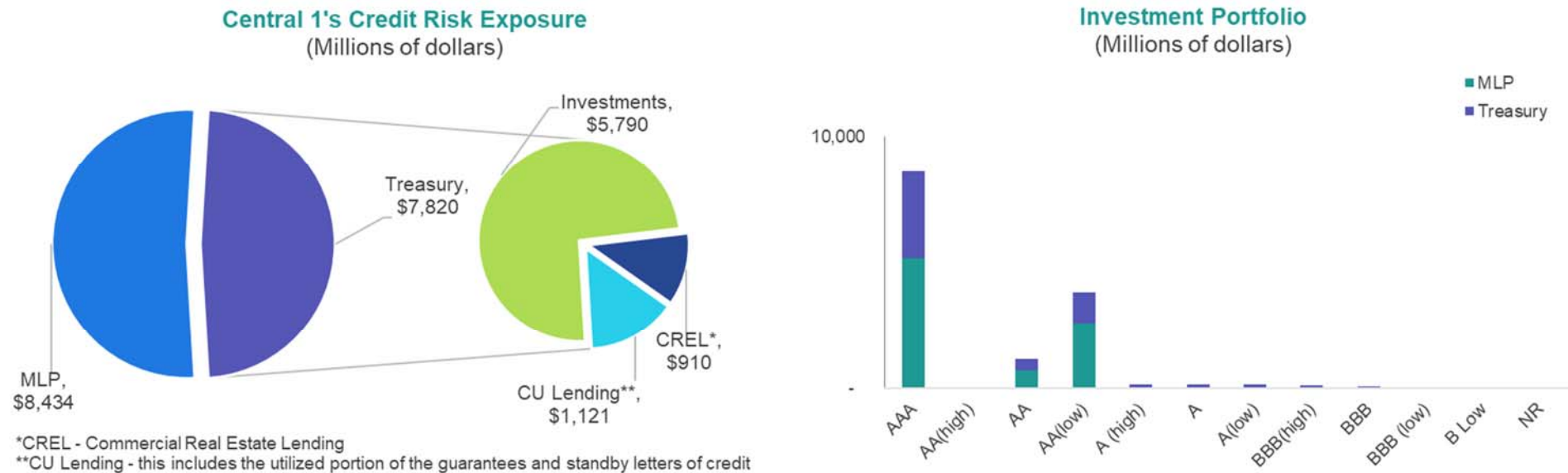
Risks are managed by:

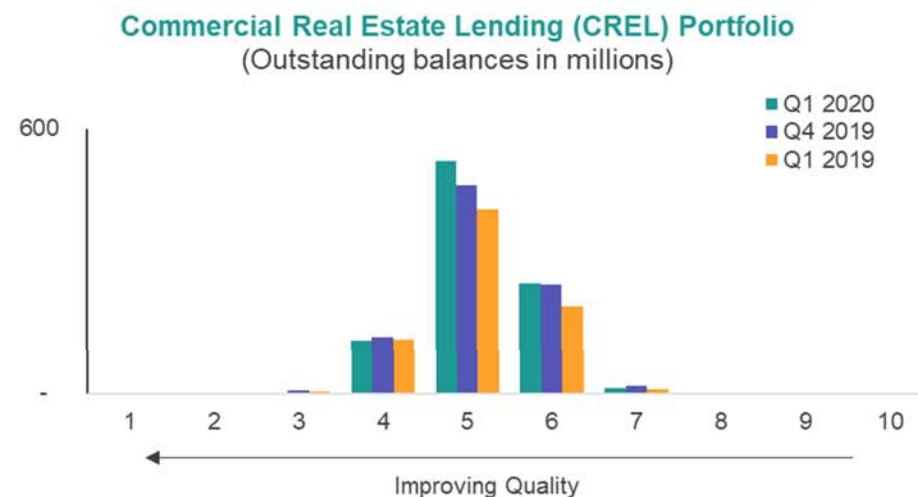
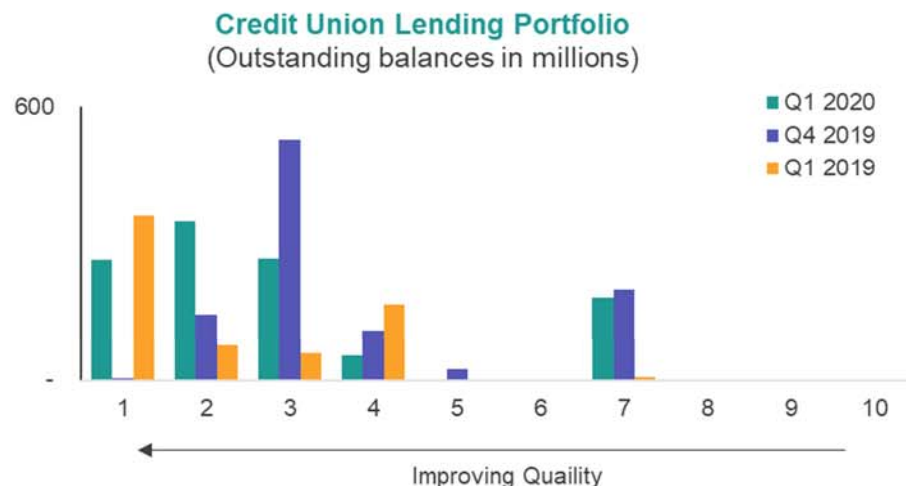
- holding low-risk investment securities
- a robust and conservative loan underwriting framework that utilizes the acquisition of collateral and other credit enhancements
- skilled lending personnel with a depth of experience in both the business line and credit risk

Credit risk has been assessed by management as medium. Central 1, along with all financial institutions, continues to face an existential threat from the COVID-19 pandemic to its credit risk business activities. Management anticipates expected and unexpected loss to increase for the second quarter as the economic drivers have changed significantly. Note that a rise in expected loss should not be interpreted as actual losses manifesting within the portfolios.

Impacts to the commercial loan book from industry-specific performance and provincial rules on construction stoppages are discussed below.

The following figure illustrates our credit exposure and risk profile based on outstanding balances in the investment portfolios held in MLP and Treasury. Treasury holds \$0.5 billion in securities that are rated A or lower. Positions are based on notional, not market values and do not include securitization assets sold to the Canada Housing Trust.





## Credit Quality Performance

### Investments Portfolio

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

### Credit Union Lending (CU Lending)

While management initially anticipated higher utilization of credit facilities by credit unions to support liquidity needs due to COVID-19, utilization remains low with no significant changes compared to the fourth quarter of 2019 or pre-COVID-19. 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 March 31, 2020 there were four Ontario and one B.C. credit union classified as Watch List (risk rating 7). Two Ontario credit unions were assigned Unsatisfactory risk (risk rating 8). The Watch List and Unsatisfactory accounts represented 16.37 per cent of the outstanding portfolio and 8.86 per cent of the authorized portfolio as at March 31, 2020. The security provided for the Watch List and Unsatisfactory facilities is substantial and no losses are expected. As part of our ongoing risk management activities, we perform ongoing stress tests to measure the resiliency of our 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.

### Commercial Real Estate Lending

Management anticipates substantial deterioration in the financial performance of the hospitality sector, representing a small portion of the portfolio. Construction loans, which are almost half the portfolio, will likely require extensions due to construction stoppage and delays.

Currently, there are no impaired loans in the portfolio. The Watch List accounts represented 1.25 per cent of the outstanding portfolio balance as at March 31, 2020. As part of our ongoing risk management activities, we perform stress tests to measure the resiliency of our 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.



## Insurance Risk

We are exposed to insurance risk through the activities of our subsidiary, CUPP Services Ltd (CUPP). In 2019, we transferred ownership of Credit Union Advantage Insurance Brokerage to The Co-Operators. As a result, CUMIS General Insurance Company will become the insurer for coverages currently underwritten by CUPP upon expiry of the current policy terms. CUPP is currently being wound down. We manage our exposure to insurance risk by imposing underwriting limits and undertaking robust monitoring.

## Liquidity Risk

As a result of COVID-19, we expect a greater need for liquidity as credit union members enact loan deferrals and withdraw deposits to fund loss of income. This would likely mean withdrawals of deposit funding and draws on lines of credit by members. We are ensuring access to multiple sources of funding, including to BoC's programs, and working with our credit union members to investigate other facilities.

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

Our liquidity positions continue to be strong. The Liquidity Coverage Ratio (LCR) demonstrates our ability to meet 30-day cashflow requirements under stressed conditions. The LCR assumes a partial run-off of deposits, no new extension or issuance of capital markets debt and that only highly liquid assets can be sold to raise cash subject to a haircut of their market value. We calculate the LCR for MLP and Treasury portfolios against the 100 per cent target set by the Risk Appetite Statement.

Our highly liquid assets include securities that meet the pre-July 2018 BoC definitions for securities eligible to be pledged under Standing Liquidity Facility (SLF), and USD-denominated variants that meet the SLF eligibility criteria as requested by our D-SIFI requirements. In addition, we also present an OSFI LCR measure, which meets the updated criteria for HQLA-eligible securities which were announced by OSFI in July 2018.

The Treasury SLF LCR weakened in the first quarter of 2020 meanwhile the OSFI LCR strengthened in the first quarter due a slight increase in the stock of high-quality liquid assets.

Liquidity Coverage Ratio	Q1 2020	Q4 2019	Q3 2019	Q2 2019	LTM Average
Mandatory Liquidity Pool SLF	173.1%	171.6%	172.8%	173.2%	173.9%
Mandatory Liquidity Pool OSFI	171.1%	162.6%	161.5%	163.7%	164.2%
Treasury SLF	165.3%	178.4%	158.9%	187.9%	167.0%
Treasury OSFI	130.6%	123.8%	126.9%	137.9%	118.2%

## Market Risk

Markets have been extremely volatile as COVID-19 and measures to curb its spreads have ramped up. The portfolios are largely matched from an interest rate perspective. Portfolios are exposed to credit spreads, which have widened and continue to be unstable.

The level of market risk we are exposed to varies according to market conditions and the composition of our investment, lending, and derivative portfolios. We manage our exposure to market risk through a range of governance and management processes. Our policies detail the measurement of market risk and establish exposure limits in keeping with our overall risk appetite.

Market risk is measured using 1-Day Value-at-Risk (VaR) computed at a 99 per cent confidence level, meaning that the one-day change in portfolio value is expected to be less than VaR 99 per cent of the time. Our risk appetite statement requires us to not assume additional market risk for speculative purposes or in pursuit of returns beyond those required to reasonably fulfill our primary mandate of safeguarding system liquidity.

### Value at Risk

We regularly monitor our exposure to market risk. Our Risk Appetite Statement (RAS) currently defines VaR-based market risk limits in relation to changes in portfolio value. In particular, the RAS sets out separate VaR limits for the MLP and Treasury. The current limits approved by the Board are 8.0 bps, or 0.08 per cent, of the current market value of MLP assets and 6 bps, or 0.06 per cent, of Treasury assets. As of quarter-end, the limits were \$6.30 million for MLP and \$6.01 million for Treasury.

(Millions of dollars)	Mandatory Liquidity Pool						
	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Last 12 Months		
					Average	High	Low
Interest Rate VaR	\$ 1.5	\$ 0.8	\$ 1.1	\$ 1.2	\$ 1.0	\$ 1.5	\$ 0.6
Credit Spread VaR	4.2	1.4	1.4	1.5	1.8	4.2	1.1
Foreign Exchange VaR	0.2	0.0	0.0	0.2	0.2	1.1	0.0
Diversification <sup>(1)</sup>	0.0	(1.1)	(1.1)	(1.1)	(1.1)	nm	nm
Total VaR	\$ 5.9	\$ 1.1	\$ 1.4	\$ 1.8	\$ 1.9	\$ 5.9	\$ 1.2
Expected Shortfall	7.4	2.1	2.1	2.3	2.6	7.5	2.0

<sup>(1)</sup> Total VaR is less than the sum of Risk Factors' VaR as a result of diversification and offsetting risk factors.

nm - not meaningful to calculation

(Millions of dollars)	Treasury						
	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Last 12 Months		
					Average	High	Low
Interest Rate VaR	\$ 1.8	\$ 1.5	\$ 1.7	\$ 1.6	\$ 1.6	\$ 2.9	\$ 0.9
Credit Spread VaR	3.3	2.0	1.8	1.8	2.1	7.1	1.5
Foreign Exchange VaR	1.9	2.5	2.2	2.2	2.1	3.9	1.2
Diversification <sup>(1)</sup>	(3.7)	(3.0)	(2.4)	(2.5)	(2.5)	nm	nm
Total VaR	\$ 3.3	\$ 3.0	\$ 3.3	\$ 3.1	\$ 3.2	\$ 7.9	\$ 2.4
Expected Shortfall	3.7	3.6	3.5	3.3	3.6	8.9	2.8

<sup>(1)</sup> Total VaR is less than the sum of Risk Factors' VaR as a result of diversification and offsetting risk factors.

nm - not meaningful to calculation

## Stress Testing

VaR Stress Testing allows us to test the performance of the portfolio in historically extreme market environments. Stress tests are measured using a 1-Day and 10-day 99 per cent VaR. In 2019, a new Stress VaR (SVaR) introduced that calibrates to historical data from a continuous 1-year period of significant financial stress for current portfolios. SVaR is currently recalibrated quarterly and the current calibrated observation window covers the period from Jan 2008-Jan 2009. This corresponds to the Lehman Crisis period used in the previous SVaR model. This crisis is characterized by the widening of spreads between corporate and government bonds, high volatility in the USD-CAD spot rate and negative real Fed funds rate.

(Millions of dollars)	Mandatory Liquidity Pool		Treasury	
1-Day SVaR	\$	7.1	\$	10.6
10-Day SVaR	\$	15.9	\$	22.8

## Direction and Sources of Interest Rate Risk

We use several secondary market risk measures to help understand the direction and sources of interest rate risk in the MLP and Treasury portfolios. The dollar duration, or DV01, measures the sensitivity of the portfolio to a one bps increase in interest rates.

## Foreign Exchange Rate Exposure

We have assets and liabilities denominated in several major currencies and we trade foreign currencies with our member credit unions and other clients. The risk associated with fluctuating foreign currency values is managed by applying limits on the amounts (short or long positions) that can be maintained in the various currencies, utilizing foreign exchange (FX) derivatives to lessen the impact of on-balance sheet positions and through VaR management limits. Our FX exposure is concentrated in USD and only a relatively small amount is held in other major currencies.

(Millions of dollars)	Balance Sheet in Native Currency		Off-Balance Sheet Items - Foreign Exchange Forwards		Net Position in Native Currency		BOC Closing Rate		CAD Equivalent
USD	\$	(8.8)	\$	27.2	\$	18.4	1.4103	\$	26.01

## 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.

During the COVID-19 pandemic we and other financial organizations, are exposed to heightened operational risks in the form of cyber-attacks, data breaches, third party service provider failures, and other uncertainties. To counter this ongoing threat, we are continuously improving our security posture, including real-time

intrusion detection monitoring of our remote banking applications and implementing stronger authentication controls. We continue to invest in our 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.

In the normal course of business, we manage this type of risk through implementing and adhering to policies and controls 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; and
- 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.

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.

### Emerging Risks

Emerging risks are risks that are newly developing or rapidly changing. They are difficult to quantify and may have a major impact on ourselves and the credit union system.

We identify and assess emerging risks in various ways, including at the strategic planning and business unit levels. These include risk oversight committee discussions and regular risk reviews to identify, assess and ensure that management is forward-looking in our treatment of emerging risks. Emerging risks are quantified using established techniques where possible or qualitatively assessed on the basis of impact and likelihood.

Currently, we consider the uncertainty over the medium and long-term effects of COVID-19 and the shut-down of the global economy as the major emerging risk facing Central 1. While shut-down and social distancing appear to be having the desired effect on the spread of COVID-19, there is a high degree of uncertainty surrounding how and when economies will re-open. Once re-opened, it is uncertain that the emergency financial support measures provided by the Government of Canada will prove to have effectively preserved businesses and employment across the country. The Canadian economy is dependent on international trade and recovery will be influenced by the speed at which our major trading partners can re-start their own economies.

## Accounting Matters

### Critical Accounting Policies and Estimates

In preparing the Interim Consolidated Financial Statements in accordance with IFRS, management must exercise judgements and make estimates and assumptions that affect the application of accounting policies and the carrying amounts of assets and liabilities, net income and related disclosures. In March 2020, the outbreak of COVID-19 caused by a novel strain of the coronavirus was recognized as a pandemic by the World Health Organization. Our financial performance during the first quarter of 2020 has been adversely affected by the COVID-19 pandemic. While the full extent and duration of the impact of COVID-19 is currently unknown, the duration of the impact to our results of operations, cash flows and financial position requires management judgements and estimates. The most significant areas for which management has made subjective or complex estimates and judgements as a result of the COVID-19 coronavirus outbreak are:

- ECL allowance
- Determining fair value of financial instruments
- Own credit risk
- Income taxes

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 3 of our March 31, 2020 Interim Consolidated Financial Statements and Note 4 of our 2019 Annual Consolidated Financial Statements.

### Changes in Accounting Policies

In September 2019, the IASB issued Interest Rate Benchmark Reform – Amendments to IFRS 9 (*Financial Instruments*), IAS 39 (*Financial Instruments: Recognition and Measurement*), and IFRS 7 (*Financial Instruments: Disclosures*). The amendments are effective for annual periods beginning on or after January 1, 2020, with earlier application permitted. The amendments modified specific hedge accounting requirements of IFRS 9 or IAS 39 to provide temporary exceptions to all hedging relationships directly affected by the Interest Rate Benchmark Reform. Under the amendments, the hedge accounting requirements are applied assuming that the interest rate benchmark is not altered, thereby allowing hedge accounting to continue for affected hedges as a result of the uncertainties of the Interest Rate Benchmark Reform. In addition, the amendments to IFRS 7 require additional disclosure about hedging relationships directly affected by this uncertainty arising from the reform. On transition to IFRS 9, we made an accounting policy choice to continue applying the IAS 39 hedge accounting requirements. Therefore, we adopted the amendments to IAS 39 and IFRS 7 on January 1, 2020.

### 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, 2019.

Details of our related party disclosures were disclosed in Note 25 of our Interim Consolidated Financial Statements.

# **Interim Consolidated Financial Statements**

March 31, 2020

## Interim Consolidated Statement of Financial Position (Unaudited)

(Thousands of dollars)	Notes	Mar 31 2020	Dec 31 2019
<b>Assets</b>			
Cash		\$ 957,736	\$ 48,947
Deposits with regulated financial institutions		-	4,928
Securities	(5)	5,608,518	6,292,095
Loans	(6)	2,232,881	1,999,168
Reinvestment assets under the Canada Mortgage Bond Program	(5)	751,126	686,953
Derivative assets		96,949	48,868
Settlements in-transit		172,315	429,874
MLP assets held for segregation	(9)	8,489,602	8,188,923
Assets held for distribution	(10)	8,402	-
Property and equipment		25,302	26,226
Intangible assets		32,366	33,678
Investments in affiliates		78,055	78,096
Current tax assets		3,993	3,071
Deferred tax assets		11,358	-
Other assets	(11)	29,208	23,290
		<b>\$ 18,497,811</b>	<b>\$ 17,864,117</b>
<b>Liabilities</b>			
Deposits	(12)	\$ 4,497,016	\$ 4,202,350
Debt securities issued	(13)	1,963,270	2,083,476
Obligations under the Canada Mortgage Bond Program	(14)	961,092	919,086
Subordinated liabilities		223,044	221,457
Obligations related to securities sold short		95,028	67,547
Securities under repurchase agreements		815,743	643,526
Derivative liabilities		161,523	52,228
Settlements in-transit		601,499	674,572
MLP liabilities held for segregation	(9)	8,088,606	7,788,501
Liabilities held for distribution	(10)	1,187	-
Deferred tax liabilities		-	913
Other liabilities	(15)	62,544	97,223
		<b>17,470,552</b>	<b>16,750,879</b>
<b>Equity</b>			
Share capital	(16)	441,127	440,076
Retained earnings		593,620	659,906
Accumulated other comprehensive income (loss)		(15,146)	5,474
Reserves		2	2
Total equity attributable to members of Central 1		<b>1,019,603</b>	<b>1,105,458</b>
Non-controlling interest		<b>7,656</b>	<b>7,780</b>
		<b>\$ 18,497,811</b>	<b>\$ 17,864,117</b>
Guarantees, commitments, contingencies and pledged assets	(22)		

Approved by the Directors:

"Bill Kiss"

Bill Kiss, Chairperson

"Mary Falconer"

Mary Falconer, Chairperson - Audit and Finance Committee

See accompanying notes to the Interim Consolidated Financial Statements

## Interim Consolidated Statement of Profit (Loss) (Unaudited)

(Thousands of dollars)	Notes	For the three months ended	
		Mar 31 2020	(Represented <sup>1</sup> ) Mar 31 2019
<b>Interest income</b>			
Securities		\$ 31,454	\$ 33,423
Deposits with regulated financial institutions		30	43
Loans		14,935	13,163
Reinvestment assets under the Canada Mortgage Bond Program		(335)	1,430
		46,084	48,059
<b>Interest expense</b>			
Deposits		15,561	16,521
Debt securities issued		14,800	13,162
Subordinated liabilities		1,677	3,141
Obligations under the Canada Mortgage Bond Program		2,137	3,346
		34,175	36,170
Interest margin		11,909	11,889
Gain on disposal of financial instruments	(17)	747	12,262
Change in fair value of financial instruments	(18)	(42,766)	(553)
Net financial income (expense)		(30,110)	23,598
Impairment loss on financial assets		1,222	242
		(31,332)	23,356
Non-financial income	(19)	32,955	33,903
Net financial income and non-financial income		1,623	57,259
<b>Non-financial expense</b>			
Salaries and employee benefits		25,527	20,178
Premises and equipment		426	754
Other administrative expenses	(20)	21,815	18,921
		47,768	39,853
Profit (loss) before income taxes		(46,145)	17,406
Income taxes (recovery)		(8,835)	982
<b>Profit (loss) from continuing operations</b>		(37,310)	16,424
Profit (loss) from discontinuing operations, net of tax	(9)	(29,724)	8,700
<b>Profit (loss)</b>		\$ (67,034)	\$ 25,124

<sup>(1)</sup>Comparative information has been represented to reflect the presentation of discontinuing operations. Refer to Note 9.



## Interim Consolidated Statement of Comprehensive Income (Loss) (Unaudited)

(Thousands of dollars)	For the three months ended	
	Mar 31 2020	(Represented*) Mar 31 2019
<b>Profit (loss)</b>	\$ (67,034)	\$ 25,124
<b>Other comprehensive income (loss) from continuing operations, net of tax</b>		
<b>Items that may be reclassified subsequently to profit</b>		
Fair value reserves (securities at fair value through other comprehensive income)		
Net change in fair value of debt securities at fair value through other comprehensive income	(24,952)	9,338
Reclassification of realized gains to profit	(1,321)	(1,822)
Share of other comprehensive income of affiliates accounted for using the equity method	43	198
	(26,230)	7,714
<b>Items that will not be reclassified subsequently to profit</b>		
Net change in fair value due to change in own credit risk on financial liabilities designated under the fair value option	6,055	(3,025)
Net actuarial loss on employee benefits plans	(141)	-
<b>Other comprehensive income (loss) from continuing operations, net of tax</b>	(20,316)	4,689
Other comprehensive income from discontinuing operations, net of tax	320	596
<b>Total comprehensive income (loss), net of tax</b>	\$ (87,030)	\$ 30,409
<b>Income tax expense (recovery) on items that may be reclassified subsequently to profit</b>		
Net change in fair value of debt securities at fair value through other comprehensive income	\$ (5,394)	\$ 1,970
Reclassification of realized gains to profit	\$ (278)	\$ (383)
Share of other comprehensive income of affiliates accounted for using the equity method	\$ 4	\$ 19
<b>Income tax expense (recovery) on items that may not be reclassified subsequently to profit</b>		
Net change in fair value due to change in own credit risk on financial liabilities designated under the fair value option	\$ 1,277	\$ (636)
Net actuarial loss on employee benefits plans	\$ (30)	\$ -
<b>Total comprehensive income (loss), net of tax, attributable to owners:</b>		
Continuing operations	\$ (57,626)	\$ 21,113
Discontinuing operations (see Note 9)	(29,404)	9,296
	\$ (87,030)	\$ 30,409

(\*)Comparative information has been represented to reflect the presentation of discontinuing operations. Refer to Note 9.

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

(Thousands of dollars)	Attributable to equity members										Non-Controlling Interest	Total Equity
	Share Capital	Retained Earnings	Fair Value & Affiliates Reserves	Liability Credit Reserve	Employee Benefits Reserve	Other Reserves	Equity Attributable to Members					
Balance at December 31, 2019	\$ 440,076	\$ 659,906	\$ 10,688	\$ (5,659)	\$ 445	\$ 2	\$ 1,105,458	\$ 7,780	\$ 1,113,238			
Total comprehensive loss, net of tax												
Loss		(66,910)					(66,910)	(124)	(67,034)			
Other comprehensive loss, net of tax												
Fair value reserve (securities at fair value through other comprehensive income) <sup>(2)</sup>			(38,043)				(38,043)		(38,043)			
Share of other comprehensive income of affiliates accounted for using the equity method			43				43		43			
Liability credit reserve <sup>(2)</sup>				18,145			18,145		18,145			
Net actuarial loss on employee benefits plans					(141)		(141)		(141)			
Total comprehensive loss	-	(66,910)	(38,000)	18,145	(141)	-	(86,906)	(124)	(87,030)			
Transactions with owners, recorded directly in equity												
Class "F" shares issued (Note 16)	1,051						1,051		1,051			
Total contribution from and distribution to owners	1,051	-	-	-	-	-	1,051	-	1,051			
Reclassification of liability credit reserve on derecognition <sup>(1)</sup>												
		624		(624)			-		-			
Balance at March 31, 2020	\$ 441,127	\$ 593,620	\$ (27,312)	\$ 11,862	\$ 304	\$ 2	\$ 1,019,603	\$ 7,656	\$ 1,027,259			

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

<sup>(2)</sup> The breakdown of comprehensive loss for fair value reserves and liability credit reserve is presented below:

	2020	2019
Fair value & affiliates reserves:		
Continuing operations	\$ (26,230)	\$ 7,714
Discontinuing operations	(11,770)	964
	<u>\$ (38,000)</u>	<u>\$ 8,678</u>
Liability credit reserve:		
Continuing operations	\$ 6,055	\$ (3,025)
Discontinuing operations	12,090	(368)
	<u>\$ 18,145</u>	<u>\$ (3,393)</u>
Profit (loss) attributable to:		
Members of Central 1	\$ (66,910)	\$ 25,348
Non-controlling interest	(124)	(224)
	<u>\$ (67,034)</u>	<u>\$ 25,124</u>
Total comprehensive income (loss) attributable to:		
Members of Central 1	\$ (86,906)	\$ 30,633
Non-controlling interest	(124)	(224)
	<u>\$ (87,030)</u>	<u>\$ 30,409</u>

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

(Thousands of dollars)	Attributable to equity members								Non-Controlling Interest	Total Equity
	Share Capital	Retained Earnings	Fair Value & Affiliates Reserves	Liability Credit Reserve	Employee Benefits Reserve	Other Reserves	Equity Attributable to Members			
Balance at December 31, 2018	\$ 429,937	\$ 652,343	\$ (2,323)	\$ (430)	\$ 1,264	\$ 26	\$ 1,080,817	\$ 10,123	\$ 1,090,940	
Changes on initial application of IFRS 16		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		25,348					25,348	(224)	25,124	
Other comprehensive income, net of tax										
Fair value reserve (securities at fair value through other comprehensive income)			8,480				8,480		8,480	
Share of other comprehensive income of affiliates accounted for using the equity method			198				198		198	
Liability credit reserve				(3,393)			(3,393)		(3,393)	
Total comprehensive income	-	25,348	8,678	(3,393)	-	-	30,633	(224)	30,409	
Transactions with owners, recorded directly in equity										
Related tax savings for dividends		(2)					(2)		(2)	
Class "F" shares issued (Note 16)	1,100						1,100		1,100	
Transfer/distribution from reserves		2				(2)	-		-	
Total contribution from and distribution to owners	1,100	-	-	-	-	(2)	1,098	-	1,098	
Reclassification of liability credit reserve on derecognition <sup>(1)</sup>										
		(903)		903			-		-	
Balance at March 31, 2019	\$ 431,037	\$ 676,816	\$ 6,355	\$ (2,920)	\$ 1,264	\$ 24	\$ 1,112,576	\$ 9,899	\$ 1,122,475	

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

## Interim Consolidated Statement of Cash Flows (Unaudited)

(Thousands of dollars)	For the three months ended	
	Mar 31 2020	Mar 31 2019
<b>Cash flows from operating activities</b>		
Profit (loss)	\$ (67,034)	\$ 25,124
Adjustments for:		
Depreciation and amortization	2,418	158
Interest margin	(20,027)	(22,436)
Gain on disposal of financial instruments	(1,518)	(26,172)
Change in fair value of financial instruments	86,812	12,491
Impairment loss on financial assets	1,180	234
Equity interest in affiliates	89	-
Income taxes expense (recovery)	(15,100)	2,817
	(13,180)	(7,784)
Change in securities	458,547	(551,769)
Change in loans	(234,392)	17,415
Change in settlements in-transit	266,215	(711,995)
Change in deposits	402,161	451,499
Change in obligations related to securities sold short	19,250	70,849
Change in securities under repurchase agreements	172,418	-
Change in derivative assets and liabilities	7,278	2,440
Change in other assets and liabilities	(10,888)	(10,004)
Interest received	91,661	88,189
Interest paid	(46,993)	(47,603)
Income tax paid	(38)	(28)
Net cash from (used in) operating activities	1,112,039	(698,791)
<b>Cash flows from investing activities</b>		
Change in deposits with regulated financial institutions	15	-
Change in reinvestment assets under the Canada Mortgage Bond Program	(56,211)	(72,418)
Change in property and equipment	(55)	1,422
Change in intangible assets	(30)	(5,273)
Change in investments in affiliates	-	(4,154)
Net cash used in investing activities	(56,281)	(80,423)

See accompanying notes to the Interim Consolidated Financial Statements

## Interim Consolidated Statement of Cash Flows (Unaudited)

(Thousands of dollars)	Notes	For the three months ended	
		Mar 31 2020	Mar 31 2019
<b>Cash flows from financing activities</b>			
Change in debt securities issued		(134,548)	6,923
Change in lease liabilities		(77)	1,093
Change in obligations under the Canada Mortgage Bond Program		28,670	35,350
Change in securities under repurchase agreements		-	113,826
Dividends paid		(27,512)	(13,807)
Issuance of Class F shares	(16)	1,051	1,100
Net cash from (used in) financing activities		(132,416)	144,485
Increase (decrease) in cash		923,342	(634,729)
Cash - beginning of year		51,695	811,360
Cash - end of year		\$ 975,037	\$ 176,631
<b>Cash comprise</b>			
Cash		\$ 957,736	\$ 176,631
Cash held for segregation	(9)	17,301	-
Cash - end of year		\$ 975,037	\$ 176,631

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## 1. General information

Central 1 Credit Union (Central 1) is domiciled in Canada with a registered office located at 1441 Creekside Drive, Vancouver, British Columbia V6J 4S7, Canada. Central 1 is governed by the *Credit Union Incorporation Act (British Columbia)*. These Interim Consolidated Financial Statements include Central 1 and its subsidiaries.

Central 1 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

### Statement of compliance

These Interim Consolidated Financial Statements have been prepared on a condensed basis in accordance with IAS 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (IASB) using the same accounting policies as disclosed in Central 1's Annual Audited Consolidated Financial Statements for the year ended December 31, 2019, with the exception of the adoption of the amendments to IFRS 9, IAS 39 and IFRS 7 as a result of the Interest Rate Benchmark Reform as discussed below.

As these Interim Consolidated Financial Statements do not include all of the annual financial statements' disclosures required under IFRS, they should be read in conjunction with Central 1's Annual Audited Consolidated Financial Statements and accompanying notes for the year ended December 31, 2019.

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

The Interim Consolidated Financial Statements were authorized for issue by the Board of Directors on May 22, 2020.

## 3. Use of estimates and judgements

In preparing the Interim Consolidated Financial Statements in accordance with IFRS, management must exercise judgements and make estimates and assumptions that affect the application of accounting policies and the carrying amounts of assets and liabilities, net income and related disclosures.

In March 2020, the outbreak of COVID-19 caused by a novel strain of the coronavirus was recognized as a pandemic by the World Health Organization. Central 1's financial performance during the first quarter of 2020 has been adversely affected by the COVID-19 pandemic. While the full extent and duration of the impact of COVID-19 is currently unknown, the impact to Central 1's results of operations, cash flows and financial position requires management judgements and estimates.

IAS 34 requires disclosures of events and transactions that are significant to understanding changes since last annual report. The most significant areas for which management has made subjective or complex estimates and judgements as a result of the COVID-19 coronavirus outbreak are:

- Expected credit loss (ECL) allowance
- Determining fair value of financial instruments
- Own credit risk
- Income taxes

Except for the significant judgements and estimates made by management to reflect the impact from the COVID-19 coronavirus outbreak as disclosed below, the judgments made by management in applying Central 1's accounting policies and the key sources of estimation uncertainty were the same as those described in Note 4 of Central 1's Annual Audited Consolidated Financial Statements for the year ended December 31, 2019.

### Expected credit loss assessment

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 (SICR) since initial recognition. The determination of a SICR 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 initial recognition, and certain other criteria such as 30-day past due and watchlist status. The assessment of a SICR requires experienced credit judgement.

In determining whether there has been a SICR and in calculating the amount of ECL, 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 ECL allowance.

The calculation of ECL 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 Central 1's 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 Central 1's primary operating markets of Canada. The forecast is developed internally by Central 1's Allowance Working Group (AWG) 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.

Central 1's AWG Committee and Economics updated the forecast of future economic conditions to reflect the uncertainty and velocity of the impact from COVID-19, exercising assumptions and estimates to predict the future performance of the key economic variables. Central 1 also revisited the factors that might have been affected by the impact from COVID-19 to determine if there is a SICR.

### **Determining fair value of financial instruments**

The determination of fair value for financial assets and liabilities requires the exercise of judgement by management. Certain financial instruments are classified as level 2 in the fair value hierarchy, whose fair values are measured using quoted market prices in active markets for similar instruments. At the end of each reporting period, the fair values of these financial instruments are determined using third party sources that supply prices of similar instruments which are priced by third parties, i.e. from various brokers, banks and other financial institutions.

Central 1 uses estimates and judgements to select the similar instruments whose quoted prices have reflected the increasing market volatility during the COVID-19 pandemic to measure the fair values of its level 2 financial instruments.

The determination of fair value of financial assets and liabilities for which there is no observable market price requires the use of valuation techniques which use unobservable inputs (level 3 measurement). Central 1's loans at fair value through profit or loss (FVTPL) and equity investments in cooperative entities are classified as level 3 in the fair value hierarchy where inputs are unobservable.

Whilst the market volatility under the COVID-19 pandemic poses challenges on valuing these instruments, Central 1 makes critical estimates and judgements to adjust these inputs to incorporate how market participants would reflect the impact of COVID-19, if any, in their expectations of the duration and extent of this impact, future cash flows, discount rate and other significant valuation inputs relating to the assets or liabilities at the reporting date.

### **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 during the COVID-19 pandemic.

### **Income taxes**

Central 1 also has a non-capital loss carry forwards which creates a deferred tax asset. The recoverability of these deferred tax assets is determined based on an assessment of Central 1's ability to use the underlying future tax deductions, before they expire, against estimated future taxable income.

Central 1 expects that sufficient future taxable profits can be generated to recover the deferred tax assets.



## 4. Change in accounting policies

### Amendments to IFRS 9, IAS 39 and IFRS 7

In September 2019, the IASB issued Interest Rate Benchmark Reform – Amendments to IFRS 9 (*Financial Instruments*), IAS 39 (*Financial Instruments: Recognition and Measurement*), and IFRS 7 (*Financial Instruments: Disclosures*). The amendments are effective for annual periods beginning on or after January 1, 2020, with earlier application permitted.

The amendments modified specific hedge accounting requirements of IFRS 9 or IAS 39 to provide temporary exceptions to all hedging relationships directly affected by the Interest Rate Benchmark Reform. Under the amendments, the hedge accounting requirements are applied assuming that the interest rate benchmark is not altered, thereby allowing hedge accounting to continue for affected hedges as a result of the uncertainties of the Interest Rate Benchmark Reform. In addition, the amendments to IFRS 7 require additional disclosure about hedging relationships directly affected by this uncertainty arising from the reform.

Central 1 uses interest rate swaps to hedge its exposure to interest rate risk. The notional amount of these swaps totalled \$526.1 million as of March 31, 2020. These hedging relationships are referencing to CDOR benchmark rates. Under the interest rate benchmark reform, these rates may be subject to discontinuance, changes in methodology, increased volatility or decreased liquidity during the transition to new benchmark rates. On transition to IFRS 9, Central 1 made an accounting policy choice to continue applying the IAS 39 hedge accounting requirements. Therefore, Central 1 adopted the amendments to IAS 39 which affect the following areas that are specific to Central 1's current hedging relationships:

- *Prospective assessments:* Applying the amendments, entities will assume that the interest rate benchmark associated with the hedged item, hedge risk and/or hedging instruments is not altered as a result of the interest rate benchmark reform.
- *Retrospective assessments:* It is not required to discontinue a hedging relationship during the period of uncertainty arising from the interest rate benchmark reform solely because the hedge is outside the 80-125% range, causing hedge ineffectiveness.

**5. Securities**

(Thousands of dollars)	Mar 31 2020	Dec 31 2019
<b>Securities FVTPL</b>		
Government and government guaranteed securities	\$ 2,442,323	\$ 2,269,281
Corporate and major financial institutions AA low or greater	907,625	1,150,700
Other	113,363	79,150
Fair value	\$ 3,463,311	\$ 3,499,131
Amortized cost	\$ 3,406,922	\$ 3,477,475

<b>Securities FVOCI</b>		
Government and government guaranteed securities	\$ 561,459	\$ 837,692
Corporate and major financial institutions AA low or greater	500,908	1,264,497
Other	1,082,840	690,775
Fair value	\$ 2,145,207	\$ 2,792,964
Amortized cost	\$ 2,169,366	\$ 2,787,560
Total fair value	\$ 5,608,518	\$ 6,292,095

**Securities held for segregation**

(Thousands of dollars)	Mar 31 2020	Dec 31 2019
<b>Securities FVTPL</b>		
Government and government guaranteed securities	\$ 4,177,700	\$ 4,365,925
Corporate and major financial institutions AA low or greater	974,885	959,335
Other	40,028	-
Fair value	\$ 5,192,613	\$ 5,325,260

<b>Securities FVOCI</b>		
Government and government guaranteed securities	\$ 2,315,891	\$ 2,606,186
Corporate and major financial institutions AA low or greater	689,806	254,326
Other	267,803	-
Fair value	\$ 3,273,500	\$ 2,860,512
Total fair value (Note 9)	\$ 8,466,113	\$ 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 Interim Consolidated Statement of Financial Position at fair value, except for those classified as amortized cost.

The following table provides a breakdown of these reinvestment assets:

(Thousands of dollars)	Mar 31 2020	Dec 31 2019
<b>FVTPL</b>		
Government and government guaranteed securities	\$ 532,577	\$ 521,887
Corporate and major financial institutions AA low or greater	69,649	44,967
Fair Value	602,226	566,854
Amortized cost	\$ 592,845	\$ 565,539
<b>Amortized cost</b>		
Assets acquired under reverse repurchase agreements	\$ 148,900	\$ 120,099
Total reinvestment assets under the Canada Mortgage Bond Program	\$ 751,126	\$ 686,953

## 6. Loans

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

(Thousands of dollars)	Mar 31 2020	Dec 31 2019
<b>Amortized cost</b>		
Due on demand		
Credit unions	\$ 591,452	\$ 493,038
Commercial and others	5,317	688
	<b>596,769</b>	<b>493,726</b>
Term		
Credit unions	25,992	15,499
Commercial and others	887,369	846,521
Reverse repurchase agreements	695,162	615,203
Officers and employees <sup>(1)</sup>	9,685	10,203
	<b>1,618,208</b>	<b>1,487,426</b>
	<b>2,214,977</b>	<b>1,981,152</b>
Accrued interest	2,942	2,808
Premium	1,607	2,188
	<b>2,219,526</b>	<b>1,986,148</b>
Expected credit loss	(1,978)	(1,383)
Amortized cost	<b>2,217,548</b>	<b>1,984,765</b>
Fair value hedge adjustment <sup>(2)</sup>	(765)	(2,898)
Carrying value	<b>\$ 2,216,783</b>	<b>\$ 1,981,867</b>

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

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

(Thousands of dollars)	Mar 31 2020	Dec 31 2019
<b>FVTPL</b>		
Term		
Commercial and others	\$ 15,719	\$ 16,694
Accrued interest	52	53
Premium	26	31
Amortized cost	<b>\$ 15,797</b>	<b>\$ 16,778</b>
Fair value	<b>\$ 16,098</b>	<b>\$ 17,301</b>
Total loans	<b>\$ 2,232,881</b>	<b>\$ 1,999,168</b>

## 7. Derivative instruments

### Hedge accounting

Central 1 uses interest rate swaps to hedge its exposure to changes in the fair value of selected securities at FVOCI, commercial loans and medium-term notes due to changes in interest rates. Interest rate swap terms are largely matched to the terms of the specific hedged items when they are designated as hedging.

The amounts related to hedged items and results of the fair values hedges are as follows:

(Thousands of dollars)	Mar 31 2020			For the three months ended Mar 31 2020		
	Carrying value of hedged items	Carrying value of hedging instruments	Cumulative hedge adjustments from active hedges	Fair value hedge adjustment - Gains (losses)	Change in the fair value on hedging instruments - Gains (losses)	Hedge ineffectiveness recorded in profit (loss)
Securities at fair value through other comprehensive income	\$ 64,250	\$ (3,492)	\$ 3,353	\$ 3,353	\$ (3,492)	\$ (139)
Loans	135,728	182	(765)	2,132	(2,206)	(74)
Debt securities issued	(300,000)	9,113	(8,864)	(10,126)	9,338	(788)
	\$ 5,803	\$ (6,276)	\$ (4,641)	\$ 3,640	\$ (1,001)	

(Thousands of dollars)	Mar 31 2019			For the three months ended Mar 31 2019		
	Carrying value of hedged items	Carrying value of hedging instruments	Cumulative hedge adjustments from active hedges	Fair value hedge adjustment - Gains (losses)	Change in the fair value on hedging instruments - Gains (losses)	Hedge ineffectiveness recorded in profit (loss)
Loans	\$ 158,387	\$ 3,027	\$ (3,417)	\$ 1,394	\$ (1,286)	\$ 108
Debt securities issued	(700,000)	(1,038)	1,569	(5,816)	5,777	(39)
	\$ 1,989	\$ (1,848)	\$ (4,422)	\$ 4,491	\$ 69	

**8. Expected credit loss**

(Thousands of dollars)	Stage 1		Stage 2		Stage 3		Mar 31 2020 Total
ECL on financial assets at amortized cost							
Balance at January 1, 2020	\$	1,111	\$	272	\$	-	\$ 1,383
Impairment loss (recovery) on financial assets							
Purchases and originations		85		-		-	85
Derecognitions and maturities		(10)		(78)		-	(88)
Remeasurements		545		53		-	598
Total impairment loss (recovery) on financial assets		620		(25)		-	595
Balance at March 31, 2020	\$	1,731	\$	247	\$	-	\$ 1,978
ECL on financial assets at FVOCI							
Balance at January 1, 2020	\$	644	\$	-	\$	-	\$ 644
Impairment loss (recovery) on financial assets:							
Transfers in (out) to (from)		(149)		149		-	-
Purchases and originations		114		-		-	114
Derecognitions and maturities		(194)		-		-	(194)
Remeasurements		455		252		-	707
Total impairment loss on financial assets		226		401		-	627
Balance at March 31, 2020	\$	870	\$	401	\$	-	\$ 1,271
Total ECL							
Balance at January 1, 2020	\$	1,755	\$	272	\$	-	\$ 2,027
Impairment loss (recovery) on financial assets:							
Transfers in (out) to (from)		(149)		149		-	-
Purchases and originations		199		-		-	199
Derecognitions and maturities		(204)		(78)		-	(282)
Remeasurements		1,000		305		-	1,305
Total impairment loss on financial assets		846		376		-	1,222
Balance at March 31, 2020	\$	2,601	\$	648	\$	-	\$ 3,249

							Mar 31 2019
(Thousands of dollars)	Stage 1		Stage 2		Stage 3		Total
<b>ECL on financial assets at amortized cost</b>							
Balance at January 1, 2019	\$	838	\$	164	\$	-	\$ 1,002
Impairment loss (recovery) on financial assets							
Purchases and originations		80		-		-	80
Derecognitions and maturities		(13)		(21)		-	(34)
Remeasurements		144		85		-	229
Total impairment loss on financial assets		211		64		-	275
Balance at March 31, 2019	\$	1,049	\$	228	\$	-	\$ 1,277
<b>ECL on financial assets at FVOCI</b>							
Balance at January 1, 2019	\$	484	\$	-	\$	-	\$ 484
Impairment loss (recovery) on financial assets							
Purchases and originations		50		-		-	50
Derecognitions and maturities		(63)		-		-	(63)
Remeasurements		(28)		-		-	(28)
Total impairment recovery on financial assets		(41)		-		-	(41)
Balance at March 31, 2019	\$	443	\$	-	\$	-	\$ 443
<b>Total ECL</b>							
Balance at January 1, 2019	\$	1,322	\$	164	\$	-	\$ 1,486
Impairment loss (recovery) on financial assets							
Purchases and originations		130		-		-	130
Derecognitions and maturities		(76)		(21)		-	(97)
Remeasurements		116		85		-	201
Total impairment loss on financial assets		170		64		-	234
Balance at March 31, 2019	\$	1,492	\$	228	\$	-	\$ 1,720

(Thousands of dollars)				Mar 31 2020	
	Stage 1	Stage 2	Stage 3	Total	
Low Risk	\$ 1,440,957	\$ -	\$ -	\$ 1,440,957	
Medium Risk	754,391	-	-	754,391	
High Risk	-	11,358	-	11,358	
Not Rated	12,820	-	-	12,820	
<b>Total</b>	<b>\$ 2,208,168</b>	<b>\$ 11,358</b>	<b>\$ -</b>	<b>\$ 2,219,526</b>	

(Thousands of dollars)				Dec 31 2019	
	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	
<b>Total</b>	<b>\$ 1,970,095</b>	<b>\$ 16,053</b>	<b>\$ -</b>	<b>\$ 1,986,148</b>	

### Forward looking macroeconomic variables

The inputs that are used to estimate 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. These variables are updated to reflect the impact from the COVID-19 pandemic. Each macroeconomic scenario used in the 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 more granular level.

## 9. MLP 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 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. The operations of the MLP segment are excluded from the results from continuing operations. Financial information relating to the MLP operations are presented in Note 21 for Segment Information and with some additional details as given below:



**Profit (loss) from discontinuing operations**

(Thousands of dollars)	For the three months ended	
	Mar 31 2020	Mar 31 2019
Net financial income (expense) including impairment on financial assets	\$ (35,115)	\$ 12,527
Non-financial income (expense)	1,193	(259)
Net financial and non-financial income (expense)	(33,922)	12,268
Non-financial expense	2,067	1,733
Profit (loss) before income taxes	(35,989)	10,535
Income tax expense (recovery)	(6,265)	1,835
Profit (loss) from discontinuing operations	\$ (29,724)	\$ 8,700

**MLP assets held for segregation**

(Thousands of dollars)	Mar 31 2020	Dec 31 2019
Cash	\$ 17,301	\$ 2,748
Securities	8,466,113	8,185,772
Deferred tax assets	6,188	-
Other assets	-	403
MLP assets held for segregation	\$ 8,489,602	\$ 8,188,923

**MLP liabilities held for segregation**

(Thousands of dollars)	Mar 31 2020	Dec 31 2019
Deposits	\$ 8,006,029	\$ 7,788,430
Settlements in-transit	81,728	-
Other liabilities	849	71
MLP liabilities held for segregation	\$ 8,088,606	\$ 7,788,501

**Cash flow from (used in) discontinuing operations**

(Thousands of dollars)	For the three months ended	
	Mar 31 2020	Mar 31 2019
Net cash from (used in) operating activities	\$ 13,502	\$ (140,550)
Net cash from (used in) financing activities	1,051	(12,707)
Net cash from (used in) discontinuing operations	\$ 14,553	\$ (153,257)

**10. Held for distribution**

Credit unions of British Columbia participated in insurance programs offered by CUPP Services Ltd. (CUPP) and hold preferred shares of CUPP. Central 1 owns 100% voting rights of CUPP and 7% non-voting rights, with the non-controlling interest (NCI) owning the remaining 93% non-voting rights. NCI is presented as a separate component of equity in the Consolidated Statement of Financial Position of Central 1, which represents the equity interests of credit unions in British Columbia in CUPP.

Following the decision to transition out Central 1's insurance operations in early 2019, Central 1 completed the sale of Credit Union Advantage Insurance Brokerage Ltd., a wholly owned subsidiary of Central 1 and a brokerage company of CUPP, 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 (CUMIS), a subsidiary of The Co-operators, renewed these insurance policies on October 1, 2019. CUPP is planning to transition out the existing insurance claims in September 2020 and distribute the remaining funds back to credit unions by the end of 2020. This would result in CUPP winding up in early 2021.

CUPP's planned distribution by the end of 2020 met the criteria to be classified as assets held for distribution in accordance with IFRS 5. CUPP's statement of financial position primarily consists of cash, deposits with regulated financial institutions, securities, and provision for unpaid claims. There is no measurement impact upon the classification of CUPP's assets and liabilities as held for distribution in accordance with IFRS 5.

**Assets held for distribution**

(Thousands of dollars)	Mar 31 2020
Deposits with regulated financial institutions	\$ 4,941
Securities	3,308
Other assets	153
Assets held for distribution	\$ 8,402

**Liabilities held for distribution**

(Thousands of dollars)	Mar 31 2020
Provisions	\$ 1,183
Other liabilities	4
Liabilities held for distribution	\$ 1,187

**11. Other assets**

(Thousands of dollars)	Mar 31 2020	Dec 31 2019
Investment property	\$ 849	\$ 872
Prepaid expenses	14,994	10,226
Post-employment benefits	3,132	3,343
Accounts receivable and other	10,233	8,849
	<b>\$ 29,208</b>	<b>\$ 23,290</b>

**12. Deposits**

(Thousands of dollars)	Mar 31 2020	Dec 31 2019
<b>Deposits designated as FVTPL</b>		
Due within three months	\$ 186,166	\$ 68,021
Due after three months and within one year	365,193	482,082
Due after one year and within five years	336,421	441,482
	<b>887,780</b>	<b>991,585</b>
Accrued interest	9,801	8,452
Amortized cost	\$ 897,581	\$ 1,000,037
Fair value	<b>\$ 902,840</b>	<b>\$ 1,001,562</b>

**Deposits held at amortized cost**

Due on demand	\$ 2,050,473	\$ 1,524,881
Due within three months	833,576	850,346
Due after three months and within one year	551,203	684,544
Due after one year and within five years	152,063	135,882
	<b>3,587,315</b>	<b>3,195,653</b>
Accrued interest	6,861	5,135
Amortized cost	\$ 3,594,176	\$ 3,200,788
Total carrying value	<b>\$ 4,497,016</b>	<b>\$ 4,202,350</b>

**Deposits held for segregation**

(Thousands of dollars)	Mar 31 2020	Dec 31 2019
<b>Deposits designated as FVTPL</b>		
Due within three months	\$ 587,272	\$ 605,450
Due after three months and within one year	2,271,175	2,193,031
Due after one year and within five years	3,028,544	3,215,836
	5,886,991	6,014,317
Accrued interest	43,931	40,822
Amortized cost	\$ 5,930,922	\$ 6,055,139
Fair value	\$ 6,024,028	\$ 6,048,733
<b>Deposits held at amortized cost</b>		
Due within three months	\$ 638,480	\$ 417,344
Due after three months and within one year	168,790	117,363
Due after one year and within five years	1,171,121	1,201,402
	1,978,391	1,736,109
Accrued interest	3,610	3,588
Amortized cost	\$ 1,982,001	\$ 1,739,697
Total carrying value (Note 9)	\$ 8,006,029	\$ 7,788,430

**13. Debt securities issued**

(Thousands of dollars)	Mar 31 2020	Dec 31 2019
<b>Amounts</b>		
Due within three months	\$ 549,331	\$ 892,441
Due after three months and within one year	452,995	39,235
Due after one year and within five years	941,891	1,147,089
	1,944,217	2,078,765
Accrued interest	10,189	5,973
Amortized cost	1,954,406	2,084,738
Fair value hedge adjustment <sup>(1)</sup>	8,864	(1,262)
Carrying value	\$ 1,963,270	\$ 2,083,476

At March 31, 2020, a par value of \$654.3 million was outstanding under the short-term commercial paper facility (December 31, 2019 - \$533.3 million).

On December 6, 2019, Central 1 issued \$300.0 million principal amount of Series 17 medium-term fixed rate notes due December 6, 2023. 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 March 30, 2020, Central 1 re-opened the Series 17 medium-term fixed rate notes and issued an additional \$150 million, which has the same maturity date and bears the same features as the notes issued on December 6, 2019.

On March 16, 2020, the \$400.0 million principal amount of Series 14 medium-term fixed rate notes matured.

#### 14. Obligations under the Canada Mortgage Bond Program

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

(Thousands of dollars)	Mar 31 2020	Dec 31 2019
<b>Amounts</b>		
Due within one year	\$ 558,657	\$ 450,945
Due after one year and within five years	389,392	468,432
	948,049	919,377
Accrued interest	2,042	380
Amortized cost	\$ 950,091	\$ 919,757
Fair value	\$ 961,092	\$ 919,086

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

(Thousands of dollars)	Mar 31 2020	Dec 31 2019
<b>FVTPL</b>		
Total reinvestment assets under the Canada Mortgage Bond Program (see Note 5)	\$ 602,226	\$ 566,854
Assets recognized as securities	209,578	233,829
Fair value	\$ 811,804	\$ 800,683
<b>Amortized cost</b>		
Total reinvestment assets under the Canada Mortgage Bond Program (see Note 5)	\$ 148,900	\$ 120,099
Total underlying assets designated	\$ 960,704	\$ 920,782

## 15. Other liabilities

(Thousands of dollars)	Mar 31 2020	Dec 31 2019
Post-employment benefits	\$ 16,364	\$ 16,476
Short-term employee benefits	15,466	11,523
Dividends payable	-	27,512
Finance Leases	6,527	6,604
Provisions for unpaid claims <sup>(1)</sup>	-	1,680
Accounts payable and other	24,187	33,428
	<b>\$ 62,544</b>	<b>\$ 97,223</b>

<sup>(1)</sup> Provision for unpaid claims are reported under assets held for distribution (Note 10)

## 16. 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)	Mar 31 2020	Dec 31 2019	Mar 31 2019
<b>Number of shares issued</b>			
Class A - credit unions			
Balance at beginning and end of period	43,359	43,359	43,359
Class B - co-operatives			
Balance at beginning and end of period	5	5	5
Class C - other			
Balance at beginning and end of period	7	7	7
Class E - credit unions			
Balance at beginning and end of period	2,154	2,154	2,154
Class F - credit unions			
Balance at beginning of period	396,686	386,547	386,547
Issued during the period	1,051	10,139	1,100
Balance at end of period	397,737	396,686	387,647
<b>Number of treasury shares</b>			
Treasury shares - Class E			
Balance at beginning and end of period	(264)	(264)	(264)

Class F in-cycle share calls are scheduled each May and November in accordance with Central 1's Capital Policy. 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 2019 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, Central 1 issued 1.1 million Class F shares on March 27, 2020 and 1.1 million Class F shares on March 29, 2019, with a price of \$1 per share to member shareholders that had elected to defer part of their Class F share issuance from the March 29, 2018 Class F share transaction. All issuances of Class F shares with respect to the 2018 transaction that had been deferred have been completed.

(Thousands of dollars)	Mar 31 2020	Dec 31 2019	Mar 31 2019
<b>Amount of share capital outstanding</b>			
Outstanding \$1 par value shares			
Class A - credit unions	\$ 43,359	\$ 43,359	\$ 43,359
Class B - cooperatives	5	5	5
Class C - other	7	7	7
Class F - credit unions	397,737	396,686	387,647
Outstanding \$0.01 par value shares			
Class E - credit unions	21	21	21
	<b>441,129</b>	<b>440,078</b>	<b>431,039</b>
<b>Amount of treasury shares</b>			
Treasury shares	(2)	(2)	(2)
Balance at end of period	\$ 441,127	\$ 440,076	\$ 431,037

**17. Gain on disposal of financial instruments**

(Thousands of dollars)	Mar 31 2020	Mar 31 2019
<b>Continuing operations</b>		
Realized gain on securities as at FVTPL	\$ 2,793	\$ 9,519
Realized gain on securities as at FVOCI	1,670	2,207
Realized gain on derivative instruments	1,674	2,226
Realized gain on loans as at FVTPL	5	7
Realized gain (loss) on deposits designated as at FVTPL	(361)	117
Realized loss on obligations related to securities sold short	(5,034)	(1,814)
	<b>\$ 747</b>	<b>\$ 12,262</b>



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

(Thousands of dollars)	Mar 31 2020	Mar 31 2019
<b>Continuing operations</b>		
Securities as at FVTPL	\$ 34,731	\$ 29,237
Loans as at FVTPL	(222)	302
Activities under the Canada Mortgage Bond Program		
Reinvestment assets	8,064	2,260
Derivative instruments	(25,588)	(9,052)
Obligations under the Canada Mortgage Bond Program	(11,673)	(4,582)
Derivative instruments	(33,765)	(12,582)
Financial liabilities as at FVTPL		
Deposits designated as at FVTPL	(11,308)	(4,281)
Obligations related to securities sold short	(3,005)	(1,855)
	\$ (42,766)	\$ (553)

**19. Non-financial income**

(Thousands of dollars)	For the three months ended Mar 31 2020		
	Revenue arising from contracts with customers	Revenue arising from other sources	Total
<b>Continuing operations</b>			
Treasury			
Lending fees	\$ 2,807	\$ -	\$ 2,807
Securitization fees	1,992	-	1,992
Foreign exchange income	-	2,397	2,397
Other	1,305	-	1,305
Digital & Payment Services			
Payment processing and other fees	14,380	-	14,380
Direct banking fees	8,824	-	8,824
System Affiliates & Other			
Equity interest in affiliates	-	(89)	(89)
Income from investees	-	63	63
Membership dues	612	-	612
Other	664	-	664
	\$ 30,584	\$ 2,371	\$ 32,955

(Thousands of dollars)	For the three months ended Mar 31 2019		
	Revenue arising from contracts with customers	Revenue arising from other sources	Total
<b>Continuing operations</b>			
Treasury			
Lending fees	\$ 1,879	\$ -	\$ 1,879
Securitization fees	1,906	-	1,906
Foreign exchange income	-	3,170	3,170
Other	1,566	348	1,914
Digital & Payment Services			
Payment processing and other fees	14,322	-	14,322
Direct banking fees	8,355	-	8,355
System Affiliates & Other			
Equity interest in affiliates	-	1,053	1,053
Income from investees	-	100	100
Membership dues	612	-	612
Other	592	-	592
	\$ 29,232	\$ 4,671	\$ 33,903

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

## 20. Other administrative expense

(Thousands of dollars)	Mar 31 2020	Mar 31 2019
<b>Continuing operations</b>		
Cost of sales and services	\$ 2,209	\$ 2,838
Cost of payments processing	4,360	4,263
Management information systems	6,131	4,688
Professional fees	8,343	5,839
Business development projects	93	187
Other	679	1,106
	\$ 21,815	\$ 18,921

## 21. Segment information

For management reporting purposes, Central 1's operations and activities are organized around three key business segments: Mandatory Liquidity Pool (MLP), Treasury (formerly, Wholesale Financial Services) and Digital & Payment Services. All other activities or transactions, including investments in equity shares of system-related entities, other than the wholly owned subsidiaries, and those 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 a segregation plan to BCFSA to legally segregate the B.C. and Ontario MLPs 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 further details, refer to Note 9.

### Treasury

Treasury 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.

Treasury 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. Treasury 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 Treasury segment.

The Treasury 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, the Forge Retail platform became available for use. The development of the Forge Commercial Banking products has been paused subsequent to the first quarter end of 2020 as a result of the COVID-19 pandemic.

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 & Other**

System Affiliates & Other consist of enterprise level activities which are not allocated to the business segments described above. This business segment includes Central 1's investments in equity shares of system-related entities, other than the wholly owned subsidiaries, and was previously reported as its own business segment, "System Affiliates". It also includes the costs of implementing certain strategic initiatives other than ones included in the key segments of business above.

## **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 Interim Consolidated Financial Statements as described in Note 2.

Periodically, certain business lines and units are transferred among business segments to more closely align Central 1's organizational structure with its strategic priorities. Results for prior periods are restated to conform to the current period presentation.

**Results by segment**

The following table summarizes the segment results for the three months ended March 31, 2020:

(Thousands of dollars)	Mandatory Liquidity Pool*		Treasury		Digital & Payment Services		System Affiliates & Other		Total
Net financial expense, including impairment on financial assets	\$	(35,115)	\$	(31,244)	\$	(88)	\$	-	\$ (66,447)
Non-financial income		1,193		8,501		23,204		1,250	34,148
Net financial and non-financial income		(33,922)		(22,743)		23,116		1,250	(32,299)
Non-financial expense		2,067		8,277		35,807		3,684	49,835
Loss before income taxes		(35,989)		(31,020)		(12,691)		(2,434)	(82,134)
Income tax recovery		(6,265)		(4,770)		(2,202)		(1,863)	(15,100)
<b>Loss</b>	<b>\$</b>	<b>(29,724)</b>	<b>\$</b>	<b>(26,250)</b>	<b>\$</b>	<b>(10,489)</b>	<b>\$</b>	<b>(571)</b>	<b>\$ (67,034)</b>
<b>Total assets as at March 31 2020</b>	<b>\$</b>	<b>8,551,543</b>	<b>\$</b>	<b>9,723,819</b>	<b>\$</b>	<b>22,851</b>	<b>\$</b>	<b>199,598</b>	<b>\$ 18,497,811</b>
<b>Total liabilities as at March 31 2020</b>	<b>\$</b>	<b>8,088,606</b>	<b>\$</b>	<b>9,339,394</b>	<b>\$</b>	<b>(18)</b>	<b>\$</b>	<b>42,570</b>	<b>\$ 17,470,552</b>

\* Total assets of the MLP segment includes certain assets that are not held for segregation.

The following table summarizes the segment results for the three months ended March 31, 2019:

(Thousands of dollars)	Mandatory Liquidity Pool		Treasury		Digital & Payment Services		System Affiliates & Other		Total
Net financial income (expense), including impairment on financial assets	\$	12,527	\$	24,563	\$	(108)	\$	(1,099)	\$ 35,883
Non-financial income		(259)		8,869		22,677		2,357	33,644
Net financial and non-financial income		12,268		33,432		22,569		1,258	69,527
Non-financial expense		1,733		9,633		26,595		3,625	41,586
Profit (loss) before income taxes		10,535		23,799		(4,026)		(2,367)	27,941
Income tax expense (recovery)		1,835		4,160		(631)		(2,547)	2,817
<b>Profit (loss)</b>	<b>\$</b>	<b>8,700</b>	<b>\$</b>	<b>19,639</b>	<b>\$</b>	<b>(3,395)</b>	<b>\$</b>	<b>180</b>	<b>\$ 25,124</b>
<b>Total assets as at March 31 2019</b>	<b>\$</b>	<b>8,085,210</b>	<b>\$</b>	<b>9,322,290</b>	<b>\$</b>	<b>17,273</b>	<b>\$</b>	<b>196,798</b>	<b>\$ 17,621,571</b>
<b>Total liabilities as at March 31 2019</b>	<b>\$</b>	<b>7,598,100</b>	<b>\$</b>	<b>8,927,149</b>	<b>\$</b>	<b>(37,590)</b>	<b>\$</b>	<b>11,437</b>	<b>\$ 16,499,096</b>

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

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

In the normal course of business, Central 1 enters into various off-balance sheet arrangements 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)	Mar 31 2020	Dec 31 2019
Commitments to extend credit	\$ 4,450,457	\$ 4,332,028
Guarantees		
Financial guarantees	\$ 662,600	\$ 622,600
Performance guarantees	\$ 100,000	\$ 100,000
Standby letters of credit	\$ 213,297	\$ 219,787
Future prepayment swap reinvestment commitment	\$ 1,420,961	\$ 1,339,232

Amounts utilized under these agreements representing off-balance sheet amounts for commitments to extend credit, guarantees, and standby letters of credit, respectively, on March 31, 2020 are \$51.5 million, \$384.1 million and \$125.5 million (December 31, 2019 - \$10.7 million, \$472.7 million and \$108.4 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 March 31, 2020 were \$810.0 million (December 31, 2019 - \$810.0 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 March 31, 2020.

**Pledged assets**

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

(Thousands of dollars)	Mar 31 2020	Dec 31 2019
Assets pledged to Bank of Canada & Direct Clearing Organizations <sup>(1)(2)</sup>	\$ 54,354	\$ 53,524
Assets pledged in relation to:		
Derivative financial instrument transactions	76,110	8,169
Securities lending	6,174	15,922
Obligations under the Canada Mortgage Bond Program	180,120	202,193
Reinvestment assets under the Canada Mortgage Bond Program	751,126	686,953
Securities under repurchase agreements	815,743	643,526
	<b>\$ 1,883,627</b>	<b>\$ 1,610,287</b>

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

<sup>(2)</sup> Central 1 also acts as a Group Clearer on behalf of certain other credit union centrals. These centrals are required to pledge securities in respect of their LVTS settlements. Central 1 administers the collateral on their behalf. These securities are not included in the pledge assets.

**23. 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 Central 1's equity investments, quoted market prices are not available, in which case Central 1 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 March 31, 2020 as the most recent available information is not sufficient to measure fair value. Central 1 has determined that this value remains the same as prior periods as disclosed in Note 3.

### Fair value of assets and liabilities classified using the fair value hierarchy

Central 1 measures fair value using the following hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Inputs that are quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instruments' valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect the differences between the instruments.

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

Transfers into and out of Levels 1, 2, and 3 occur when there are changes to the relevant inputs which are consistent with the characteristics of the asset or liability. Transfers are recognized at the end of the reporting period.

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

# Notes to the Interim Consolidated Financial Statements (Unaudited)

Period ended March 31, 2020

Central 1 Credit Union | 35

Mar 31 2020									
(Millions of dollars)	Level 1		Level 2		Level 3		Amounts at Fair Value	Amounts at Amortized Cost <sup>(1)</sup>	Total Carrying Value
<b>Financial assets</b>									
Cash	\$	-	\$	-	\$	-	\$	957.7	\$ 957.7
Securities		-		5,561.2		47.3		5,608.5	5,608.5
Reinvestment assets under the CMB Program		-		751.1		-		751.1	751.1
Loans		-		-		16.1		16.1	2,232.9
Derivative assets		-		96.9		-		96.9	96.9
MLP assets held for segregation		-		8,466.1		-		8,466.1	8,483.4
Assets held for distribution		-		3.3		-		3.3	8.2
<b>Total financial assets</b>		-		14,878.6		63.4		14,942.0	18,138.7
<b>Financial liabilities</b>									
Deposits		-		902.8		-		902.8	4,497.0
Debt securities issued		-		-		-		-	1,963.3
Obligations under the CMB Program		-		961.1		-		961.1	961.1
Subordinated liabilities		-		-		-		-	223.0
Obligations related to securities sold short		-		95.0		-		95.0	95.0
Securities under repurchase agreements		-		-		-		-	815.7
Derivative liabilities		-		161.5		-		161.5	161.5
MLP liabilities held for segregation		-		6,024.0		-		6,024.0	8,087.7
<b>Total financial liabilities</b>	\$	-	\$	8,144.4	\$	-	\$	8,144.4	\$ 8,659.9
									\$ 16,804.3

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

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

Dec 31 2019									
(Millions of dollars)	Level 1		Level 2		Level 3		Amounts at Fair Value	Amounts at Amortized Cost <sup>(1)</sup>	Total Carrying Value
Financial assets	\$	-	\$	15,166.5	\$	64.6	\$ 15,231.1	\$ 2,038.4	\$ 17,269.5
Financial liabilities	\$	-	\$	8,088.8	\$	-	\$ 8,088.8	\$ 7,895.9	\$ 15,984.7

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

The following tables present the change in fair value for financial instruments included in Level 3 of the fair value hierarchy:

(Millions of dollars)	Fair value at Dec 31 2019		Purchases	Disposals	Transfers	Changes in fair value of assets in profit or loss	Fair value at Mar 31 2020
Equity shares	\$	47.3	\$ -	\$ -	\$ -	\$ -	\$ 47.3
Loans		17.3	-	(1.0)	-	(0.2)	16.1
Total financial assets	\$	64.6	\$ -	\$ (1.0)	\$ -	\$ (0.2)	\$ 63.4

## 24. 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.

### Regulatory capital

Central 1's capital levels are regulated under provincial regulations administered by the B.C. Financial Services Authority (BCFSA) (formerly, the Financial Institutions Commission of British Columbia). BCFSA has also adopted the previous federal regulations administered by the Office of the Superintendent of Financial Institutions (OSFI). This regulation requires Central 1 to maintain a borrowing multiple, the ratio of deposit liabilities and other loans payable to total regulatory capital, of 20.0:1 or less.

BCFSA requires a consolidated borrowing multiple of no more than 20.0:1, as well as distinct borrowing multiples on the MLP and Treasury segments. In response to the COVID-19 pandemic and market disruption, BCFSA introduced easing measures to provide financial support to B.C. credit unions and their members during these extraordinary times. These measures included to permit Central 1 to increase its borrowing multiple from 15.0:1 to 18.0:1 for the Treasury segment, effective March 23, 2020, and to increase its borrowing multiple from 17.0:1 to 20.0:1 for the MLP segment, effective March 31, 2020.

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 as at the reporting periods ended March 31, 2020 and March 31, 2019.

## 25. Related party disclosures

Related parties of Central 1 include:

- key management personnel and their close family members;
- Board of Directors and their close family members;
- entities over which Central 1 has control or significant influence; and
- Central 1's post-employment plans as described in Note 30 of the Annual Audited Consolidated Financial Statements for the year ended December 31, 2019.

### 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)	Mar 31 2020	Dec 31 2019
Mortgage loans outstanding at the end of the period	\$ 1,169	\$ 1,179

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

The following table presents the compensation to key management personnel:

(Thousands of dollars)	Mar 31 2020	Mar 31 2019
Salaries and short-term employee benefits	\$ 1,274	\$ 1,084
Post-employment benefits	61	50
	\$ 1,335	\$ 1,134

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

**Transactions with Board of Directors**

(Thousands of dollars)	Mar 31 2020	Mar 31 2019
Total remuneration	\$ 142	\$ 147

**Significant subsidiaries**

(% of direct ownership outstanding)	Mar 31 2020	Dec 31 2019
Central 1 Trust Company	100%	100%
CUPP Services Ltd.	100%	100%
C1 Ventures (VCC) Ltd.	100%	100%
0789376 B.C. Ltd.	100%	100%

**Investment in affiliates**

(% of direct ownership outstanding)	Mar 31 2020	Dec 31 2019
The CUMIS Group Limited	27%	27%
CU Cumis Wealth Holdings LP	35%	35%
189286 Canada Inc.	52%	52%
Agility Forex Ltd.	28%	28%

**Substantial investments**

(% of direct ownership outstanding)	Mar 31 2020	Dec 31 2019
The Co-operators Group Limited	21%	21%
Canadian Credit Union Association	59%	59%