

# Quarterly Report

For the Third Quarter of 2020

## Third Quarter Results

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

- Profit after tax of \$25.6 million, compared to profit after tax of \$5.7 million.
- Assets of \$23.2 billion, up 26.1 per cent from \$18.4 billion.

During the quarter, Central 1 continued to help its members and clients navigate the effects of the pandemic by delivering essential and innovative financial, digital and payments products and services. As Canadians accelerated their usage of digital channels, Central 1 has responded by providing stable and advanced digital banking and payments tools to meet the increased demands.

“Our business has performed well in spite of the significant amount of uncertainty related to the economy and pandemic,” said Mark Blucher, Central 1 President and CEO. “Our results reflect the strength of our organization and our ability to operate in this new environment. Our consultative approach means we are focused on making the right decisions that create sustainable value while balancing the diverse needs of our members and clients.”

The organization remains focused on supporting the credit union system and ensuring the system’s resilience and success. Central 1 is currently well positioned to provide support to credit unions, who have increased their levels of liquidity. In response to the current economic environment, the portfolio team increased the proportion of short term and cash assets to maximize flexibility and responsiveness to any increase in liquidity needs.

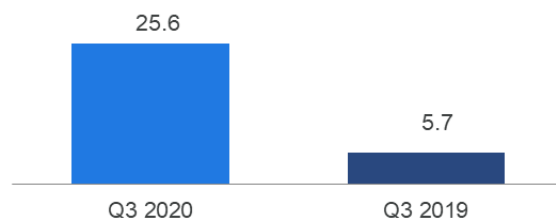
Central 1 has been powering financial institutions for more than 75 years. The organization has sustained success over the long-term, in part because of its unique place in the cooperative banking ecosystem and the ability to evolve its business. Central 1’s scale, strength and expertise remain the source 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.

## Economic and Financial Markets Overview

The recovery from the initial wave of the COVID-19 pandemic is well underway. Economies have mostly relaxed their restrictions, but some are still not completely open. Many recommendations are still in place to help minimize the spread of the virus such as maintaining social distance, wearing face masks, and not having large gatherings. Governments and Central Banks continued to aid the economies through both fiscal and monetary stimulus. If governments are unable to control the infection rates to levels that healthcare systems can handle, severe restrictions may resume, and economies may contract again.

## Third Quarter Consolidated Results

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



While the first quarter of 2020 saw a significant widening of credit spreads, the second quarter saw the reversion of credit spreads toward levels more consistent with historical norms. This trend continued into the third quarter as market volatility continued to decrease and many Canadian provinces continued to ease their COVID-19 related restrictions. Third quarter consolidated results reflected a \$19.9 million increase from the same quarter last year, driven by the continued narrowing of credit spreads resulting in a \$18.6 million increase in net realized and unrealized gains from the same period last year.

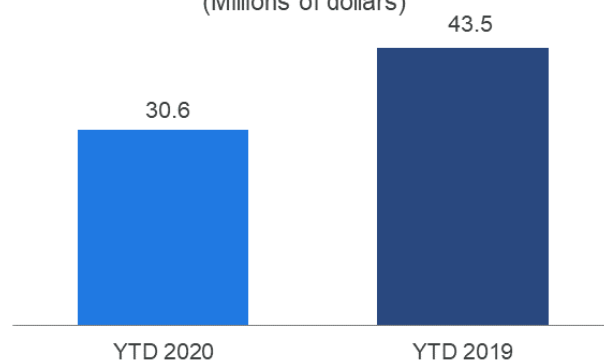
The Mandatory Liquidity Pool (MLP) reported a profit after tax of \$5.4 million for the third quarter of 2020, compared to a profit after tax of \$2.9 million in the same period last year. The continued narrowing of credit spreads during the quarter recovered the temporary loss from the first quarter, resulting in a \$9.1 million year-over-year increase in net realized and unrealized gains. Offsetting this was a \$5.1 million decrease in interest margin reflecting shortened portfolio durations in anticipation of the segregation.

Excluding the results from the MLP, Central 1's third quarter results of \$20.2 million saw an increase of \$17.4 million in profit after tax from the same period a year ago. Interest margin was \$10.6 million higher supported by strong growth in the investment portfolios and the reduced debt outstanding during the period. Credit

spreads continued to narrow in the third quarter and recovered the temporary loss from the first quarter, which led to a year-over-year increase of \$9.6 million in net realized and unrealized gains. Non-financial income and non-financial expense remained relatively stable and investments in strategic initiatives continued with the amount spent being \$1.4 million lower from the same period last year.

## Year-To-Date Consolidated Results

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

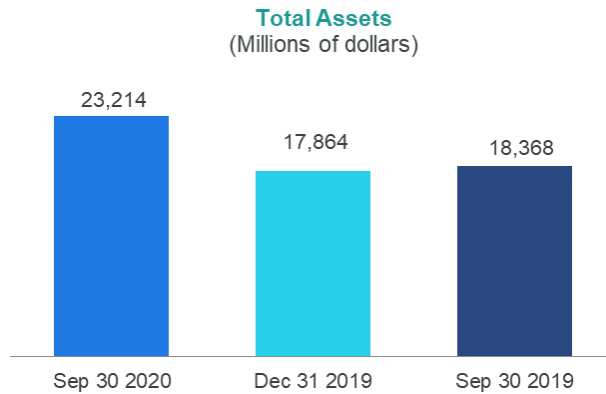


The COVID-19 pandemic continued to impact Central 1's consolidated results for the first nine months of 2020, which were down \$12.9 million from the same period of 2019.

The MLP reported a profit after tax of \$7.8 million for the first nine months of 2020, down \$11.5 million year-over-year, primarily driven by a \$11.7 million decrease in interest margin. The flatter yield curve and higher demand for short-term investments led to reduced interest margin within the portfolio.

Excluding the results from the MLP, Central 1's year-to-date results saw a profit after tax of \$22.8 million, down \$1.4 million compared to the same period last year. Growth in the size of Central 1's investment portfolios and the reduction in the external debt contributed to \$13.3 million higher interest margin compared to the same period last year. This was offset by a \$5.3 million decrease in net realized and unrealized gains as a result of shortened durations on investment portfolios causing less exposure for credit spread movements and a \$3.2 million increase in expected credit loss (ECL) reflecting the deterioration in the economic outlook during the pandemic. Income from equity investments also decreased \$6.5 million and investments in strategic initiatives increased \$3.9 million year-over-year. The combined impact of these movements led to an overall small decrease in profit after tax from the same period last year.

## Statement of Financial Position



In response to the potential economic impact of COVID-19 many credit unions continued to hold elevated levels of liquidity. As a result, there was an increase in deposits held at Central 1 during the first nine months of 2020. The investment of these funds can be observed by the increase in total assets in 2020, reflective of member credit unions depositing their excess liquidity with Central 1.

## Treasury

Treasury saw a \$19.6 million increase in profit before tax from the same quarter last year. Interest margin increased \$10.6 million year-over-year, benefiting from the strong growth in Central 1's investment portfolios, as a result of credit unions continuing to place greater level of deposits with Central 1, combined with the reduced use of commercial paper facility. Credit spreads continued to narrow in the third quarter, which led to a \$9.6 million increase in net realized and unrealized gains from the same period last year. Treasury's cash and liquid assets at September 30, 2020 increased \$4.7 billion from December 31, 2019, supported by growth in deposits.

Treasury continues to deliver strong and consistent contributions to the earnings of Central 1. In addition to the strong financial performance of 2020, liquidity at Central 1 continues to be robust as non-mandatory deposits remain at an all-time high, increasing by over \$4.6 billion during 2020.

## Digital & Payment Services

Digital & Payment Services saw an increase in *Interac® e-Transfer* volumes in the Electronic Payments area during the third quarter of 2020, reflecting the increased usage of online payments during the COVID-19 pandemic. Investment in strategic initiatives continued, including the development and rollout of the Forge Digital banking Platform (Forge) and payments modernization with the costs incurred being \$1.2 million higher than the same period last year. Combined, this segment experienced a loss before tax of \$5.8 million compared to a loss before tax of \$6.8 million reported in the third quarter of 2019.

Central 1 continues to prioritize the onboarding of over 170 clients onto Forge, with 98 implementations in the pipeline into 2021. As implementations continue, Central 1 is ensuring a stable and secure transition by continuing to provide support and a good user experience through predecessor platform *MemberDirect®*.

Over the summer months, there was increased focus on enhancing opportunities with Forge Community. Dedication was placed on enabling key providers onto the Forge platform, ranging from industry innovators such as the Back Office Collaborative and G&F Financial Group, to fintechs such as Do Some Good, ASAPP Financial Technology Inc. and thirdstream. This priority will ensure Forge clients are kept on the cusp of innovation through ongoing collaboration and a growing choice of providers.

Within Payments, Central 1 is making good progress on advancing its payments strategy which is designed to position the credit union system and financial services industry for growth and innovation. In addition, the strategy ensures its members and clients are at the forefront of Canada's digital payments future through Central 1's robust, cost-efficient, and modernized payments infrastructure.

In the third quarter, Central 1 reached important milestones to ensure its members and clients experience a seamless transition in their wire transfers when Central 1 transfers to Canada's new high-value payments system (Lynx) next year. The organization began Lynx Release 1 training with Payments Canada – a critical step that will enable its payments team to participate in industry testing, develop internal processes and procedures, and train others on the team so that they are ready for Lynx Release 1 go-live in the third quarter of 2021.

Central 1 also successfully passed the first two of four Lynx connectivity tests and has begun user acceptance testing for the SWIFT gateway upgrade with Expertus, allowing for modern wires infrastructure which is a critical requirement for the transition from Large Value Transfer System to Lynx. Central 1 is actively involved in the completion and approval of the Lynx Test Strategy by the industry.

Volumes of *Interac® e-Transfer* transactions are significantly higher compared to the same period last year; a trend that is expected to continue as Canadians accelerate their use of digital payments.

### **Mandatory Liquidity Pool**

MLP's third quarter results of \$6.6 million profit before tax benefited from the continued narrowing of credit spreads generating a year-over-year increase of \$9.1 million in net realized and unrealized gains. This was offset by a \$5.1 million decrease in interest margin due to the flatter yield curve and shorter durations for investments, leading to the MLP reporting a \$2.9 million increase in its profit before tax for the third quarter compared to the same quarter of 2019.

On October 2, 2020, Central 1 announced its members passed a special resolution approving amendments to Central 1's Constitution and Rules. The amendments proposed were in connection with the plan to legally segregate the Mandatory Liquidity Pool (MLP) to restructure system liquidity for the benefit of members. The vote in favour of the amendments enables Central 1 and its members to continue working towards segregating the MLP by the end of the year. Central 1 is committed to supporting and engaging its members throughout the entire process.

The amendments are subject to the consent of the British Columbia Financial Services Authority and will come into effect at a time determined by the Board of Directors of Central 1.

# Management's Discussion & Analysis

September 30, 2020

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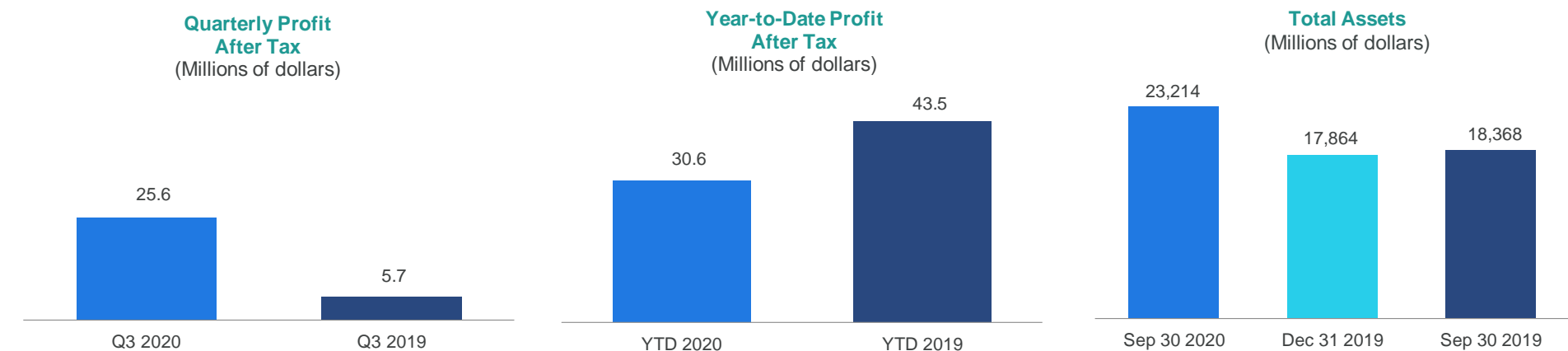
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In this Management's Discussion and Analysis (MD&A), unless the context otherwise requires, references to "Central 1", "we", "us" and "our" refer to Central 1 Credit Union and its subsidiaries. This MD&A is dated November 26, 2020. The financial information included in this MD&A should be read in conjunction with our Interim Consolidated Financial Statements for the periods ended September 30, 2020 and September 30, 2019 (Interim Consolidated Financial Statements), which were authorized for issue by the Board of Directors (the Board) on November 26, 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)	For the three months ended			For the nine months ended		
	Sep 30 2020	Sep 30 2019	Change	Sep 30 2020	Sep 30 2019	Change
<b>Continuing operations</b>						
Net financial income, including impairment on financial assets	\$ 32.1	\$ 11.7	\$ 20.4	\$ 57.3	\$ 52.4	\$ 4.9
Non-financial income	34.1	37.4	(3.3)	100.7	108.2	(7.5)
Net financial and non-financial income	66.2	49.1	17.1	158.0	160.6	(2.6)
Non-financial expense	28.2	31.6	(3.4)	91.2	96.5	(5.3)
	38.0	17.5	20.5	66.8	64.1	2.7
Strategic initiatives	13.6	15.0	(1.4)	42.6	38.7	3.9
Income tax (recovery)	4.2	(0.3)	4.5	1.4	1.2	0.2
<b>Profit after tax from continuing operations</b>	\$ 20.2	\$ 2.8	\$ 17.4	\$ 22.8	\$ 24.2	\$ (1.4)
<b>Profit after tax from discontinuing operations</b>	\$ 5.4	\$ 2.9	\$ 2.5	\$ 7.8	\$ 19.3	\$ (11.5)
<b>Profit after tax</b>	\$ 25.6	\$ 5.7	\$ 19.9	\$ 30.6	\$ 43.5	\$ (12.9)

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, profit after tax for the third quarter of 2020 was \$19.9 million higher compared to the same period a year ago. Year-to-date profit after tax was \$30.6 million, compared to a profit after tax of \$43.5 million for the same period of 2019.

## Continuing Operations

Third quarter results for continuing operations reflected a \$17.4 million increase in profit after tax from the same period last year, driven by a \$20.4 million increase in net financial income. Interest margin saw a \$10.6 million increase, benefiting from strong growth in our investment portfolios and the reduction in the commercial paper facility. While the first quarter of 2020 saw a significant widening of credit spreads, these spreads narrowed in the second and third quarters toward levels prior to the COVID-19 pandemic as market volatility continued to decrease and many Canadian provinces continued to ease their COVID-19 related restrictions. The change in fair value at the end of the third quarter recovered and exceeded all losses from the first quarter of 2020, with an aggregate unrealized gain of \$46.0 million recognized in the second and third quarters compared to an unrealized loss of \$42.8 million in the first quarter. Compared to the same quarter last year,

third quarter reflected a \$9.6 million increase in net realized and unrealized gains. Non-financial income and non-financial expense remained relatively stable and the investments in strategic initiatives continued into the third quarter with the amount spent being \$1.4 million lower year-over-year.

Year-to-date results for continuing operations saw a \$1.4 million decrease in profit after tax from the same period of 2019. Despite lower Government of Canada (GoC) bond yields, interest margin increased by \$13.3 million year-over-year, benefiting from the strong growth in our investment portfolios and the reduction in the external debt. Offsetting this was a \$5.3 million decrease in net realized and unrealized gains due to shorter durations on the investments portfolios causing less exposure to credit spread movements and a \$3.2 million increase in expected credit loss (ECL) to reflect the deterioration in the economic outlook as a result of the pandemic. Income from our equity investments also decreased by \$6.5 million and investments in strategic initiatives increased \$3.9 million year-over-year.

## Discontinuing Operations

At September 30, 2020, the Mandatory Liquidity Pool (MLP) continues to be presented separately within the consolidated results following the approved segregation plan in 2019. Third quarter results for discontinuing operations saw a \$2.5 million increase in profit after tax from the same period last year. Credit spreads continued to narrow in the third quarter recovering the temporary market loss from the first quarter, representing an aggregate unrealized gain of \$41.4 million recognized in the second and third quarters compared to an unrealized loss of \$44.0 million from the first quarter. Compared to the same period last year, third quarter results reflected a \$9.1 million increase in net realized and unrealized gains. This increase was partially offset by a \$5.1 million decrease in interest margin reflecting shorter durations in investments in anticipation of the segregation.

Year-to-date results for discontinuing operations saw a \$11.5 million decrease in profit after tax compared to the same period last year, primarily due to a \$11.7 million decrease in interest margin. The flatter yield curve and shorter durations for investments have resulted in a reduction in interest margin within the portfolio.

Selected Financial Information						
	Sep 30 2020	For the three months ended		Sep 30 2020	For the nine months ended	
		Sep 30 2019	Change		Sep 30 2019	Change
Return on average assets	0.5%	0.1%		0.2%	0.3%	
Return on average equity	9.2%	2.0%		3.8%	5.2%	
Earnings per share (cents) <sup>(1)</sup>						
Basic/Diluted	5.8	1.3	4.5	6.9	10.1	(3.2)
Basic/Diluted from continuing operations	4.6	0.6	4.0	5.2	5.6	(0.4)
Basic/Diluted from discontinuing operations	1.2	0.7	0.5	1.7	4.5	(2.8)
Weighted average shares outstanding (number of shares)	441.1	431.2	9.9	440.8	430.7	10.1
Average assets (millions of dollars)	\$ 22,606.4	\$ 17,280.2	\$ 5,326.2	\$ 20,420.4	\$ 17,176.1	\$ 3,244.3

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

Selected Financial Information				
	Sep 30 2020	Dec 31 2019	As at Sep 30 2019	
<b>Balance sheet</b> <i>(millions of dollars)</i>				
Total assets	\$ 23,214.0	\$ 17,864.1	\$	18,367.9
<b>Regulatory ratios</b>				
Tier 1 capital ratio	22.2%	33.5%		36.2%
Provincial capital ratio	27.1%	41.2%		44.3%
Borrowing multiple	17.2:1	13.5:1		13.7:1
Risk weighted assets used in capital ratios <i>(millions of dollars)</i>	\$ 4,435.0	\$ 2,857.4	\$	2,739.0
<b>Share Information</b> <i>(thousands of dollars, unless otherwise indicated)</i>				
Outstanding \$1 par value shares				
Class A - credit unions	\$ 43,359	\$ 43,359	\$	43,359
Class B - cooperatives	\$ 5	\$ 5	\$	5
Class C - other	\$ 7	\$ 7	\$	7
Class F - credit unions	\$ 397,737	\$ 396,686	\$	387,776
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. Total assets increased \$5.3 billion from year-end and \$4.8 billion from a year ago, largely due to the strong growth in deposits as a result of credit unions holding additional liquidity in response to the potential economic impact of COVID-19.

Regulatory ratios declined from the same period a year ago due to an increase in total risk weighted assets (RWA), reflective of the increase in total assets. The borrowing multiple increased compared to the prior year-end as a result of growth in mandatory and non-mandatory deposits. Central 1 was in compliance with all regulatory capital requirements throughout the reporting periods ended September 30, 2020 and September 30, 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.

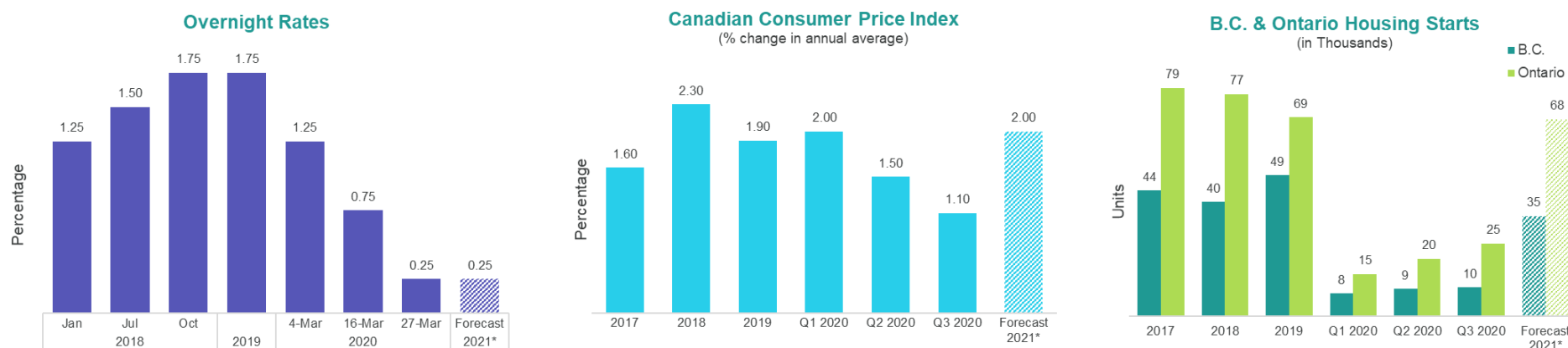
Readers are cautioned that the foregoing list is not intended to be exhaustive and other factors may adversely impact our results. We do not undertake to update forward-looking statements except as required by law.

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



\*Forecast source: Central 1 Economics

Economic activity increased in the United States this quarter as measures put in place to contain COVID-19 began to relax despite the growing number of cases. However, the gains seen were modest and activity remains below levels prior to the pandemic. Manufacturing also rose, alongside activity in ports, transportation and distribution firms. Consumer spending also picked up, with strong automobile sales and improvements in both tourism and retail sectors but total spending

remained below pre-pandemic levels. Residential sales and construction showed growth and appeared very resilient as prices continued to move up because of strong demand and low inventories. As a result, there was also solid activity in residential mortgages. When released, third quarter Gross Domestic Product (GDP) growth is expected to come in at 23.9 per cent on an annualized basis according to The Wall Street Journal, but they forecast fourth quarter GDP growth to drop down closer to 3.8 per cent. Unemployment numbers also continued to improve ending at 7.9 per cent at the end of the third quarter. Economic recovery seemed well under way but may begin to stall as previous benefits approved by the federal government ended and new stimulus talks begin to stall.

The Canadian economy made a partial recovery after a record decrease in economic activity in the second quarter. Retail sales have since rebounded to exceed pre-pandemic levels as businesses resumed operations with COVID-19 restrictions being relaxed. Home sales also returned, with the numbers hitting record highs in major markets like Toronto and Vancouver. Agricultural, banking and forestry output also returned above pre-pandemic levels, but industries like restaurants, energy, and transportation still lag and are expected to continue well into the fourth quarter and beyond. Central 1 Economics estimates third quarter GDP to come in at around 35.0 per cent and forecasts fourth quarter GDP to be at around 5.0 per cent. The unemployment rate has continued to decline, with the most recent monthly number coming in at 10.2 per cent and is expected to continue to fall. The 2.3 million of the 3.0 million jobs lost have also returned. But if restrictions and lockdowns begin to come back all over the country, like they have returned to major cities in Quebec and Ontario because of the second wave of COVID-19, these numbers could begin to deteriorate again.

### Financial Markets

Financial markets have recovered well from the effects of COVID-19 due to continued action from Central Banks. The Bank of Canada (BoC) and the U.S. Federal Reserve continued with their quantitative easing programs, making large scale asset purchases in order to maintain the low interest rate environment. In both markets, there are 5-year rates below 40 basis points and 10-year rates below 100 basis points. These rates are expected to remain low well into 2021. This translated to mortgage rates being as low as they have ever been. Global financial markets remained stable over the quarter and some commodity prices firmed, but oil prices remained weak. Funding markets also operated as normal and led to a decline in the use of short-term liquidity programs. Stock markets also mostly recovered with the S&P500 at all-time highs. Inflation was close to zero from the downward pressure from energy prices and travel services and are expected to remain below the target rate of 2.0 per cent.

### Industry Regulation

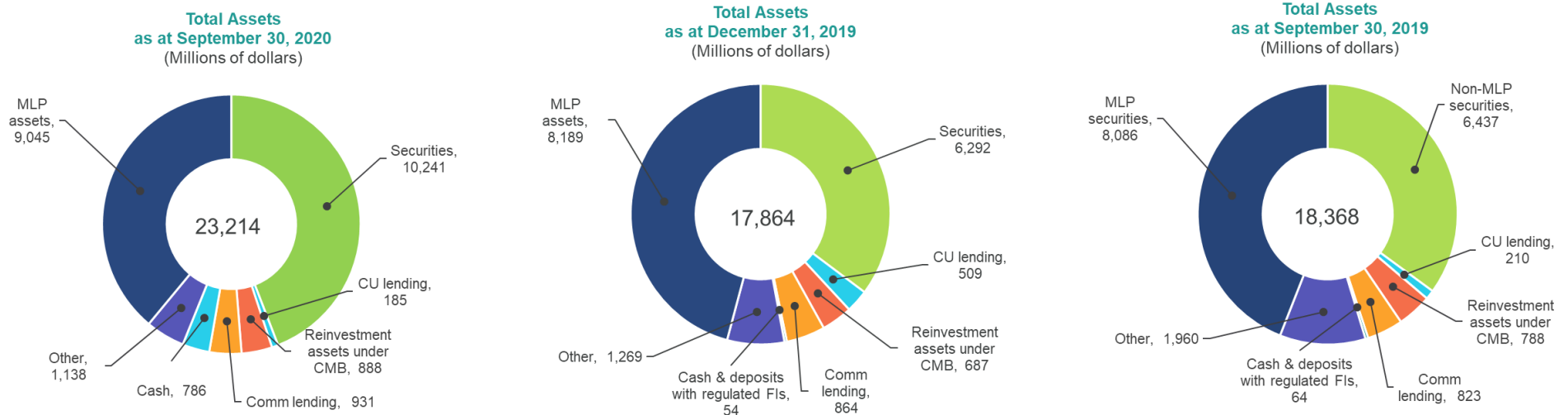
The third quarter of 2020 saw improvement in the economic situation in B.C., Ontario and federally, and governments began transitioning their efforts from emergency response to long term economic recovery planning, while also trying to prepare for a second wave of COVID-19 before the end of 2020. The Canada Emergency Response Benefit (CERB) was extended to the end of September, Canada Emergency Wage Subsidy (CEWS) was extended into 2021, and the Canada Emergency Business Account loan program was extended as well.

In B.C., the BCFSA updated its regulatory easing measures to support the credit union sector, credit union members and local communities, including adjustments to the capital treatment of loan deferrals, and an extension to the regulatory filing deadline. For Central 1 in particular, BCFSA further extended the period in which we were able to apply a higher MLP and Treasury borrowing multiple, to continue enabling us to source additional liquidity to assist credit unions with managing member demands. Similar liquidity ratio adjustments that had been granted to credit unions were also extended.

Additionally, in light of the extraordinary levels of market uncertainty caused by the COVID-19 pandemic, BCFSA has agreed to a proposal to help manage potential market valuation risk associated with segregating credit unions' MLP. In the event that market valuation losses in the MLP caused by the segregation would exceed \$5.0 million if transferred on the segregation date, BCFSA will permit Central 1 to proceed with a phased-in approach to segregation, provided that the full legal segregation is completed no later than June 30, 2021.

## Statement of Financial Position

### Total Assets



Total assets at September 30, 2020 saw an increase of \$5.3 billion from December 31, 2019, supported by the strong growth in deposits. In response to the potential economic impact of COVID-19 many credit unions continued to hold elevated levels of liquidity reflective of additional deposits placed with Central 1. Compared to a year ago, Central 1's total assets increased by \$4.8 billion, also reflective of member credit unions depositing their excess liquidity with Central 1.

At September 30, 2020, the assets and liabilities of the MLP continued to be classified as MLP assets and liabilities held for segregation on Central 1's Interim Consolidated Statement of Financial Position following the approval from Central 1's Board in November 2019 of a plan to legally segregate MLP. On October 2, 2020, Central 1 announced that its members passed a special resolution approving amendments to Central 1's Constitution and Rules. The amendments proposed were in connection with the plan to legally segregate the MLP to restructure system liquidity for the benefit of members.

At September 30, 2020, one of Central 1's subsidiaries' assets and liabilities continued to be 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

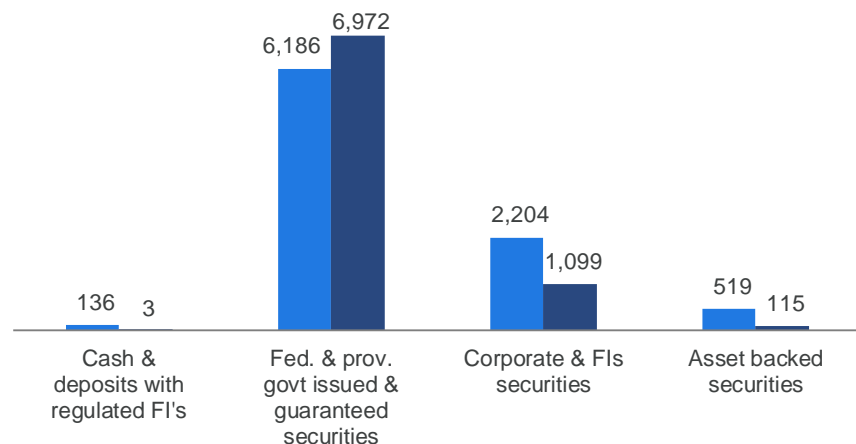
### MLP Liquid Assets

Sep 30 2020: \$9,045

(Millions of dollars)

■ Sep 30 2020

■ Dec 31 2019



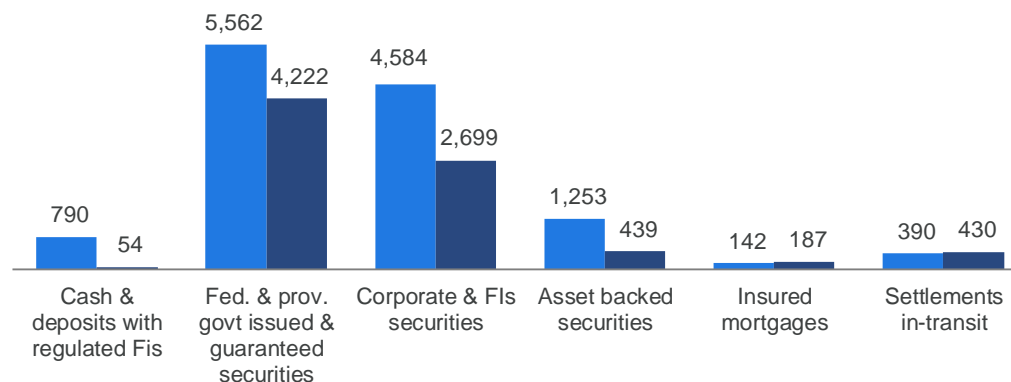
### Treasury Liquid Assets

Sep 30 2020: \$12,719

(Millions of dollars)

■ Sep 30 2020

■ Dec 31 2019



Sep 30 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	\$ 136.3	\$	\$ 789.5	\$ -	\$ 789.5	\$ -	\$ 789.5
Federal and provincial government issued and guaranteed securities	6,186.0		5,103.7	457.8	5,561.5	1,764.8	3,796.7
Corporate and financial institutions securities	2,203.8		4,584.0	-	4,584.0	35.6	4,548.4
Asset backed securities	519.2		1,253.0	-	1,253.0	57.0	1,196.0
Insured mortgages	-		141.6	-	141.6	44.6	97.0
Settlements in-transit	-		389.5	-	389.5	-	389.5
<b>Total</b>	<b>\$ 9,045.3</b>	<b>\$</b>	<b>\$ 12,261.3</b>	<b>\$ 457.8</b>	<b>\$ 12,719.1</b>	<b>\$ 1,902.0</b>	<b>\$ 10,817.1</b>

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

\*\* Assets of the MLP segment only include MLP assets held for segregation.

## Management's Discussion and Analysis

As at November 26, 2020

Central 1 Credit Union | 9

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
<b>Total</b>	<b>\$ 8,188.5</b>	<b>\$ 7,415.5</b>	<b>\$ 615.5</b>	<b>\$ 8,031.0</b>	<b>\$ 1,610.2</b>	<b>\$ 6,420.8</b>

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

\*\* Assets of the MLP segment only include MLP assets held for segregation.

Sep 30 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	\$ 46.7	\$ 17.1	\$ -	\$ 17.1	\$ -	\$ 17.1
Federal and provincial government issued and guaranteed securities	7,222.6	3,501.4	1,431.8	4,933.2	1,858.4	3,074.8
Corporate and financial institutions securities	763.5	2,922.4	-	2,922.4	10.5	2,911.9
Asset backed securities	100.0	365.6	-	365.6	69.0	296.7
Insured mortgages	-	388.3	-	388.3	88.7	299.6
Settlements in-transit	-	338.3	-	338.3	-	338.3
<b>Total</b>	<b>\$ 8,132.8</b>	<b>\$ 7,533.1</b>	<b>\$ 1,431.8</b>	<b>\$ 8,964.9</b>	<b>\$ 2,026.6</b>	<b>\$ 6,938.3</b>

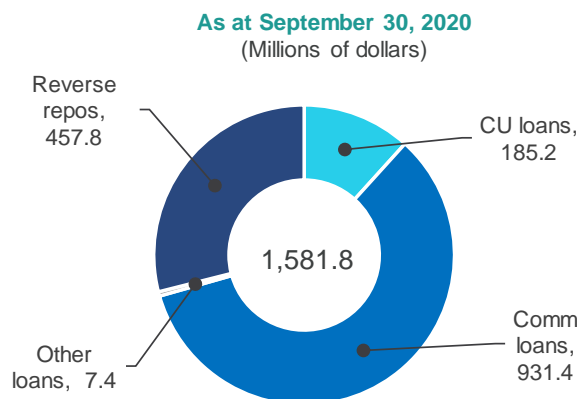
\*Unencumbered assets include high quality liquid assets that are marketable, can be pledged as security for borrowings, and can be converted to cash in a time frame that meets our liquidity and funding requirements.

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 to support the liquidity requirements to ensure that credit unions have access to reliable and cost-effective sources of liquidity.

In response to the potential economic impact of COVID-19 many credit unions are holding elevated levels of liquidity. As a result, Central 1 has seen an increase in the deposits held at Central 1 in 2020. This was evident in Treasury's cash and liquid assets at September 30, 2020 which increased by \$4.7 billion from December 31, 2019 and \$3.8 billion from a year ago.

With the credit union system holding elevated levels of liquidity, Central 1 also saw increased mandatory deposits at September 30, 2020. As such, the MLP's cash and liquid assets increased by \$0.9 billion at September 30, 2020 from December 31, 2019. The year-over-year comparison of the MLP's cash and liquid assets also illustrated consistent deposit growth within our member credit unions, up \$0.9 billion from September 30, 2019.

## Loans



(Millions of dollars)	Sep 30 2020	Dec 31 2019	Sep 30 2019
Loans to credit unions	\$ 185.2	\$ 508.5	\$ 209.7
Commercial loans	931.4	863.9	822.5
Other loans	7.4	10.2	9.8
	938.8	874.1	832.3
Reverse repurchase agreements	457.8	615.2	1,431.4
	\$ 1,581.8	\$ 1,997.8	\$ 2,473.4

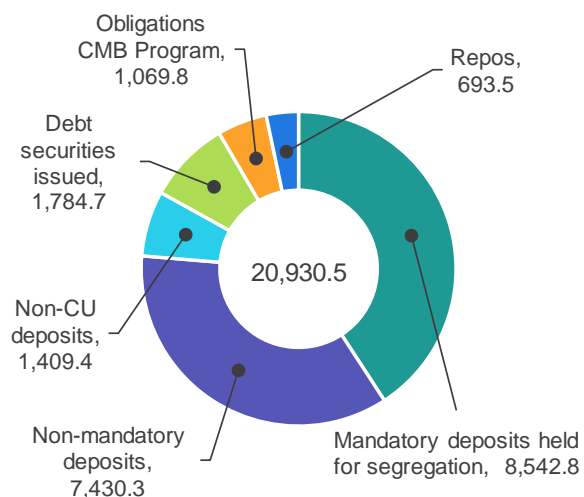
\*Total loan balances are before the allowance for credit losses and exclude accrued interest, premium and fair value hedge adjustment.

Central 1 provides clearing lines of credit and short- and medium-term loans to its members. All lending activities are closely integrated and coordinated within their liquidity management framework. Clearing lines of credit are available in two currencies and 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. Central 1 also participates in loan syndications with its members which is categorized as commercial loans on the Interim Consolidated Statement of Financial Position.

During the first quarter of 2020, some credit unions drew on Central 1 lending facilities to immediately increase their liquidity reserve. Since then, credit unions have taken further steps to ensure they are well positioned in case of any negative economic shocks that reverberate from the COVID-19 pandemic. As a result, credit unions have repaid most of their outstanding loans to Central 1. As of September 30, 2020, total loans outstanding from credit unions decreased by \$323.3 million from \$508.5 million as of December 31, 2019 to \$185.2 million as of September 30, 2020. Total loans at the end of September 2020 were slightly lower than levels at the end of September 2019.

## Funding

**As at September 30, 2020**  
(Millions of dollars)



(Millions of dollars)	Sep 30 2020	Dec 31 2019	Sep 30 2019
<b>Deposits</b>			
Mandatory deposits held for segregation	\$ 8,542.8	\$ 7,788.4	\$ -
Mandatory deposits	-	-	7,631.8
Non-mandatory deposits	7,430.3	3,592.1	4,081.3
Deposits from member credit unions	15,973.1	11,380.5	11,713.1
Deposits from non-credit unions	1,409.4	610.3	608.3
	17,382.5	11,990.8	12,321.4
<b>Debt securities issued</b>			
Commercial paper issued	250.2	531.8	507.0
Medium-term notes issued	1,311.3	1,551.7	1,254.6
Subordinated liabilities	223.2	221.5	222.9
	1,784.7	2,305.0	1,984.5
Obligations under the Canada Mortgage Bond (CMB) Program	1,069.8	919.1	1,083.3
Securities under repurchase agreements	693.5	643.5	892.4
	\$ 20,930.5	\$ 15,858.4	\$ 16,281.6

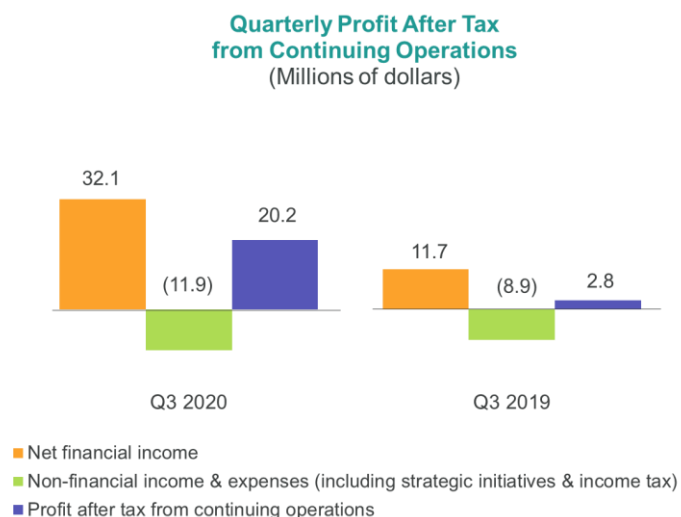
Central 1's primary funding source for Treasury is credit unions' excess liquidity deposits. Further funding diversification is achieved through the issuance of commercial paper, medium-term notes, subordinated debt and participation in securitization programs.

Total deposits increased \$5.3 billion from December 31, 2019 and \$5.1 billion year-over-year, driven primarily by an increase in non-mandatory deposits. The increase in deposit funding has allowed Central 1 to decrease its debt securities issued by \$0.5 billion as compared to December 31, 2019. This was accomplished through reducing commercial paper and medium-term notes outstanding as they matured.

## Statement of Profit

### Q3 2020 vs Q3 2019

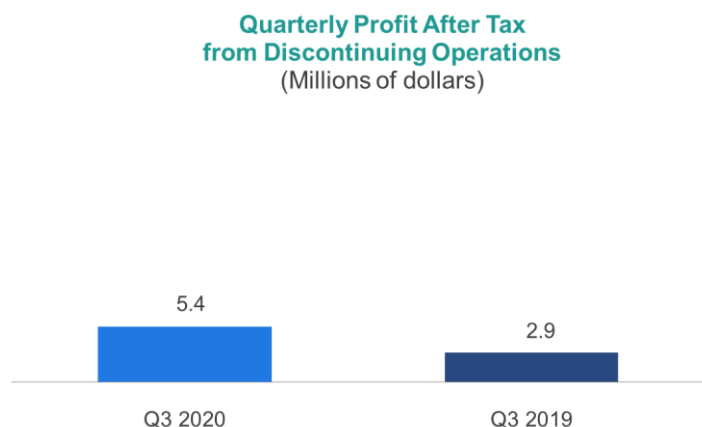
#### Continuing Operations



Profit after tax from continuing operations for the third quarter of 2020 was \$17.4 million higher than the same period a year ago. The strong growth in investment portfolios and the reduced external debt contributed to \$10.6 million increase in interest margin from the same quarter last year. The third quarter continued the trend started in the second quarter with credit spreads continuing to narrow. The change in fair value at the end of the third quarter recovered and exceeded all the losses from the first quarter of 2020, with an aggregate unrealized gain of \$46.0 million recognized in the second and third quarters compared to an unrealized loss of \$42.8 million in the first quarter. Third quarter results also reflected a \$9.6 million increase in net realized and unrealized gains from the same quarter last year.

Investments in strategic initiatives continued in the third quarter of 2020, consistent with the prior year and Central 1's long-term strategic plan, with the amount spent being \$1.4 million lower from the same period last year. Non-financial income and non-financial expense remained relatively stable year-over-year.

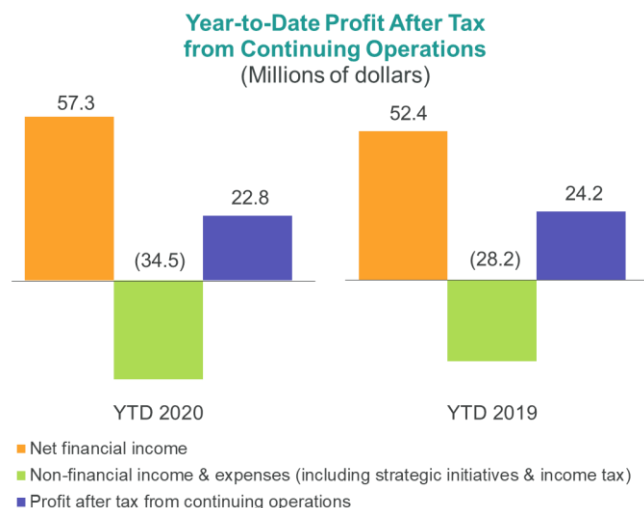
#### Discontinuing Operations



The MLP reported a profit after tax of \$5.4 million for the third quarter of 2020, \$2.5 million higher than the same period last year. Following a significant narrowing of credit spreads in the second quarter, this trend continued in the third quarter generating an aggregate unrealized gain of \$41.4 million for the two quarters, which recovered the temporary market loss of \$44.0 million from the first quarter. Compared to the same period last year, third quarter saw a \$9.1 million increase in net realized and unrealized gains. These gains were offset by a \$5.1 million decrease in interest margin due to the flatter yield curve and shorter durations for investments in anticipation of the segregation.

## YTD 2020 vs YTD 2019

### Continuing Operations

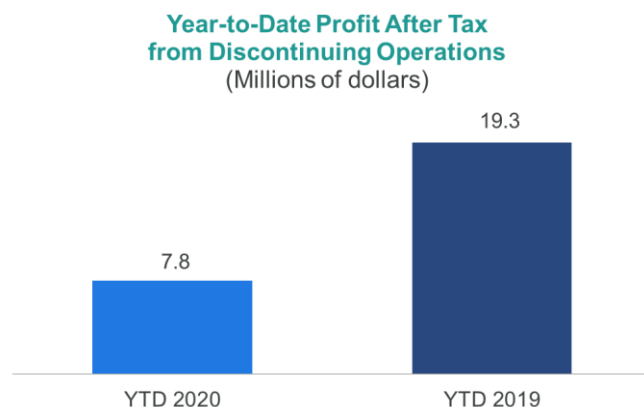


Year-to-date results from continuing operations saw a \$4.9 million increase in net financial income from the same period last year. Interest margin increased by \$13.3 million reflecting the growth in our investment portfolios combined with the reduction in our external borrowings as a result of increased deposits funding from credit unions. Offsetting this was the \$5.3 million decrease in net realized and unrealized gains due to shorter durations on investment portfolios as credit unions hold additional liquidity in response to the potential economic impact of COVID-19. As these investments approach to maturity, the change in fair value pulls to par with less exposure to credit spread movements.

ECL increased \$3.2 million reflecting the deterioration in the economic outlook. Investments in strategic initiatives continued into the third quarter with a \$3.9 million increase in spending from the same period last year. Central 1 also saw a decrease of \$6.5 million in the income from its equity investments during 2020.

The combined impact of these movements reflected a \$1.4 million decrease in profit after tax from the same period last year.

### Discontinuing Operations



The MLP reported a profit after tax of \$7.8 million for the first nine months of 2020, compared to a profit after tax of \$19.3 million in the same period last year, reflective of a \$13.1 million decrease in net financial income. The flatter yield curve and shorter duration for investments resulted in a \$11.7 million reduction in interest margin within the portfolio.

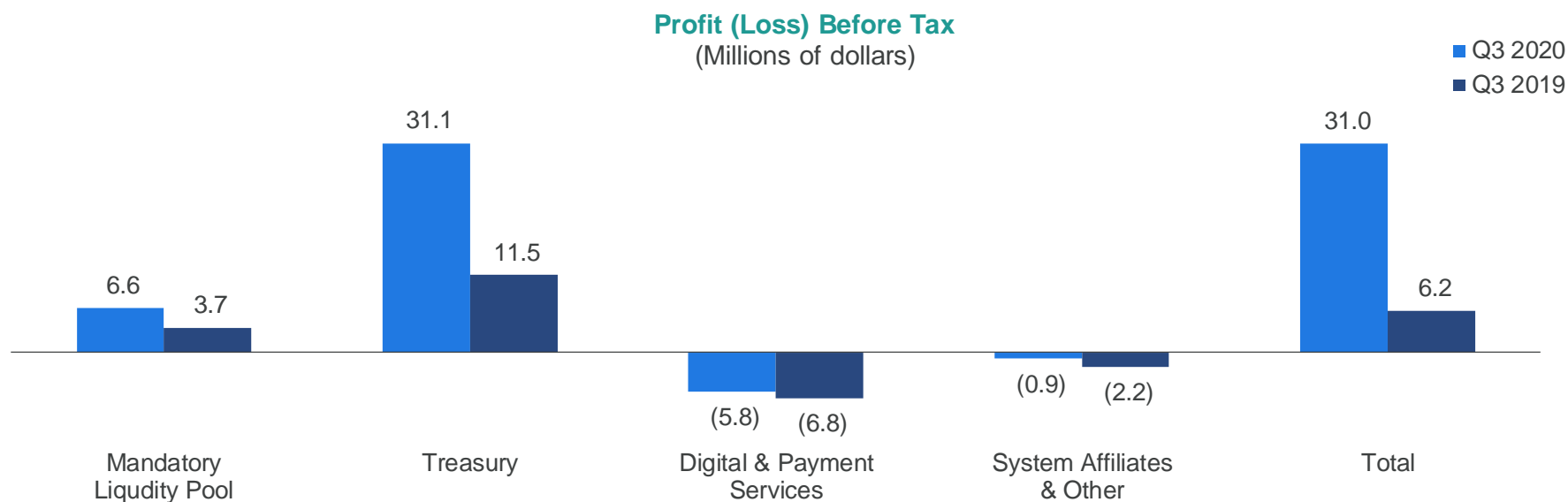
## Results by Segment

Central 1's 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 Central 1's Board in November 2019 to submit a segregation plan to BCFSa to legally segregate the B.C. and Ontario MLPs. Central 1 received BCFSa's acceptance of the segregation plan in December 2019. Broad system consultation with Class A members is continuing and, on October 2, 2020, Central 1 announced its members passed a special resolution approving amendments to Central 1's Constitution and Rules in connection with the segregation.

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 Central 1's strategic priorities. Results for prior periods are restated accordingly to conform to the current period presentation.

### Q3 2020 vs Q3 2019



For the three months ended September 30, 2020									
(Millions of dollars)		Mandatory Liquidity Pool		Treasury		Digital & Payment Services		System Affiliates & Other	Total
Net financial income (expense), including impairment on financial assets	\$	10.1	\$	32.1	\$	-	\$	-	42.2
Non-financial income		(0.3)		7.6		25.3		1.2	33.8
Net financial and non-financial income		9.8		39.7		25.3		1.2	76.0
Non-financial expenses		1.9		8.6		20.5		(0.9)	30.1
		7.9		31.1		4.8		2.1	45.9
Strategic investments		1.3		-		10.6		3.0	14.9
Profit (loss) before tax	\$	6.6	\$	31.1	\$	(5.8)	\$	(0.9)	31.0

For the three months ended September 30, 2019									
(Millions of dollars)		Mandatory Liquidity Pool		Treasury		Digital & Payment Services		System Affiliates & Other	Total
Net financial income (expense), including impairment on financial assets	\$	6.1	\$	11.8	\$	(0.1)	\$	-	17.8
Non-financial income		0.2		8.9		24.4		4.1	37.6
Net financial and non-financial income		6.3		20.7		24.3		4.1	55.4
Non-financial expenses		1.7		9.2		21.7		0.7	33.3
		4.6		11.5		2.6		3.4	22.1
Strategic investments		0.9		-		9.4		5.6	15.9
Profit (loss) before tax	\$	3.7	\$	11.5	\$	(6.8)	\$	(2.2)	6.2

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

## Mandatory Liquidity Pool

The MLP's results have been presented separately within the interim consolidated results on our financial statements. MLP's profit before tax in the third quarter of 2020 was \$6.6 million, \$2.9 million higher compared to the same period a year ago. The third quarter continued the trend started in the second quarter with credit spreads continuing to narrow, generating an aggregate unrealized gain of \$41.4 million in the two quarters, which recovered the temporary market loss of \$44.0 million from the first quarter. Compared to the same period last year, third quarter results reflected a \$9.1 million increase in net realized and unrealized gains. This increase was partially offset by a \$5.1 million decrease in interest margin reflecting shorter durations in investments in anticipation of the segregation.

## Treasury

Treasury reported a profit before tax of \$31.1 million, up \$19.6 million from the same quarter last year, driven by a \$10.6 million increase in interest margin and a \$9.6 million increase in net realized and unrealized gains from the same period last year. Strong growth in investment portfolios combined with the reduced external debt contributed to a higher interest margin. The third quarter continued the trend from the second quarter with the reversion of credit spreads to levels more consistent with historical norms as market volatility continued to decrease along with COVID-19 related restrictions being relaxed, resulting in the third

quarter observing a higher net realized and unrealized gains. Non-financial income and non-financial expense remained stable compared to the same quarter last year.

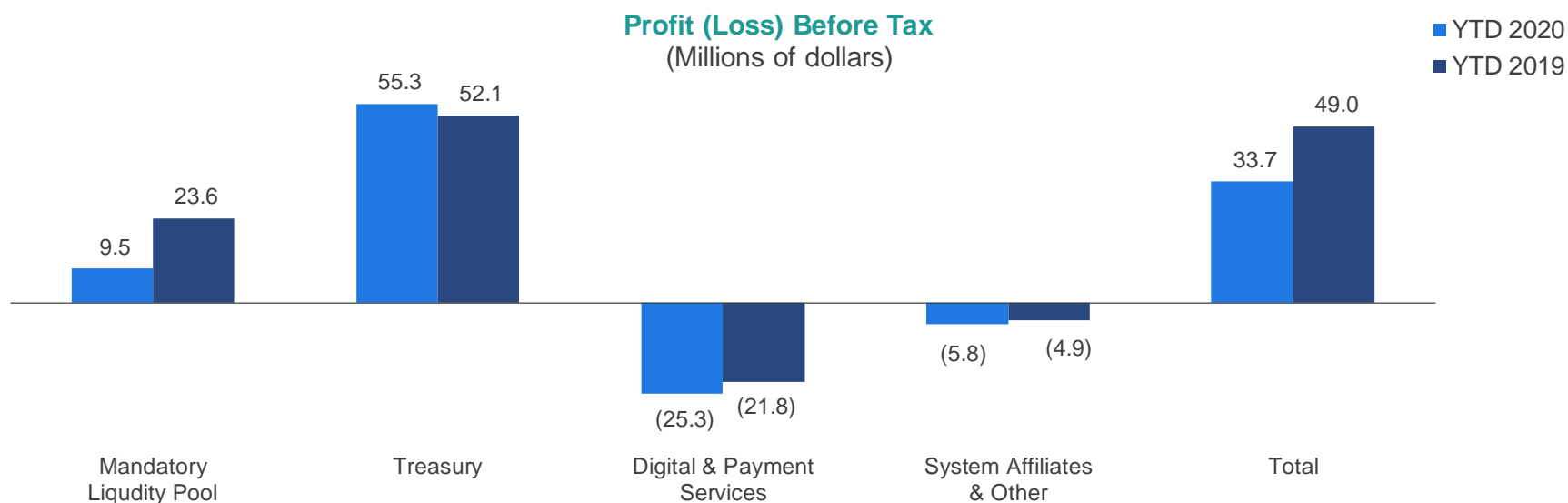
### Digital & Payment Services

During the third quarter of 2020, Digital & Payment Services saw an increase in the *Interac® e-Transfers* volume in the Electronic Payments area, reflecting the increased usage of online payments during the COVID-19 pandemic. Investment in strategic initiatives continued, including the development and rollout of the Forge and payments modernization with the costs incurred being \$1.2 million higher than the same period last year. Combined, this segment experienced a smaller loss before tax of \$1.0 million compared to the third quarter of 2019.

### System Affiliates & Other

This segment reported a loss before tax of \$0.9 million, compared to a loss before tax of \$2.2 million in the same quarter last year, primarily driven by lower spending on corporate expenditures, offset by lower income from our equity investments. Investments in strategic initiatives continued during the third quarter, including the development of a new banking system and initiatives aimed to expand corporate efficiency.

### YTD 2020 vs YTD 2019



For the nine months ended September 30, 2020									
(Millions of dollars)		Mandatory Liquidity Pool		Treasury		Digital & Payment Services		System Affiliates & Other	Total
Net financial income (expense), including impairment on financial assets	\$	16.9	\$	57.5	\$	(0.2)	\$	-	74.2
Non-financial income		0.2		23.6		72.8		4.3	100.9
Net financial and non-financial income		17.1		81.1		72.6		4.3	175.1
Non-financial expenses		5.8		25.8		63.3		2.1	97.0
		11.3		55.3		9.3		2.2	78.1
Strategic initiatives		1.8		-		34.6		8.0	44.4
<b>Profit (loss) before tax</b>	<b>\$</b>	<b>9.5</b>	<b>\$</b>	<b>55.3</b>	<b>\$</b>	<b>(25.3)</b>	<b>\$</b>	<b>(5.8)</b>	<b>33.7</b>

For the nine months ended September 30, 2019									
(Millions of dollars)		Mandatory Liquidity Pool		Treasury		Digital & Payment Services		System Affiliates & Other	Total
Net financial income (expense), including impairment on financial assets	\$	30.0	\$	54.1	\$	(0.3)	\$	(1.4)	82.4
Non-financial income		(0.3)		25.8		71.6		10.8	107.9
Net financial and non-financial income		29.7		79.9		71.3		9.4	190.3
Non-financial expenses		5.1		27.8		62.8		5.9	101.6
		24.6		52.1		8.5		3.5	88.7
Strategic initiatives		1.0		-		30.3		8.4	39.7
<b>Profit (loss) before tax</b>	<b>\$</b>	<b>23.6</b>	<b>\$</b>	<b>52.1</b>	<b>\$</b>	<b>(21.8)</b>	<b>\$</b>	<b>(4.9)</b>	<b>49.0</b>

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

## Mandatory Liquidity Pool

The MLP's results have been presented separately within the interim consolidated results on our financial statements. MLP's profit before tax for the nine months ended September 30, 2020 was \$9.5 million compared to a profit before tax of \$23.6 million in the same period a year ago. Net financial income decreased \$13.1 million year-over-year, reflective of the flatter yield curve and shorter durations for investments leading to a \$11.7 million reduction in interest margin within the portfolio.

## Treasury

Treasury reported a profit before tax of \$55.3 million, up \$3.2 million from the same period of 2019, driven by a \$3.4 million increase in net financial income. Interest margin increased by \$11.8 million driven by strong growth in our investment portfolios and reduced external borrowings as a result of increased deposit funding from credit unions. This was offset by a \$5.3 million decrease in net realized and unrealized due to shorter durations in the investment portfolios and an

increase of \$3.2 million in ECL reflective of the unfavorable changes to our economic outlook associated with the impacts of COVID-19. Non-financial income and non-financial expense remained stable year-over-year.

### **Digital & Payment Services**

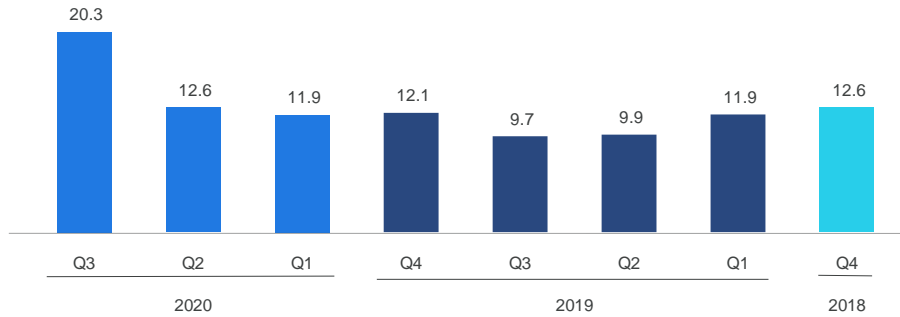
Digital & Payment Services continued to invest in strategic initiatives in the first three quarters of 2020, including the development and rollout of Forge and payments modernization, with the amount spent being \$4.3 million higher than the same period last year. Non-financial income and non-financial expense remained stable. Combined, this segment experienced a loss before tax of \$25.3 million compared to a loss before tax of \$21.8 million in the same period last year.

### **System Affiliates & Other**

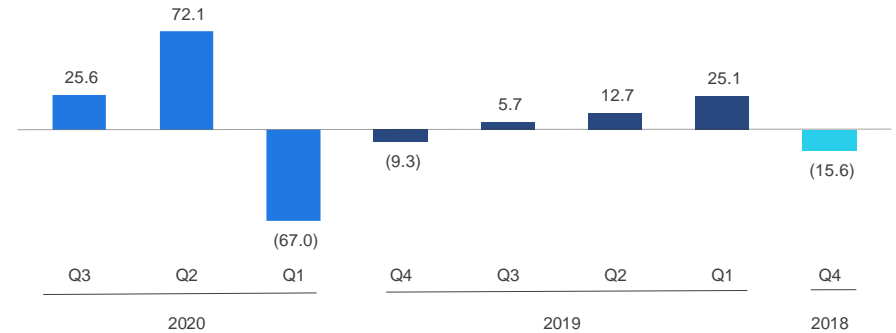
During the first nine months of 2020, this segment reported a loss before tax of \$5.8 million, \$0.9 million higher than the loss before tax reported in the same period last year. Investments in strategic initiatives continued, including the development of a new banking system and initiatives aimed to expand corporate efficiency. In this segment, income from our equity investments was \$6.5 million lower, along with lower spending on corporate expenditures.

## Summary of Quarterly Results

**Interest Margin**  
(Millions of dollars)



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



(Thousands of dollars, except as indicated)	2020			2019				2018
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Interest income	\$ 45,086	\$ 39,695	\$ 46,084	\$ 51,233	\$ 48,655	\$ 49,739	\$ 48,059	\$ 51,637
Interest expense	24,751	27,105	34,175	39,174	38,932	39,814	36,170	39,033
Interest margin	20,335	12,590	11,909	12,059	9,723	9,925	11,889	12,604
Gain (loss) on disposal of financial instruments	6,150	5,686	747	(1,113)	(294)	16,099	12,262	2,759
Change in fair value of financial instruments	5,337	40,707	(42,766)	7,702	2,197	(8,568)	(553)	(12,282)
Impairment loss (recovery) on financial assets	(202)	2,414	1,222	364	(37)	46	242	197
Net financial income (expense)	32,024	56,569	(31,332)	18,284	11,663	17,410	23,356	2,884
Non-financial income*	33,965	33,638	32,955	26,974	37,696	36,975	33,903	33,953
Non-financial expense*	41,665	44,235	47,768	64,957	46,827	48,869	39,853	59,576
	(7,700)	(10,597)	(14,813)	(37,983)	(9,131)	(11,894)	(5,950)	(25,623)
Profit (loss) before tax	24,324	45,972	(46,145)	(19,699)	2,532	5,516	17,406	(22,739)
Income taxes (recovery)	4,165	6,042	(8,835)	(2,116)	(295)	524	982	(6,569)
Profit (loss) after tax from continuing operations	20,159	39,930	(37,310)	(17,583)	2,827	4,992	16,424	(16,170)
Profit (loss) after tax from discontinuing operations	5,453	32,129	(29,724)	8,238	2,906	7,668	8,700	620
Profit (loss)	\$ 25,612	\$ 72,059	\$ (67,034)	\$ (9,345)	\$ 5,733	\$ 12,660	\$ 25,124	\$ (15,550)
Weighted average shares outstanding (millions)	441.1	441.1	440.1	434.7	431.2	431.1	430.0	444.7
Earnings per share (cents)**								
Basic/Diluted	5.8	16.3	(15.2)	(2.1)	1.3	2.9	5.8	(3.5)
Basic/Diluted from continuing operations	4.6	9.0	(8.5)	(4.0)	0.6	1.1	3.8	(3.6)
Basic/Diluted from discontinuing operations	1.2	7.3	(6.7)	1.9	0.7	1.8	2.0	0.1

\*Non-financial income and non-financial expense includes investments in strategic initiatives

\*\*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.

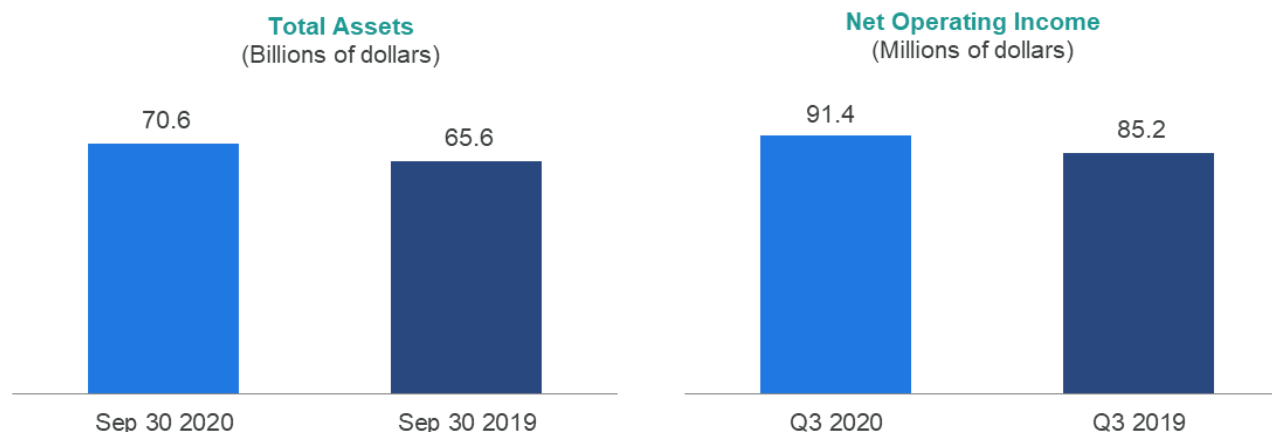
The 2019 and 2018 results has been represented to reflect the presentation of discontinuing operations. For further details, please refer to Note 9 in our Notes to the Interim Consolidated Financial Statements.

Despite the three interest rate cuts by the BoC in response to the COVID-19 pandemic during the first quarter of 2020, interest margin from continuing operations during the first three quarters of 2020 continued its upward trend. This trend reflected the strong growth in our investment portfolios and reduction in our external debt as a result of growth in deposits funding due to credit unions holding additional liquidity in response to the potential economic impact of COVID-19. This was offset by a flatter yield curve which made it more challenging to find investments that both match the shorter maturity profile of the deposits and yield returns in excess of the deposits rates offered to our member credit unions. As at September 30, 2020, the change in fair value recovered and exceeded all of the unrealized loss from the first quarter of 2020, with an aggregate gain of \$46.0 million recognized in the second and third quarters compared to a loss of \$42.8 million in the first quarter. This is due to the narrowing of credit spreads being much closer to levels experienced prior to the COVID-19 pandemic and lower GoC bond yields.

Investments in strategic initiatives continued, consistent with our strategic plan, with higher spending during 2019 mostly attributable to the development of Forge. Despite increased investments in strategic initiatives during 2019, strong net financial income continued while non-financial income remained stable. The loss from continuing operations in the fourth quarter of 2019 was a result of the provision for tax related matters and the expense recorded from the review of our intangible assets' carrying value during the quarter. The underlying results in the first three quarters of 2020 reflected the impact of the COVID-19 pandemic. The BoC rate cuts, lower GoC bond yields and widening of credit spreads in the first quarter of 2020 combined to reduce the fair value of our investment portfolios, generating a significant temporary loss from our continuing operations. This loss was reversed during the second and third quarters of 2020 due to significant narrowing of credit spreads and lower GoC bond yields, resulting in second and third quarters' profits.

## System Performance

### British Columbia



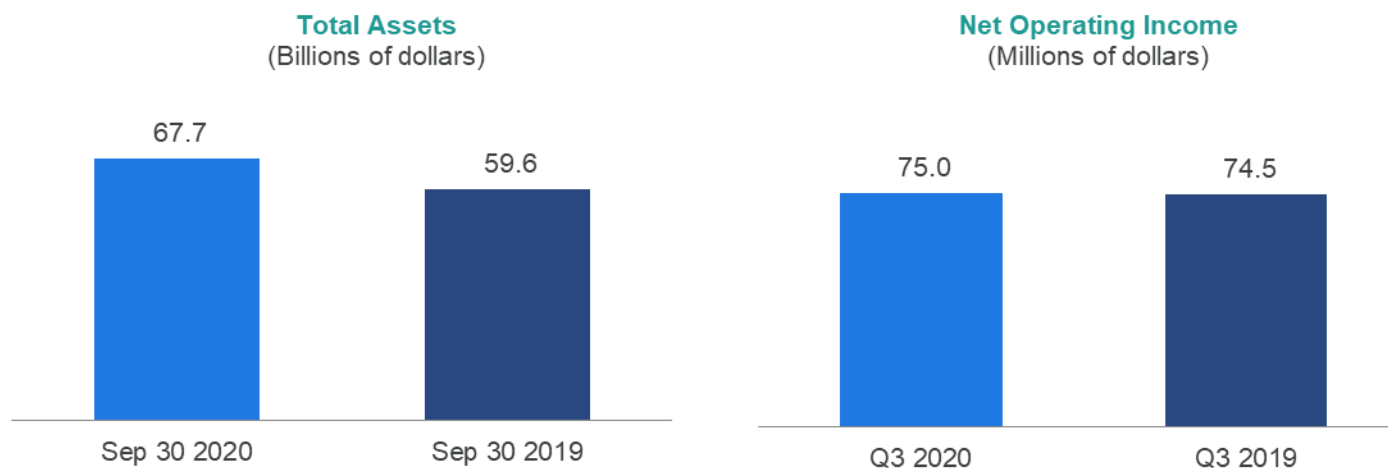
The B.C. system's net operating income for the third quarter of 2020 was \$91.4 million, up \$6.2 million or 7.3 per cent from the same period in 2019. Net interest income was unchanged from the same period a year ago because lower yields offset the increase in assets. Non-interest income was up \$2.0 million or 3.2 per cent year-over-year to \$63.5 million, led by income from subsidiaries. Non-interest expense decreased by \$4.3 million or 1.5 per cent to \$284.4 million, led by a loan loss recovery of \$2.1 million, compared to a \$4.5 million loan loss recognized during the same period last year.

Total assets increased \$5.0 billion or 7.6 per cent year-over-year to reach \$70.6 billion at the end of the third quarter, led by cash and liquid investments, up 45.0 per cent or \$4.2 billion year-over-year. Liabilities increased \$4.8 billion or 7.8 per cent year-over-year to \$66.2 billion, led by a 19.9 per cent or \$4.1 billion year-over-year increase in non-registered demand deposits to \$24.9 billion.

The system's rate of loan delinquencies over 90 days was 0.25 per cent of total loans at the end of September 2020, up 8 basis points (bps) from a year ago. The B.C. system's loan loss expense ratio was negative 0.02 per cent annualized in the third quarter of 2020, down 5 bps from a year ago.

The B.C. system reflected a \$31.1 billion RWA and a regulatory capital as a percentage of RWA of 15.6 per cent at the end of September 2020, up 29 bps from a year ago. The aggregate liquidity ratio of the B.C. system, including that held by Central 1, was 20.6 per cent of deposit and debt liabilities, up 541 bps from a year ago. The B.C. system's return on assets was 0.52 per cent annualized in the third quarter, unchanged from a year ago.

## Ontario



The Ontario system's net operating income for the third quarter of 2020 was \$75.0 million, up 0.6 per cent from a year earlier. Net interest income increased \$1.4 million or 0.5 per cent over the same period last year to \$287.0 million, because lower spreads were offset by an increase in assets. Non-interest income increased \$5.3 million year-over-year or 8.8 per cent, led by securitization revenues. Non-interest expense increased \$6.2 million or 2.3 per cent, driven by higher loan cost, which increased \$15.4 million year-over-year.

Total assets increased 13.6 per cent year-over-year to reach \$67.7 billion at the end of the third quarter of 2020 led by a \$4.1 billion increase in cash and deposits, and a \$2.8 billion increase in residential mortgages. Total liabilities increased \$7.7 billion year-over-year to reach \$63.3 billion at the end of September 30, 2020, led by growth in demand and term deposits, up \$4.4 billion, and a \$2.5 billion increase in borrowings.

The rate of loan delinquencies over 90 days was 0.43 per cent of total loans at the end of September 2020, up 12 bps year-over-year, with increases in commercial loans and mortgages at 33 bps. Provision for credit losses as a percentage of loans was 0.38 per cent, up 11 bps from a year earlier. The Ontario system's loan loss expense ratio was 0.15 per cent annualized in the third quarter of 2020, up 11 bps from the prior year.

The Ontario system's RWA was \$29.7 billion and regulatory capital as a percentage of RWA was 13.6 per cent at the end of September 2020, up 82 bps from a year ago. The aggregate liquidity ratio, including that held by Central 1, was 20.3 per cent of deposit and debt liabilities, up 685 bps from a year ago. The Ontario system's return on assets was 0.45 per cent annualized in the third quarter, down six bps year-over-year.

## Off-Balance Sheet Arrangements

In the normal course of business, Central 1 enters into off-balance sheet arrangements, which fall into the following main categories: derivative financial instruments, guarantees and commitments, and assets under administration.

### Derivative Financial Instruments

(Millions of dollars)	Sep 30 2020		Dec 31 2019		Notional Amount Sep 30 2019
Interest rate contracts					
Bond forwards	\$	150.1	\$	66.7	\$ 85.1
Futures contracts		1,566.0		1,330.0	1,340.0
Swap contracts		36,297.4		35,138.4	36,621.9
		<b>38,013.5</b>		36,535.1	38,047.0
Foreign exchange contracts					
Foreign exchange forward contracts		491.5		380.8	184.1
Other derivative contracts					
Equity index-linked options		169.7		183.3	188.8
	\$	<b>38,674.7</b>	\$	37,099.2	\$ 38,419.9

Central 1 acts 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 Insured Mortgage Purchase Program launched by the Government of Canada in March 2020, as part of its COVID-19 Economic Response Plan, Central 1 also acts as a swap counterparty with the Canada Mortgage Housing Corporation to provide support for its 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. Central 1's counterparty credit exposure to Central 1's 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 Central 1 could be required to extend if commitments were to be fully utilized, and the maximum amounts of guarantees that could be in effect if the maximum authorized committed amounts were transacted.

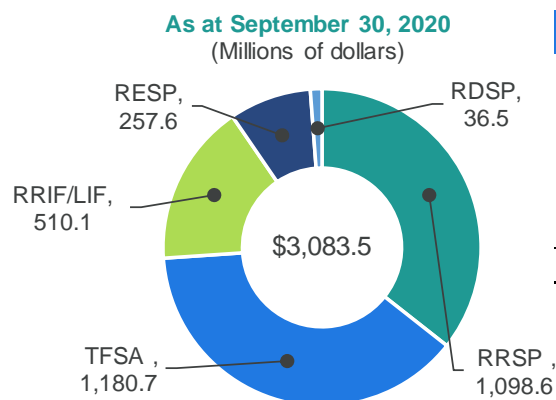
(Millions of dollars)	Sep 30 2020	Dec 31 2019	Sep 30 2019
Commitments to extend credit	\$ 4,649.3	\$ 4,332.0	\$ 5,027.2
Guarantees			
Financial Guarantees	\$ 767.6	\$ 622.6	\$ 614.6
Performance Guarantees	\$ 100.0	\$ 100.0	\$ 100.0
Standby letters of credit	\$ 230.2	\$ 219.8	\$ 204.4
Future prepayment swap reinvestment commitment	\$ 1,795.3	\$ 1,339.2	\$ 1,355.9

In the normal course of business, Central 1 enters 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 \$317.3 million from year end. This is reflected in the lower balance of credit union loans as greater liquidity in the credit union system allows credit unions to pay down their debt with us and lessens the need for them to draw on their credit. Financial guarantees increased \$145.0 million from year end, 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 \$439.4 million from a year ago as a result of our transition from direct securitization to the prepayment swap program.

From time to time Central 1 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 us, at our sole discretion. Central 1 has the ability to unilaterally withdraw anytime from these approved limits.

## Assets under Administration



(Millions of dollars)	Sep 30 2020	Dec 31 2019	Sep 30 2019
Registered Retirement Savings Plans (RRSP)	\$ 1,098.6	\$ 1,080.5	\$ 1,110.0
Tax-Free Savings Accounts (TFSA)	1,180.7	1,078.2	1,060.7
Registered Retirement Income Funds/Life Income Funds (RRIF/LIF)	510.1	495.3	475.6
Registered Education Savings Plans (RESP)	257.6	252.6	247.1
Registered Disability Savings Plans (RDSP)	36.5	32.7	31.3
	\$ 3,083.5	\$ 2,939.3	\$ 2,924.7

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 5.4 per cent increase in total AUA from a year ago (4.9 per cent change from December 31, 2019). Notable trends show that the AUA of Tax-Free Savings Accounts increased by 11.3 per cent from a year ago, reflective of its increasing popularity among investors. While RRSP remains stable year-over-year, all other registered products had moderate increases from a year ago largely due to increased sales, contributions, RRIF transfers, together with market value appreciation over the past year.

### Capital Management and Capital Resources

Central 1 manages capital to maintain strong capital ratios in support of the risks and activities of the organization while generating an appropriate rate of return for its 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

Central 1's 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.

Central 1's share capital, with the exception of nominal amounts, is entirely contributed by their Class A members, which are comprised of B.C. credit unions and member credit unions in Ontario. These Class A members, collectively, hold Class A, E and F shares. Central 1's 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

**\$1,129.4 million**

Tier 1 Capital

**22.2%**

Tier 1 Capital Ratio

**\$1,248.4 million**

Net Capital Base

**17.2:1**

Borrowing Multiple

**27.1%**

Provincial Capital Ratio

(Millions of dollars)	Sep 30 2020	Dec 31 2019	Sep 30 2019
Share capital	\$ 441.1	\$ 440.1	\$ 431.2
Retained earnings	693.0	659.9	696.8
Less: accumulated net after tax gain in investment property	(4.7)	(4.7)	(4.7)
Tier 1 capital	1,129.4	1,095.3	1,123.3
Subordinated debt	221.0	221.0	221.0
Add: accumulated net after tax gain in investment property	4.7	4.7	4.7
Tier 2 capital	225.7	225.7	225.7
Total capital	1,355.1	1,321.0	1,349.0
Statutory capital adjustments	(106.7)	(105.3)	(110.8)
Net capital base	\$ 1,248.4	\$ 1,215.7	\$ 1,238.2
Borrowing multiple - Consolidated	17.2:1	13.5:1	13.7:1
Borrowing multiple - Mandatory Liquidity Pool	17.2:1	16.0:1	15.3:1
Borrowing multiple - Treasury	18.1:1	12.5:1	13.6:1

In determining regulatory capital, adjustments are required to the amount of capital reflected in our Interim Consolidated Statement of Financial Position. Deductions from capital are required for certain investments, including substantial investments in affiliated cooperative organizations. The computation of the provincial capital base is broadly similar to the federal regulatory capital used for borrowing multiple purposes.

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 its members during this extraordinary time. The measures that were included were to permit us to increase our borrowing multiple from 15.0:1 to 18.0:1 for the Treasury segment, effective March 23, 2020, which was further increased from 18.0:1 to 20.0:1, effective May 31, 2020, and to increase our borrowing multiple from 17.0:1 to 20.0:1 for the MLP segment, effective March 31, 2020. On September 30, 2020 BCFSA announced, as of January 1, 2021, and until further notice, BCFSA will set Central 1's borrowing multiple limit at 18.0:1 and will apply the multiple to Central 1's Consolidated Statement of Financial Position.

Central 1 manages the MLP's borrowing multiple through semi-annual Class F capital calls from its membership and manages the Treasury's borrowing multiple through growth in retained earnings and subordinated debt. 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. As a result of BCFSA's easing measures in response to COVID-19, no capital call for increased overall capital in the MLP was required in May 2020 to meet the MLP's borrowing multiple requirement.

On October 2, 2020, Central 1 announced that its members passed a special resolution approving amendments to its Constitution and Rules. The amendments remove the requirement in Central 1's Rules for Class A members to maintain on deposit with Central 1 at least the amount that the member is required by a regulatory body to maintain in liquid form, excluding that amount maintained in cash, in satisfaction of applicable legislation. The amendments also remove all provisions in the Rules relating to Class F shares. Under Central 1's current Rules, Class F shares were issued to Class A members that have deposits in the MLP. The amendments are subject to the consent of the BCFSa and will come into effect at a time determined by the Board of Directors of Central 1.

At September 30, 2020, Central 1's consolidated borrowing multiple was 17.2:1 compared to 13.7:1 at September 30, 2019, as a result of the increase in mandatory and non-mandatory deposits.

Central 1 was in compliance with all regulatory capital requirements throughout the reporting periods ended September 30, 2020 and September 30, 2019.

### Risk Review

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

Central 1 manages risk and performs risk oversight based on a comprehensive risk governance framework, including risk management policies that establish frameworks, processes and a comprehensive risk appetite framework for all of our risk-taking activities and oversight operations.

Central 1 recognizes that reputation is among their most important assets, and actively seeks to maintain a positive reputation both for themselves 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.

Central 1's risk management framework includes the identification, assessment and monitoring of reputational threats and impacts that arise from business activities.

### COVID-19 Update

COVID-19 caused major socioeconomic changes in 2020 and the Canadian Government acted to extend government relief programs through 2021. 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 and recovery caused by COVID-19 is extremely difficult.

Central 1 developed and begun to implement plans to reopen its office spaces, while adhering to rules around social distancing and appropriate workspace management. Staff continue to have the option of working from home and have demonstrated great adaptability and capability in dealing with the challenges of COVID-19.

### 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, Central 1 has identified six strategic initiatives related to 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

Central 1 is exposed to compliance risk in all areas of their 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.

### Credit Risk

Central 1 is exposed to credit risk from their investment and lending activities, as well as through their role as Group Clearer and other settlement business.

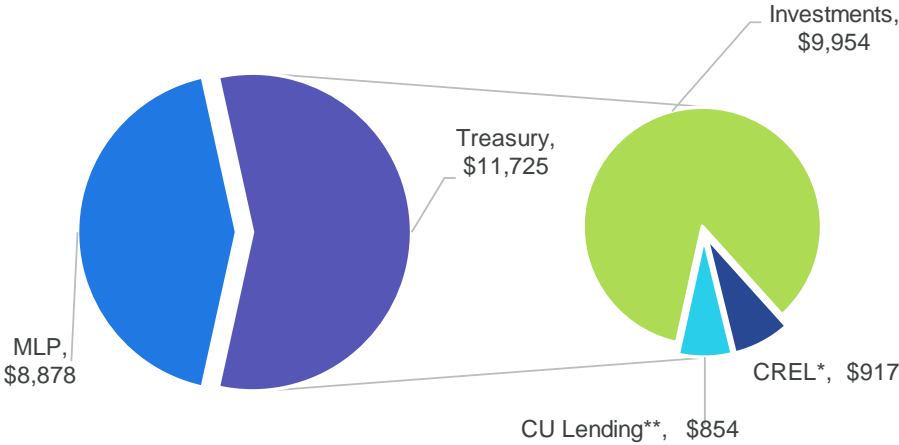
Risks are managed by:

- 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

Central 1, along with all financial institutions, continues to face a threat from the COVID-19 pandemic to its credit risk business activities. Provisions for expected loss increased in the second quarter reflecting the deterioration in the economic outlook. In the third quarter of 2020, Central 1 increased its expected credit loss allowances for the Commercial Real Estate Lending (CREL) portfolio by \$48 thousand to a total of \$3.9 million. Expected credit loss allowances for the Investment portfolios were decreased by \$0.3 million to a total of \$1.6 million. Zero expected credit loss remained in the Credit Union Lending portfolio given ample security pledged to secure credit facilities. Note that a rise in expected loss should not be interpreted as actual losses manifesting within the portfolios.

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 \$1.7 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.

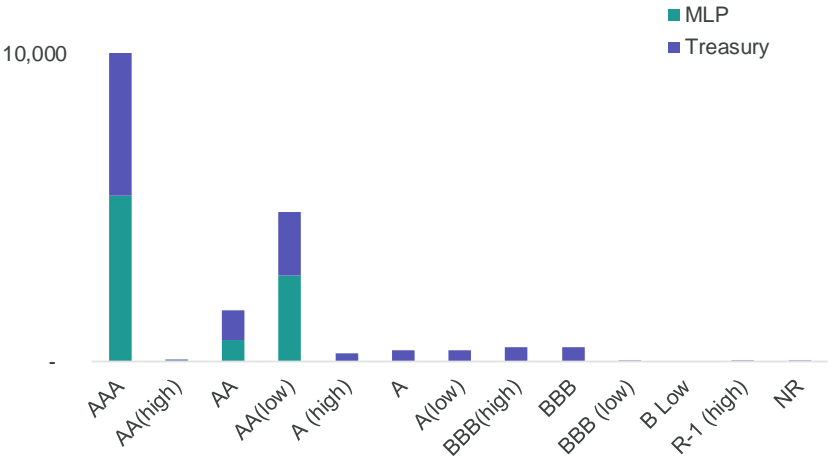
Central 1's Credit Risk Exposure  
(Millions of dollars)



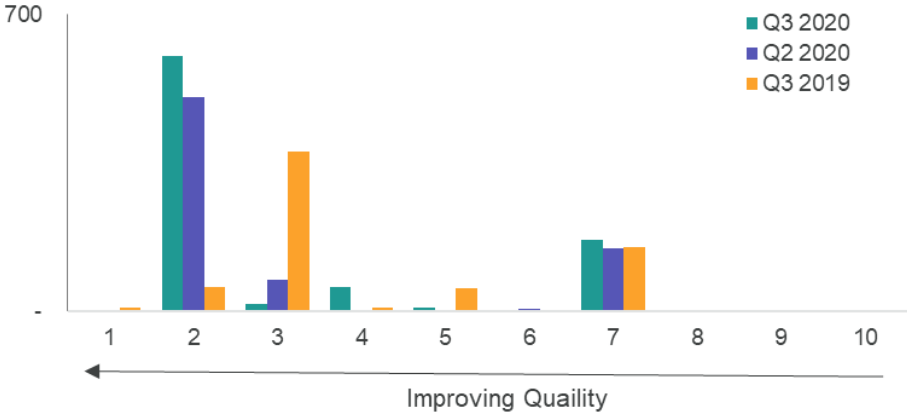
\*CREL - Commercial Real Estate Lending

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

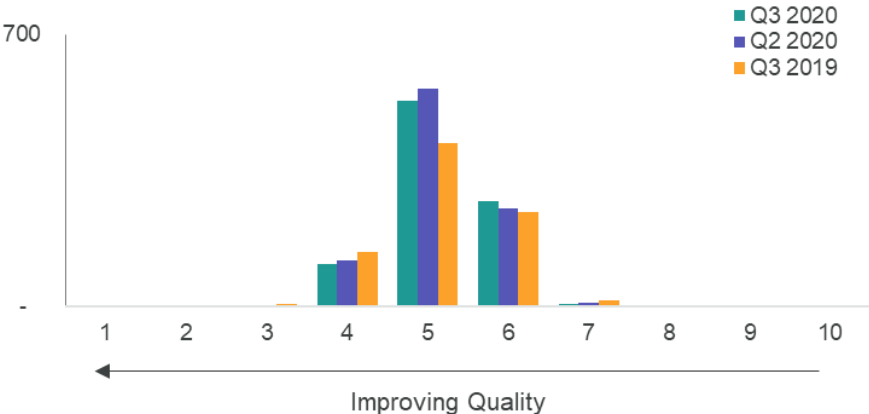
Investment Portfolio  
(Millions of dollars)



Credit Union Lending Portfolio  
(Outstanding Balances in Millions)



Commercial Real Estate Lending (CREL) Portfolio  
(Outstanding Balances in Millions)



### Credit Quality Performance

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.

#### Investments Portfolio

There are no impaired investments in the portfolio.

#### Credit Union Lending (CU Lending)

The utilization of credit facilities remains low with no significant changes compared to the second quarter of 2020 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. One Ontario credit union was removed from the Watch List in the third quarter of 2020. As at September 30, 2020 there were five Ontario and one B.C. credit union classified as Watch List (risk rating 7). Two Ontario credit unions were assigned an Unsatisfactory risk rating (risk rating 8). The Watch List and Unsatisfactory accounts represented 10.3 per cent of the authorized portfolio as at September 30, 2020. The security provided for the Watch List and Unsatisfactory facilities is substantial and no losses are expected.

#### Commercial Real Estate Lending

Enhanced monitoring remains in place for the hospitality and retail sectors, given expectations for deterioration in borrowers' financial performance. Recognizing challenges brought by the COVID-19 pandemic, we assisted our borrowers by providing direct financial support in the form of payments deferrals, mainly in hospitality and retail sectors, and loan term extension for construction facilities. As at September 30, 2020, five accounts were provided with payments deferrals representing 5.1 per cent of the total outstanding portfolio balance (19 accounts were granted payment deferrals at its peak in May 2020).

Currently, there are no impaired loans in the portfolio. One Watch List account was paid in full in the third quarter of 2020. Two Watch List accounts represented 0.7 per cent of the outstanding portfolio balance as at September 30, 2020.

### Counterparty Risk

Within the Treasury operations, Central 1 incurs 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 Central 1's own credit union system where a robust internal risk rating regime is utilized.

### Liquidity Risk

As the fallout from COVID-19 continues to reveal itself across many sectors of the economy, we have seen a lower than expected need for liquidity from credit union members. Meanwhile, we have witnessed a sustained increase in the level of deposits in the credit union system since the beginning of the pandemic. This has led to increased reserves held at the BoC which has consequently raised levels of High-Quality Liquid Assets (HQLA) at Central 1. As a result of this, we have seen a corresponding increase in our Liquidity Coverage Ratio (LCR) metrics in the third quarter. Central 1 is continuing to ensure access to multiple sources of funding for members, including to BoC programs, and are working with its credit union members to investigate other facilities and liquidity options. Central 1 is continuously monitoring the liquidity and funding needs of the credit union system and remain ready to meet the liquidity requirements of its credit union members, as and when required.

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.

Central 1's liquidity positions continue to be strong. The 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.

Central 1's 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, Central 1 also presents an OSFI LCR measure, which meets the updated criteria for HQLA-eligible securities which were announced by OSFI in July 2018. Under the updated OSFI LCR, a narrower definition of HQLA is applied in which Bank and Financial Institution debt are no longer considered HQLA-eligible. As a result of this, our OSFI LCR generally tracks below the SLF-defined LCR. This OSFI LCR is not a regulatory requirement for Central 1 at this point but is being used a tool for prudent and enhanced liquidity and funding management.

The Treasury SLF LCR increased in the third quarter of 2020 due to an increase in the level of deposits, which in turn boosted the levels of HQLA-eligible reserves at the BoC. The Treasury OSFI LCR similarly increased in the third quarter due to higher levels of reserves, and thus HQLA, quarter-on-quarter.

Liquidity Coverage Ratio	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	LTM Average
Mandatory Liquidity Pool SLF	<b>172.2%</b>	172.3%	173.1%	171.6%	172.8%	172.7%
Mandatory Liquidity Pool OSFI	<b>172.6%</b>	167.3%	171.1%	162.6%	161.5%	164.4%
Treasury SLF	<b>179.1%</b>	154.8%	165.3%	178.4%	158.9%	168.9%
Treasury OSFI	<b>148.7%</b>	111.1%	130.6%	123.8%	126.9%	127.5%

## Market Risk

Both the MLP and Treasury portfolios are largely matched from an interest rate perspective. Despite a further decline in overall market volatility in the third quarter, credit spreads remain elevated and unstable. This will continue to have an impact as both portfolios are exposed to credit spreads.

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. Central 1's 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. Central 1's risk appetite statement requires Central 1 to not assume additional market risk for speculative purposes or in pursuit of returns beyond those required to reasonably fulfill its primary mandate of safeguarding system liquidity.

Expected shortfall is the conditional expectation of loss given that the loss is beyond the level of that projected by VaR. Thus, by definition, expected shortfall considers loss beyond the VaR level.

## Value at Risk

Central 1 regularly monitors their exposure to market risk. Central 1's 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. During the third quarter, risk limits were adjusted to accommodate for the increase in size of the portfolio. Taking this into account, we complied with MLP and Treasury RAS limits during the third quarter.

(Millions of dollars)	Mandatory Liquidity Pool							
					Last 12 Months			
	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Average	High	Low	
Interest Rate VaR	\$ 1.2	\$ 0.7	\$ 1.5	\$ 0.9	\$ 1.2	\$ 1.9	\$ 0.6	
Credit Spread VaR	3.0	3.4	4.2	1.4	3.0	4.6	1.3	
Foreign Exchange VaR	0.2	0.2	0.2	0.0	0.2	1.1	0.0	
Diversification <sup>(1)</sup>	(1.8)	(1.3)	0.0	(1.1)	(1.5)	nm	nm	
Total VaR	\$ 2.6	\$ 3.0	\$ 5.9	\$ 1.2	\$ 2.9	\$ 5.9	\$ 1.2	
Expected Shortfall	3.6	4.2	7.4	2.1	4.1	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							
					Last 12 Months			
	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Average	High	Low	
Interest Rate VaR	\$ 4.6	\$ 2.1	\$ 1.8	\$ 1.5	\$ 2.2	\$ 5.2	\$ 0.9	
Credit Spread VaR	8.2	4.8	3.3	2.0	4.1	8.6	1.7	
Foreign Exchange VaR	2.2	2.1	1.9	2.5	2.2	3.9	1.2	
Diversification <sup>(1)</sup>	(7.3)	(3.3)	(3.7)	(3.0)	(3.9)	nm	nm	
Total VaR	\$ 7.7	\$ 5.7	\$ 3.3	\$ 3.0	\$ 4.6	\$ 8.4	\$ 2.6	
Expected Shortfall	11.3	7.4	6.2	3.6	5.9	12.2	2.9	

<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.

The decrease in 1-Day and 10-Day SVaR in the MLP portfolio is a result of repositioning of the portfolio ahead of MLP Segregation, which is due to happen on January 1, 2021.

(Millions of dollars)	MLP						Treasury					
	Q3 2020		Q2 2020		Q1 2020		Q3 2020		Q2 2020		Q1 2020	
1-Day SVaR	\$	3.5	\$	3.8	\$	7.1	\$	11.1	\$	10.4	\$	10.6
10-Day SVaR	\$	8.0	\$	10.4	\$	15.9	\$	31.3	\$	32.5	\$	22.8

### Direction and Sources of Interest Rate Risk

Central 1 uses 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

Central 1 has assets and liabilities denominated in several major currencies and trade foreign currencies with its 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. Central 1's FX exposure is concentrated in USD and only a relatively small amount is held in other major currencies.

(Millions of dollars)	Balance Sheet in		Off-Balance Sheet Items -		Net Position in		BoC		CAD	
		Native Currency		Foreign Exchange Forwards		Native Currency		Closing Rate		Equivalent
USD	\$	(142.0)	\$	145.2	\$	3.2		1.3314	\$	4.3

### Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. 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.

Given the high volume and value of transactions we process on behalf of our members and external organizations, shortcomings in our internal processes or systems 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 Central 1 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.

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 of key risk indicators, 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;
- 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 and
- maintaining a comprehensive portfolio of insurance to reduce the impact of any potential losses.

### 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.

Central 1 identifies and assesses 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, Central 1 considers the following as the major Emerging Risks facing Central 1:

- The risk that long-term climate change destabilizes the physical environment beyond humanity's adaptive capacity, and ruptures the real economy. Canada has significant coastline and cities susceptible to rising sea levels. Regions in upheaval are more likely to suffer high unemployment, need emergency aid and fall behind on loan payments.
- The risk of escalations in global trade war that harm the Canadian economy by depressing commodity prices, lead to volatility in markets and forestall capital investment. Trade wars are destructive to global economic activity and quickly spiral out of control as retaliatory measures are exchanged. Canada is vulnerable because of its strong trading relationship with the United States and heavy natural resource exports.
- The risk of market self-correction for housing, capital markets, sovereign debt and household savings is heightened by growing government support and appears to be deeply discounted by stakeholders. Contrary to previous recessions, Canada has seen housing prices rise with joblessness, the stock market rebound amid uncertainty, consumer debt-to-income decrease and business insolvencies dry up. Temporary stop-gaps (such as emergency employment benefits and wage subsidies) are papering over these cracks but there are limitations - Investors may lose confidence in Canada's ability to repay its debt, credit rating agencies may downgrade debt and corporations could be forced into mass layoffs.

### 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. 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 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 September 30, 2020 Interim Consolidated Financial Statements and Note 4 of our 2019 Annual Consolidated Financial Statements.

### Interest Rate Benchmark Reform (IBOR)

#### Changes in Accounting Policy

The IASB has undertaken a two-phase project to look into the potential effects of IBOR on financial reporting. In September 2019, the IASB issued the Phase I amendments to IFRS 9 (*Financial Instruments*), IAS 39 (*Financial Instruments: Recognition and Measurement*), and IFRS 7 (*Financial Instruments: Disclosures*) to address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark. 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 IBOR. 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 IBOR. 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 and there was no impact on Central 1's current hedging relationships.

#### Future Accounting Policy

In August 2020, the Phase II amendments, complementing the Phase I amendments, were issued to address financial reporting issues during the reform of an interest rate benchmark including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative one. The amendments principally address practical expedient for modification of a financial contract and allow a series of reliefs from discontinuing hedging relationships, in combination of new disclosures on the nature and extent of risks arising from the reform and how these risks are managed. The amendments are applied retrospectively and effective for annual periods beginning on or after January 1, 2021, with earlier application permitted. The amendments only apply to changes required by the interest rate benchmark reform to financial instruments and hedging relationships. Central 1 is currently in the process of determining the impact of the Phase II amendments on Central 1's Consolidated Financial Statements.

### Related Party Disclosures

In the normal course of business, we grant loans to our key management personnel under the same terms as those offered to any other employees. Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling of our activities, which include our Executive Management and Vice-Presidents. Our policies and procedures for related party transactions have not changed significantly since December 31, 2019.

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

# **Interim Consolidated Financial Statements**

September 30, 2020

## Interim Consolidated Statement of Financial Position (Unaudited)

(Thousands of dollars)	Notes	Sep 30 2020	Dec 31 2019
<b>Assets</b>			
Cash		\$ 786,110	\$ 48,947
Deposits with regulated financial institutions		-	4,928
Securities	(5)	10,240,620	6,292,095
Loans	(6)	1,582,463	1,999,168
Reinvestment assets under the Canada Mortgage Bond Program	(5)	887,478	686,953
Derivative assets		107,362	48,868
Settlements in-transit		389,508	429,874
MLP assets held for segregation	(9)	9,045,406	8,188,923
Property and equipment		23,428	26,226
Intangible assets		29,704	33,678
Investments in affiliates		79,279	78,096
Current tax assets		-	3,071
Deferred tax assets		15,533	-
Other assets	(10, 11)	27,157	23,290
		\$ 23,214,048	\$ 17,864,117
<b>Liabilities</b>			
Deposits	(12)	\$ 8,839,690	\$ 4,202,350
Debt securities issued	(13)	1,561,500	2,083,476
Obligations under the Canada Mortgage Bond Program	(14)	1,069,843	919,086
Subordinated liabilities		223,170	221,457
Obligations related to securities sold short		156,233	67,547
Securities under repurchase agreements		693,514	643,526
Derivative liabilities		167,505	52,228
Settlements in-transit		643,043	674,572
MLP liabilities held for segregation	(9)	8,627,547	7,788,501
Current tax liabilities		17,494	-
Deferred tax liabilities		-	913
Other liabilities	(10, 15)	53,113	97,223
		22,052,652	16,750,879
<b>Equity</b>			
Share capital	(16)	441,127	440,076
Retained earnings		693,021	659,906
Accumulated other comprehensive income		20,516	5,474
Reserves		2	2
Total equity attributable to members of Central 1		1,154,666	1,105,458
Non-controlling interest		6,730	7,780
		1,161,396	1,113,238
		\$ 23,214,048	\$ 17,864,117
Guarantees, commitments, contingencies and pledged assets	(22)		

Approved by the Directors:

Bill Kiss, Chairperson

Mary Falconer, Chairperson - Audit and Finance Committee

See accompanying notes to the Interim Consolidated Financial Statements

## Interim Consolidated Statement of Profit (Unaudited)

		For the three months ended		For the nine months ended	
(Thousands of dollars)	Notes	Sep 30 2020	(Represented <sup>1</sup> ) Sep 30 2019	Sep 30 2020	(Represented <sup>1</sup> ) Sep 30 2019
<b>Interest income</b>					
Securities		\$ 35,459	\$ 34,504	\$ 96,230	\$ 106,432
Loans		9,627	14,151	34,635	40,021
		45,086	48,655	130,865	146,453
<b>Interest expense</b>					
Deposits		12,905	21,131	40,388	58,792
Debt securities issued		8,875	13,108	35,268	39,589
Subordinated liabilities		1,629	1,703	4,943	6,919
Obligations under the Canada Mortgage Bond Program		1,342	2,990	5,432	9,616
		24,751	38,932	86,031	114,916
Interest margin		20,335	9,723	44,834	31,537
Gain (loss) on disposal of financial instruments	(17)	6,150	(294)	12,583	28,067
Change in fair value of financial instruments	(18)	5,337	2,197	3,278	(6,924)
Net financial income		31,822	11,626	60,695	52,680
Impairment loss (recovery) on financial assets		(202)	(37)	3,434	251
		32,024	11,663	57,261	52,429
Non-financial income	(19)	33,965	37,696	100,558	108,574
Net financial income and non-financial income		65,989	49,359	157,819	161,003
<b>Non-financial expense</b>					
Salaries and employee benefits		22,317	22,791	73,488	66,630
Premises and equipment		116	1,105	697	2,987
Other administrative expenses	(20)	19,232	22,931	59,483	65,932
		41,665	46,827	133,668	135,549
Profit before income taxes		24,324	2,532	24,151	25,454
Income taxes (recovery)		4,165	(295)	1,372	1,211
<b>Profit from continuing operations</b>		20,159	2,827	22,779	24,243
Profit from discontinuing operations, net of tax	(9)	5,453	2,906	7,858	19,274
<b>Profit</b>		\$ 25,612	\$ 5,733	\$ 30,637	\$ 43,517

<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 (Unaudited)

(Thousands of dollars)	For the three months ended		For the nine months ended	
	(Represented <sup>(1)</sup> )		(Represented <sup>(1)</sup> )	
	Sep 30 2020	Sep 30 2019	Sep 30 2020	Sep 30 2019
<b>Profit</b>	\$ 25,612	\$ 5,733	30,637	\$ 43,517
<b>Other comprehensive income 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	16,979	(593)	20,461	13,748
Reclassification of realized gains to profit	(3,914)	(684)	(6,420)	(7,059)
Share of other comprehensive income (loss) of affiliates accounted for using the equity method	-	(891)	51	(513)
	13,065	(2,168)	14,092	6,176
<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	(660)	189	937	(2,400)
Net actuarial loss on employee benefits plans	-	-	(141)	-
<b>Other comprehensive income (loss) from continuing operations, net of tax</b>	12,405	(1,979)	14,888	3,776
Other comprehensive income (loss) from discontinuing operations, net of tax	2,902	(436)	1,582	437
<b>Total comprehensive income, net of tax</b>	\$ 40,919	\$ 3,318	\$ 47,107	\$ 47,730
<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	\$ 3,581	\$ (111)	\$ 4,060	\$ 2,912
Reclassification of realized gains to profit	\$ (815)	\$ (145)	\$ (1,335)	\$ (1,485)
Share of other comprehensive income (loss) of affiliates accounted for using the equity method	\$ -	\$ 240	\$ 5	\$ 276
<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	\$ (137)	\$ 39	\$ 195	\$ (505)
Net actuarial loss on employee benefits plans	\$ -	\$ -	\$ (30)	\$ -
<b>Total comprehensive income, net of tax, attributable to owners:</b>				
Continuing operations	\$ 32,564	\$ 848	\$ 37,667	\$ 28,019
Discontinuing operations (see Note 9)	8,355	2,470	9,440	19,711
	\$ 40,919	\$ 3,318	\$ 47,107	\$ 47,730

<sup>(1)</sup>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 income, net of tax												
Profit		31,687					31,687	(1,050)	30,637			
Other comprehensive income, net of tax												
Fair value reserve (securities at fair value through other comprehensive income) <sup>(2)</sup>			14,490				14,490		14,490			
Share of other comprehensive income of affiliates accounted for using the equity method			51				51		51			
Liability credit reserve <sup>(2)</sup>				2,070			2,070		2,070			
Net actuarial loss on employee benefits plans					(141)		(141)		(141)			
Total comprehensive income	-	31,687	14,541	2,070	(141)	-	48,157	(1,050)	47,107			
Transactions with owners, recorded directly in equity												
Class "F" shares issued (Note 16)	1,051						1,051		1,051			
Total contribution from owners	1,051	-	-	-	-	-	1,051	-	1,051			
Reclassification of liability credit reserve on derecognition <sup>(1)</sup>												
		1,428		(1,428)			-		-			
Balance at September 30, 2020	\$ 441,127	\$ 693,021	\$ 25,229	\$ (5,017)	\$ 304	\$ 2	\$ 1,154,666	\$ 6,730	\$ 1,161,396			

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

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

	2020	2019
Fair value & affiliates reserves:		
Continuing operations	\$ 14,092	\$ 6,176
Discontinuing operations	449	1,884
	<u>\$ 14,541</u>	<u>\$ 8,060</u>
Liability credit reserve:		
Continuing operations	\$ 937	\$ (2,400)
Discontinuing operations	1,133	(1,447)
	<u>\$ 2,070</u>	<u>\$ (3,847)</u>
Profit (loss) attributable to:		
Members of Central 1	\$ 31,687	\$ 43,726
Non-controlling interest	(1,050)	(209)
	<u>\$ 30,637</u>	<u>\$ 43,517</u>
Total comprehensive income (loss) attributable to:		
Members of Central 1	\$ 48,157	\$ 47,939
Non-controlling interest	(1,050)	(209)
	<u>\$ 47,107</u>	<u>\$ 47,730</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		43,726					43,726	(209)	43,517			
Other comprehensive income, net of tax												
Fair value reserve (securities at fair value through other comprehensive income)			8,573				8,573		8,573			
Share of other comprehensive loss of affiliates accounted for using the equity method			(513)				(513)		(513)			
Liability credit reserve				(3,847)			(3,847)		(3,847)			
Total comprehensive income	-	43,726	8,060	(3,847)	-	-	47,939	(209)	47,730			
Transactions with owners, recorded directly in equity												
Related tax savings for dividends		2					2		2			
Class "F" shares issued (Note 16)	1,229						1,229		1,229			
Transfer/distribution from reserves		(2)				(24)	(26)		(26)			
Total contribution from and distribution to owners	1,229	-	-	-	-	(24)	1,205	-	1,205			
Reclassification of liability credit reserve on derecognition <sup>(1)</sup>												
		752		(752)			-		-			
Balance at September 30, 2019	\$ 431,166	\$ 696,849	\$ 5,737	\$ (5,029)	\$ 1,264	\$ 2	\$ 1,129,989	\$ 9,914	\$ 1,139,903			

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

## Interim Consolidated Statement of Cash Flows (Unaudited)

(Thousands of dollars)	For the three months ended		For the nine months ended	
	Sep 30 2020	Sep 30 2019	Sep 30 2020	Sep 30 2019
<b>Cash flows from operating activities</b>				
Profit	\$ 25,612	\$ 5,733	\$ 30,637	\$ 43,517
Adjustments for:				
Depreciation and amortization	2,233	2,118	6,884	4,414
Interest margin	(23,901)	(18,371)	(61,881)	(60,284)
Gain on disposal of financial instruments	(960)	(2,293)	(14,956)	(53,159)
Change in fair value of financial instruments	(17,057)	2,926	(674)	30,818
Impairment loss (recovery) on financial assets	(266)	(53)	3,341	219
Equity interest in affiliates	84	-	421	-
Income taxes expense	5,298	505	3,005	5,479
	(8,957)	(9,435)	(33,223)	(28,996)
Change in securities	(1,593,942)	91,639	(4,431,135)	(1,120,029)
Change in loans	26,640	(886,629)	415,055	(533,716)
Change in settlements in-transit	75,788	723,650	91,031	(287,573)
Change in deposits	1,640,056	(267,434)	5,277,822	1,281,438
Change in obligations related to securities sold short	(166,460)	(37,441)	75,410	(55,739)
Change in securities under repurchase agreements	363,288	-	50,389	-
Change in derivative assets and liabilities	422	(3,985)	5,505	7,863
Change in other assets and liabilities	(2,202)	10,232	(14,283)	(5,408)
Interest received	51,333	92,460	199,581	270,049
Interest paid	(29,437)	(57,818)	(149,302)	(189,482)
Income tax (paid) received	(133)	7,549	(173)	7,502
Net cash from (used in) operating activities	356,396	(337,212)	1,486,677	(654,091)
<b>Cash flows from investing activities</b>				
Change in deposits with regulated financial institutions	-	-	1,555	358
Change in reinvestment assets under the Canada Mortgage Bond Program	(197,561)	(134,337)	(191,830)	(203,790)
Change in property and equipment	43	(1,634)	(12)	(890)
Change in intangible assets	-	(6,520)	(30)	(14,682)
Change in investments in affiliates	63	(3,018)	(1,547)	(6,969)
Net cash used in investing activities	(197,455)	(145,509)	(191,864)	(225,973)

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		For the nine months ended	
		Sep 30 2020	Sep 30 2019	Sep 30 2020	Sep 30 2019
<b>Cash flows from financing activities</b>					
Change in debt securities issued		(127,615)	360	(535,242)	(205,250)
Change in lease liabilities		(95)	(83)	(247)	(262)
Change in obligations under the Canada Mortgage Bond Program		138,939	49,205	137,616	34,207
Change in securities under repurchase agreements		-	405,705	-	510,937
Change in subordinated liabilities		75	-	215	(200,000)
Dividends paid		-	-	(27,512)	(13,807)
Issuance of Class F shares	(16)	-	-	1,051	1,229
Net cash from (used in) financing activities		11,304	455,187	(424,119)	127,054
Increase (decrease) in cash		170,245	(27,534)	870,694	(753,010)
Cash - beginning of year		752,144	85,884	51,695	811,360
Cash - end of year	\$	922,389	\$ 58,350	\$ 922,389	\$ 58,350
<b>Cash comprise</b>					
Cash	\$	786,110	\$ 58,350	\$ 786,110	\$ 58,350
Cash held for segregation	(9)	136,279	-	136,279	-
Cash - end of year	\$	922,389	\$ 58,350	\$ 922,389	\$ 58,350

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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 accounting policy for Canada Emergency Business Account Program (CEBA), and the adoption of the Phase I 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 November 26, 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.

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 are:

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

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.

### **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. Accounting Policies**

### **Canada Emergency Business Account Program**

The Government of Canada (GoC) launched the CEBA program to provide interest-free loans of up to \$40,000 to qualifying small businesses and not-for-profits, to help cover their operating costs during a period where their revenues have been temporarily reduced. Central 1 acts as a credit facility administrator for its eligible member credit unions to access the loans from GoC through the CEBA program. Loans advanced to borrowers by member credit unions under the CEBA program are not recognized on the Interim Consolidated Statements of Financial Position because Central 1 is not a party to the contractual provision of the loans.

The Credit Facility established by the GoC in order to provide funding to the member credit unions is not recognized on the Interim Consolidated Statement of Financial Position because Central 1 acts in the capacity as an agent, and substantially all the risks and rewards associated with the loans, including exposure to payment defaults and principal forgiveness, are assumed by the GoC.

Central 1 receives a loan administration fee which is recognized in the Interim Consolidated Statements of Profit.

## Interest Rate Benchmark Reform (IBOR)

IBOR refers to the global reform of interest rate benchmarks, which includes the replacement of some interbank offered rates with alternative benchmark rates. The IASB has undertaken a two-phase project to look into the potential effects of IBOR on financial reporting and issued amendments to a few IFRS Standards, IFRS 9 (*Financial Instruments*), IAS 39 (*Financial Instruments: Recognition and Measurement*), and IFRS 7 (*Financial Instruments: Disclosures*), IFRS 4 (*Insurance Contracts*), and IFRS 16 (*Leases*).

### Phase I Amendments – Change in Accounting Policy

In September 2019, the IASB issued the Phase I amendments to address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark. The amendments modified specific hedge accounting requirements of IFRS 9 or IAS 39 to provide temporary exceptions to all hedging relationships directly affected by uncertainties arising as a result of the 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. 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 and IFRS 7 on January 1, 2020 and there was no impact on 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.

### Phase II Amendments – Future Accounting Policy

In August 2020, the Phase II amendments, complementing the Phase I amendments, were issued to address financial reporting issues during the reform of an interest rate benchmark including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative one.

The amendments principally address practical expedient for modification of a financial contract and allow a series of reliefs from discontinuing hedging relationships, in combination of new disclosures on the nature and extent of risks arising from the reform and how these risks are managed.

The amendments are applied retrospectively and effective for annual periods beginning on or after January 1, 2021, with earlier application permitted. The amendments only apply to changes required by the interest rate benchmark reform to financial instruments and hedging relationships. Central 1 is currently in the process of determining the impact of the Phase II amendments on Central 1's Consolidated Financial Statements.

**5. Securities**

(Thousands of dollars)	Sep 30 2020	Dec 31 2019
<b>Securities FVTPL</b>		
Government and government guaranteed securities	\$ 4,080,131	\$ 2,269,281
Corporate and major financial institutions		
AA low or greater	2,230,135	1,150,700
A (high) to A (low)	379,850	30,004
BBB (high) to BBB (low)	233,474	1,820
Equity instruments	47,624	47,326
Fair value	\$ 6,971,214	\$ 3,499,131
Amortized cost	\$ 6,880,842	\$ 3,477,475
<b>Securities FVOCI</b>		
Government and government guaranteed securities	\$ 334,699	\$ 837,692
Corporate and major financial institutions		
AA low or greater	1,195,145	1,264,497
A (high) to A (low)	498,590	418,688
BBB (high) to BBB (low)	1,240,972	272,087
Fair value	\$ 3,269,406	\$ 2,792,964
Amortized cost	\$ 3,244,548	\$ 2,787,560
Total fair value	\$ 10,240,620	\$ 6,292,095

**Securities held for segregation**

(Thousands of dollars)	Sep 30 2020	Dec 31 2019
<b>Securities FVTPL</b>		
Government and government guaranteed securities	\$ 4,584,336	\$ 4,365,925
Corporate and major financial institutions		
AA low or greater	1,326,666	959,335
A (high) to A (low)	12,633	-
Fair value	\$ 5,923,635	\$ 5,325,260
Amortized cost	\$ 5,830,201	\$ 5,312,555
<b>Securities FVOCI</b>		
Government and government guaranteed securities	\$ 1,601,708	\$ 2,606,186
Corporate and major financial institutions AA low or greater	1,383,784	254,326
Fair value	\$ 2,985,492	\$ 2,860,512
Amortized cost	\$ 2,979,542	\$ 2,855,242
Total fair value (Note 9)	\$ 8,909,127	\$ 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)	Sep 30 2020	Dec 31 2019
<b>FVTPL</b>		
Government and government guaranteed securities	\$ 503,306	\$ 521,887
Asset backed commercial paper	56,993	44,967
Fair Value	560,299	566,854
Amortized cost	\$ 550,063	\$ 565,539
<b>Amortized cost</b>		
Assets acquired under reverse repurchase agreements	\$ 327,179	\$ 120,099
Total reinvestment assets under the Canada Mortgage Bond Program	\$ 887,478	\$ 686,953

## 6. Loans

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

(Thousands of dollars)	Sep 30 2020	Dec 31 2019
<b>Amortized cost</b>		
Due on demand		
Credit unions	\$ 133,202	\$ 493,038
Commercial and others	23,091	688
	<b>156,293</b>	<b>493,726</b>
Term		
Credit unions	51,992	15,499
Commercial and others	893,697	846,521
Reverse repurchase agreements	457,765	615,203
Officers and employees <sup>(1)</sup>	7,364	10,203
	<b>1,410,818</b>	<b>1,487,426</b>
	<b>1,567,111</b>	<b>1,981,152</b>
Accrued interest	3,092	2,808
Premium	1,042	2,188
	<b>1,571,245</b>	<b>1,986,148</b>
Expected credit loss	(3,852)	(1,383)
Amortized cost	<b>1,567,393</b>	<b>1,984,765</b>
Fair value hedge adjustment <sup>(2)</sup>	(778)	(2,898)
Carrying value	<b>\$ 1,566,615</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)	Sep 30 2020	Dec 31 2019
<b>FVTPL</b>		
Term		
Commercial and others	\$ 14,729	\$ 16,694
Accrued interest	49	53
Premium	22	31
Amortized cost	<b>\$ 14,800</b>	<b>\$ 16,778</b>
Fair value	<b>\$ 15,848</b>	<b>\$ 17,301</b>
Total loans	<b>\$ 1,582,463</b>	<b>\$ 1,999,168</b>

Central 1 is permitting payment deferrals to eligible borrowers in its commercial loans portfolio. Payment deferrals are not considered to automatically trigger a SICR or result in such loans being moved into stage 2 or stage 3 for the purposes of calculating the ECL. Payment deferrals have not been granted in connection with loans that have been identified as impaired or on watch list. Central 1 continues to accrue and recognize interest income on such loans.

As at September 30, 2020, the gross carrying value of loans for which deferrals have been approved totalled \$47.2 million (December 31, 2019 - \$nil).

## 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. The terms of these Interest rate swaps 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 value hedges are as follows:

(Thousands of dollars)	For the three months ended Sep 30 2020			For the three months ended Sep 30 2019		
	Fair value hedge adjustment - gains (losses)	Change in the fair value on hedging instruments - gains (losses)	Hedge ineffectiveness recorded in profit (loss)	Fair value hedge adjustment - gains (losses)	Change in the fair value on hedging instruments - gains (losses)	Hedge ineffectiveness recorded in profit (loss)
Securities at FVOCI <sup>(1)</sup>	\$ (254)	\$ 585	\$ 331	\$ -	\$ -	\$ -
Loans	(122)	91	(31)	59	(85)	(26)
Debt securities issued	810	(741)	69	301	(128)	173
	<b>\$ 434</b>	<b>\$ (65)</b>	<b>\$ 369</b>	<b>\$ 360</b>	<b>\$ (213)</b>	<b>\$ 147</b>

<sup>(1)</sup> The designation of securities at FVOCI in a hedging relationship moves the changes in fair value due to interest rate risk from the other comprehensive income to the profit (loss)

# Notes to the Interim Consolidated Financial Statements (Unaudited)

Period ended September 30, 2020

Central 1 Credit Union | 15

(Thousands of dollars)	For the nine months ended Sep 30 2020			For the nine months ended Sep 30 2019		
	Fair value hedge adjustment - gains (losses)	Change in the fair value on hedging instruments - gains (losses)	Hedge ineffectiveness recorded in profit (loss)	Fair value hedge adjustment - gains (losses)	Change in the fair value on hedging instruments - gains (losses)	Hedge ineffectiveness recorded in profit (loss)
Securities at FVOCI <sup>(1)</sup>	\$ 3,636	\$ (3,578)	\$ 58	\$ -	\$ -	\$ -
Loans	2,120	(2,278)	(158)	1,897	(2,096)	(199)
Debt securities issued	(9,794)	9,283	(511)	(7,585)	7,978	393
	<b>\$ (4,038)</b>	<b>\$ 3,427</b>	<b>\$ (611)</b>	<b>\$ (5,688)</b>	<b>\$ 5,882</b>	<b>\$ 194</b>

<sup>(1)</sup> The designation of securities at FVOCI in a hedging relationship moves the changes in fair value due to interest rate risk from the other comprehensive income to the profit (loss)

(Thousands of dollars)	Sep 30 2020			Dec 31 2019		
	Carrying value of hedged items	Carrying value of hedging instruments	Cumulative hedge adjustments from active hedges	Carrying value of hedged items	Carrying value of hedging instruments	Cumulative hedge adjustments from active hedges
Securities at FVOCI <sup>(1)</sup>	\$ 213,250	\$ (3,578)	\$ 3,636	\$ -	\$ -	\$ -
Loans	71,550	111	(778)	137,311	2,389	(2,898)
Debt securities issued	(300,000)	9,057	(8,532)	(700,000)	(225)	1,262
		<b>\$ 5,590</b>	<b>\$ (5,674)</b>		<b>\$ 2,164</b>	<b>\$ (1,636)</b>

<sup>(1)</sup> The designation of securities at FVOCI in a hedging relationship moves the changes in fair value due to interest rate risk from the other comprehensive income to the profit (loss)

**8. Expected credit loss**

(Thousands of dollars)	Stage 1		Stage 2		Stage 3		Sep 30 2020 Total
<b>ECL on financial assets at amortized cost</b>							
Balance at December 31, 2019	\$	1,111	\$	272	\$	-	\$ 1,383
Impairment loss on financial assets							
Purchases and originations		847		-		-	847
Derecognitions and maturities		(262)		(155)		-	(417)
Remeasurements		1,811		228		-	2,039
Total impairment loss on financial assets		2,396		73		-	2,469
<b>Balance at September 30, 2020</b>	<b>\$</b>	<b>3,507</b>	<b>\$</b>	<b>345</b>	<b>\$</b>	<b>-</b>	<b>\$ 3,852</b>
<b>ECL on financial assets at FVOCI</b>							
Balance at December 31, 2019	\$	644	\$	-	\$	-	\$ 644
Impairment loss on financial assets:							
Transfers in (out) to (from)		(113)		113		-	-
Purchases		977		23		-	1,000
Derecognitions and maturities		(366)		-		-	(366)
Remeasurements		282		49		-	331
Total impairment loss on financial assets		780		185		-	965
<b>Balance at September 30, 2020</b>	<b>\$</b>	<b>1,424</b>	<b>\$</b>	<b>185</b>	<b>\$</b>	<b>-</b>	<b>\$ 1,609</b>
<b>Total ECL</b>							
Balance at December 31, 2019	\$	1,755	\$	272	\$	-	\$ 2,027
Impairment loss on financial assets:							
Transfers in (out) to (from)		(113)		113		-	-
Purchases and originations		1,824		23		-	1,847
Derecognitions and maturities		(628)		(155)		-	(783)
Remeasurements		2,093		277		-	2,370
Total impairment loss on financial assets		3,176		258		-	3,434
<b>Balance at September 30, 2020</b>	<b>\$</b>	<b>4,931</b>	<b>\$</b>	<b>530</b>	<b>\$</b>	<b>-</b>	<b>\$ 5,461</b>

(Thousands of dollars)	Stage 1		Stage 2		Stage 3		Sep 30 2019 Total
<b>ECL on financial assets at amortized cost</b>							
Balance at December 31, 2018	\$	838	\$	164	\$	-	\$ 1,002
Impairment loss on financial assets							
Transfers in (out) to (from)		(8)		8		-	-
Purchases and originations		306		-		-	306
Derecognitions and maturities		(120)		(21)		-	(141)
Remeasurements		34		110		-	144
Total impairment loss on financial assets		212		97		-	309
Balance at September 30, 2019	\$	1,050	\$	261	\$	-	\$ 1,311
<b>ECL on financial assets at FVOCI</b>							
Balance at December 31, 2018	\$	484	\$	-	\$	-	\$ 484
Impairment recovery on financial assets							
Purchases		113		-		-	113
Derecognitions and maturities		(134)		-		-	(134)
Remeasurements		(69)		-		-	(69)
Total impairment recovery on financial assets		(90)		-		-	(90)
Balance at September 30, 2019	\$	394	\$	-	\$	-	\$ 394
<b>Total ECL</b>							
Balance at December 31, 2018	\$	1,322	\$	164	\$	-	\$ 1,486
Impairment loss on financial assets							
Transfers in (out) to (from)		(8)		8		-	-
Purchases and originations		419		-		-	419
Derecognitions and maturities		(254)		(21)		-	(275)
Remeasurements		(35)		110		-	75
Total impairment loss on financial assets		122		97		-	219
Balance at September 30, 2019	\$	1,444	\$	261	\$	-	\$ 1,705

The following tables present the gross carrying amounts of the loans as at September 30, 2020 and December 31, 2019, according to credit quality:

(Thousands of dollars)		Stage 1		Stage 2		Stage 3		Sep 30 2020 Total
Low Risk	\$	773,314	\$	-	\$	-	\$	773,314
Medium Risk		782,394		-		-		782,394
High Risk		-		6,764		-		6,764
Not Rated		8,773		-		-		8,773
<b>Total</b>	<b>\$</b>	<b>1,564,481</b>	<b>\$</b>	<b>6,764</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>1,571,245</b>

(Thousands of dollars)		Stage 1		Stage 2		Stage 3		Dec 31 2019 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>\$</b>	<b>1,970,095</b>	<b>\$</b>	<b>16,053</b>	<b>\$</b>	<b>-</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 the B.C. Financial Services Authority (BCFSA) (formerly, the Financial Institutions Commission of British Columbia) to legally segregate the B.C. and Ontario MLPs. Central 1 received BCFSA's acceptance of the segregation plan and commenced extensive member engagement in early 2020. Broad system consultation with Class A members is continuing and, on October 2, 2020, Central 1 announced that its members passed a special resolution approving amendments to Central 1's Constitution and Rules in connection with the segregation.

The planned transfer of assets and liabilities related to the MLP 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 22 for Segment Information and with additional details as given below:

### Profit from discontinuing operations

(Thousands of dollars)	For the three months ended		For the nine months ended	
	Sep 30 2020	Sep 30 2019	Sep 30 2020	Sep 30 2019
Net financial income including impairment on financial assets	\$ 10,160	\$ 6,128	\$ 16,909	\$ 29,977
Non-financial income (expense)	(332)	162	170	(312)
Net financial and non-financial income	9,828	6,290	17,079	29,665
Non-financial expense	3,242	2,584	7,588	6,123
Profit before income taxes	6,586	3,706	9,491	23,542
Income tax expense	1,133	800	1,633	4,268
Profit from discontinuing operations	\$ 5,453	\$ 2,906	\$ 7,858	\$ 19,274

### MLP assets held for segregation

(Thousands of dollars)	Sep 30 2020	Dec 31 2019
Cash	\$ 136,279	\$ 2,748
Securities (Note 5)	8,909,127	8,185,772
Other assets	-	403
MLP assets held for segregation	\$ 9,045,406	\$ 8,188,923

**MLP liabilities held for segregation**

(Thousands of dollars)	Sep 30 2020		Dec 31 2019	
Deposits (Note 12)	\$	8,542,762	\$	7,788,430
Settlements in-transit		82,194		-
Current tax liabilities		2,005		-
Other liabilities		586		71
MLP liabilities held for segregation	\$	8,627,547	\$	7,788,501

The fair value of MLP deposits at September 30, 2020 was \$8,549.5 million (December 31, 2019 - \$7,792 million).

**Cash flow from discontinuing operations**

(Thousands of dollars)	For the three months ended		For the nine months ended	
	Sep 30 2020	Sep 30 2019	Sep 30 2020	Sep 30 2019
Net cash from (used in) operating activities	\$ 54,052	\$ (1,588)	\$ 132,481	\$ (78,654)
Net cash from (used in) financing activities	-	-	1,051	(12,578)
Net cash from (used in) discontinuing operations	\$ 54,052	\$ (1,588)	\$ 133,532	\$ (91,232)

**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 November 2020 and distribute the remaining funds back to credit unions by the end of 2020. This would result in CUPP's 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)		Sep 30 2020
Deposits with regulated financial institutions	\$	3,384
Securities		1,851
Other assets		77
Assets held for distribution	\$	5,312

**Liabilities held for distribution**

(Thousands of dollars)		Sep 30 2020
Provisions	\$	1,754
Other liabilities		10
Liabilities held for distribution	\$	1,764

**11. Other assets**

(Thousands of dollars)		Sep 30 2020	Dec 31 2019
Investment property	\$	802	\$ 872
Prepaid expenses		10,233	10,226
Post-employment benefits		3,098	3,343
Assets held for distribution (Note 10)		5,312	-
Accounts receivable and other		7,712	8,849
	\$	27,157	\$ 23,290

## 12. Deposits

(Thousands of dollars)	Sep 30 2020	Dec 31 2019
<b>Deposits designated as FVTPL</b>		
Due within three months	\$ 151,067	\$ 68,021
Due after three months and within one year	636,229	482,082
Due after one year and within five years	248,770	441,482
	<b>1,036,066</b>	991,585
Accrued interest	6,035	8,452
Amortized cost	\$ 1,042,101	\$ 1,000,037
Fair value	\$ 1,052,386	\$ 1,001,562
<b>Deposits held at amortized cost</b>		
Due on demand	\$ 2,746,514	\$ 1,524,881
Due within three months	3,238,103	850,346
Due after three months and within one year	1,585,520	684,544
Due after one year and within five years	208,337	135,882
	<b>7,778,474</b>	3,195,653
Accrued interest	8,830	5,135
Amortized cost	\$ 7,787,304	\$ 3,200,788
Total carrying value	\$ 8,839,690	\$ 4,202,350

The fair value of deposits at September 30, 2020 was \$8,849.3 million (December 31, 2019 - \$4,202.1 million).

**Deposits held for segregation**

(Thousands of dollars)	Sep 30 2020	Dec 31 2019
<b>Deposits designated as FVTPL</b>		
Due within three months	\$ 1,632,520	\$ 605,450
Due after three months and within one year	1,297,759	2,193,031
Due after one year and within five years	1,989,400	3,215,836
	<b>4,919,679</b>	<b>6,014,317</b>
Accrued interest	43,440	40,822
Amortized cost	\$ 4,963,119	\$ 6,055,139
Fair value	\$ 5,038,678	\$ 6,048,733
<b>Deposits held at amortized cost</b>		
Due within three months	\$ 2,047,294	\$ 417,344
Due after three months and within one year	199,579	117,363
Due after one year and within five years	1,255,838	1,201,402
	<b>3,502,711</b>	<b>1,736,109</b>
Accrued interest	1,373	3,588
Amortized cost	\$ 3,504,084	\$ 1,739,697
Total carrying value (Note 9)	\$ 8,542,762	\$ 7,788,430

**13. Debt securities issued**

(Thousands of dollars)	Sep 30 2020	Dec 31 2019
<b>Amounts</b>		
Due within three months	\$ 250,155	\$ 892,441
Due after three months and within one year	349,851	39,235
Due after one year and within five years	943,517	1,147,089
	<b>1,543,523</b>	<b>2,078,765</b>
Accrued interest	9,445	5,973
Amortized cost	1,552,968	2,084,738
Fair value hedge adjustment <sup>(1)</sup>	8,532	(1,262)
Carrying value	\$ 1,561,500	\$ 2,083,476

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

At September 30, 2020, a par value of \$250.2 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)	Sep 30 2020	Dec 31 2019
<b>Amounts</b>		
Due within one year	\$ 587,693	\$ 450,945
Due after one year and within five years	469,300	468,432
	1,056,993	919,377
Accrued interest	1,189	380
Amortized cost	\$ 1,058,182	\$ 919,757
Fair value	\$ 1,069,843	\$ 919,086

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

(Thousands of dollars)	Sep 30 2020	Dec 31 2019
<b>FVTPL</b>		
Total reinvestment assets under the Canada Mortgage Bond Program (see Note 5)	\$ 560,299	\$ 566,854
Assets recognized as securities	184,928	233,829
Fair value	\$ 745,227	\$ 800,683
<b>Amortized cost</b>		
Total reinvestment assets under the Canada Mortgage Bond Program (see Note 5)	\$ 327,179	\$ 120,099
Total underlying assets designated	\$ 1,072,406	\$ 920,782

**15. Other liabilities**

(Thousands of dollars)	Sep 30 2020	Dec 31 2019
Post-employment benefits	\$ 16,228	\$ 16,476
Short-term employee benefits	10,933	11,523
Dividends payable	-	27,512
Finance leases	6,357	6,604
Provisions for unpaid claims <sup>(1)</sup>	-	1,680
Liabilities held for distribution (Note 10)	1,764	-
Accounts payable and other	17,831	33,428
	<b>\$ 53,113</b>	<b>\$ 97,223</b>

<sup>(1)</sup> Provision for unpaid claims are reported under liabilities 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)	Sep 30 2020	Dec 31 2019	Sep 30 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	1,229
Balance at end of period	397,737	396,686	387,776
<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 2020, in response to the COVID-19 pandemic and market disruption, B.C. Financial Services Authority (BCFSA) has introduced an easing measure to permit Central 1 to increase the borrowing multiple limit for the MLP from 17.0:1 to 20.0:1 effective March 31, 2020. As a result, no capital call for increased overall capital in the MLP was required in May 2020 to meet the borrowing multiple requirement. On September 30, 2020 BCFSA announced, as of January 1, 2021, and until further notice, BCFSA will set Central 1's borrowing multiple limit at 18.0:1 and will apply the multiple to Central 1's Consolidated Statement of Financial Position.

Central 1 issued 1.1 million Class F shares on March 27, 2020 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.

On October 2, 2020, Central 1 announced that its members passed a special resolution approving amendments to its Constitution and Rules. The amendments remove the requirement in Central 1's Rules for Class A members to maintain on deposit with Central 1 at least the amount that the member is required by a regulatory body to maintain in liquid form, excluding that amount maintained in cash, in satisfaction of applicable legislation. The amendments also remove all provisions in the Rules relating to Class F shares. Under Central 1's current Rules, Class F shares were issued to Class A members that have deposits in the MLP. The amendments are subject to consent of the BCFSA and will come into effect at a time determined by the Board of Directors of Central 1.

(Thousands of dollars)	Sep 30 2020	Dec 31 2019	Sep 30 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	387,776
Outstanding \$0.01 par value shares			
Class E - credit unions	21	21	21
	<b>441,129</b>	<b>440,078</b>	<b>431,168</b>
<b>Amount of treasury shares</b>			
Treasury shares	(2)	(2)	(2)
Balance at end of period	\$ 441,127	\$ 440,076	\$ 431,166

**17. Gain (loss) on disposal of financial instruments**

(Thousands of dollars)	For the three months ended		For the nine months ended	
	Sep 30 2020	Sep 30 2019	Sep 30 2020	Sep 30 2019
<b>Continuing operations</b>				
Realized gain on securities as at FVTPL	\$ 3,496	\$ 1,706	\$ 16,137	\$ 20,356
Realized gain on securities as at FVOCI	4,736	829	7,746	8,589
Realized gain (loss) on derivative instruments	764	(2,266)	(164)	3,189
Realized gain on loans as at FVTPL	-	-	14	8
Realized loss on deposits designated as at FVTPL	(1,251)	(157)	(1,763)	(12)
Realized loss on obligations related to securities sold short	(1,595)	(406)	(9,387)	(4,063)
	<b>\$ 6,150</b>	<b>\$ (294)</b>	<b>\$ 12,583</b>	<b>\$ 28,067</b>

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

(Thousands of dollars)	For the three months ended		For the nine months ended	
	Sep 30 2020	Sep 30 2019	Sep 30 2020	Sep 30 2019
<b>Continuing operations</b>				
Securities as at FVTPL	\$ 2,293	\$ (5,187)	\$ 68,716	\$ 29,228
Loans as at FVTPL	127	(118)	525	292
Activities under the Canada Mortgage Bond Program				
Reinvestment assets	1,151	159	8,921	3,399
Derivative instruments	(107)	2,606	(13,454)	(9,786)
Obligations under the Canada Mortgage Bond Program	(926)	(208)	(12,332)	(6,135)
Derivative instruments	302	3,719	(35,824)	(15,804)
Financial liabilities as at FVTPL				
Deposits designated as at FVTPL	1,641	(151)	(9,891)	(7,989)
Obligations related to securities sold short	856	1,377	(3,383)	(129)
	\$ 5,337	\$ 2,197	\$ 3,278	\$ (6,924)

**19. Non-financial income**

(Thousands of dollars)	For the three months ended Sep 30 2020			For the three months ended Sep 30 2019		
	Revenue arising from contracts with customers	Revenue arising from other sources	Total	Revenue arising from contracts with customers	Revenue arising from other sources	Total
<b>Continuing operations</b>						
Treasury						
Lending fees	\$ 3,504	\$ -	\$ 3,504	\$ 3,373	\$ -	\$ 3,373
Securitization fees	2,396	-	2,396	1,999	-	1,999
Foreign exchange income	-	348	348	-	1,883	1,883
Other	1,308	-	1,308	1,365	268	1,633
Digital & Payment Services						
Payment processing and other fees	16,674	-	16,674	15,874	-	15,874
Direct banking fees	8,548	-	8,548	8,736	-	8,736
System Affiliates & Other						
Equity interest in affiliates	-	(84)	(84)	-	2,298	2,298
Income from investees	-	63	63	-	808	808
Membership dues	612	-	612	612	-	612
Other	596	-	596	480	-	480
	\$ 33,638	\$ 327	\$ 33,965	\$ 32,439	\$ 5,257	\$ 37,696

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

# Notes to the Interim Consolidated Financial Statements (Unaudited)

Period ended September 30, 2020

Central 1 Credit Union | 30

(Thousands of dollars)	For the nine months ended Sep 30 2020			For the nine months ended Sep 30 2019		
	Revenue arising from contracts with customers	Revenue arising from other sources	Total	Revenue arising from contracts with customers	Revenue arising from other sources	Total
<b>Continuing operations</b>						
Treasury						
Lending fees	\$ 9,820	\$ -	\$ 9,820	\$ 7,764	\$ -	\$ 7,764
Securitization fees	6,607	-	6,607	6,014	-	6,014
Foreign exchange income	-	3,350	3,350	-	6,697	6,697
Other	3,777	-	3,777	4,399	957	5,356
Digital & Payment Services						
Payment processing and other fees	47,440	-	47,440	45,944	-	45,944
Direct banking fees	25,235	-	25,235	26,020	-	26,020
System Affiliates & Other						
Equity interest in affiliates	-	(421)	(421)	-	4,689	4,689
Income from investees	-	1,148	1,148	-	2,580	2,580
Membership dues	1,837	-	1,837	1,837	-	1,837
Other	1,765	-	1,765	1,673	-	1,673
	\$ 96,481	\$ 4,077	\$ 100,558	\$ 93,651	\$ 14,923	\$ 108,574

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

## 20. Other administrative expense

(Thousands of dollars)	For the three months ended		For the nine months ended	
	Sep 30 2020	Sep 30 2019	Sep 30 2020	Sep 30 2019
<b>Continuing operations</b>				
Cost of sales and services	\$ 1,769	\$ 2,531	\$ 6,771	\$ 7,195
Cost of payments processing	4,575	5,172	13,724	14,043
Management information systems	6,223	5,610	18,456	15,037
Professional fees	5,540	8,397	18,154	25,911
Business development projects	42	136	249	534
Other	1,083	1,085	2,129	3,212
	\$ 19,232	\$ 22,931	\$ 59,483	\$ 65,932

## 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, 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. On October 2, 2020, Central 1 announced its members passed a special resolution approving amendments to Central 1's Constitution and Rules. The amendments proposed were in connection with the plan to legally segregate the MLP to restructure system liquidity for the benefit of members. 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 Banking became available for use.

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 September 30, 2020:

(Thousands of dollars)	Mandatory Liquidity Pool		Treasury		Digital & Payment Services		System Affiliates & Other		Total
Net financial income (expense), including impairment on financial assets	\$	10,160	\$	32,084	\$	(60)	\$	-	\$ 42,184
Non-financial income		(332)		7,556		25,222		1,187	33,633
Net financial and non-financial income		9,828		39,640		25,162		1,187	75,817
Non-financial expense		3,242		8,638		31,022		2,005	44,907
Profit (loss) before income taxes		6,586		31,002		(5,860)		(818)	30,910
Income tax expense (recovery)		1,133		5,336		(1,011)		(160)	5,298
<b>Profit (loss)</b>	<b>\$</b>	<b>5,453</b>	<b>\$</b>	<b>25,666</b>	<b>\$</b>	<b>(4,849)</b>	<b>\$</b>	<b>(658)</b>	<b>\$ 25,612</b>

The following table summarizes the segment results for the three months ended September 30, 2019:

(Thousands of dollars)	Mandatory Liquidity Pool		Treasury		Digital & Payment Services		System Affiliates & Other		Total
Net financial income (expense), including impairment on financial assets	\$	6,128	\$	11,758	\$	(95)	\$	-	\$ 17,791
Non-financial income		162		8,888		24,610		4,198	37,858
Net financial and non-financial income		6,290		20,646		24,515		4,198	55,649
Non-financial expense		2,584		9,145		31,314		6,368	49,411
Profit (loss) before income taxes		3,706		11,501		(6,799)		(2,170)	6,238
Income tax expense (recovery)		800		2,015		(906)		(1,404)	505
<b>Profit (loss)</b>	<b>\$</b>	<b>2,906</b>	<b>\$</b>	<b>9,486</b>	<b>\$</b>	<b>(5,893)</b>	<b>\$</b>	<b>(766)</b>	<b>\$ 5,733</b>

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

The following table summarizes the segment results for the nine months ended September 30, 2020:

(Thousands of dollars)	Mandatory Liquidity Pool*		Treasury		Digital & Payment Services		System Affiliates & Other	Total
Net financial income (expense), including impairment on financial assets	\$	16,909	\$	57,490	\$	(229)	\$ -	\$ 74,170
Non-financial income		170		23,554		72,675	4,329	100,728
Net financial and non-financial income		17,079		81,044		72,446	4,329	174,898
Non-financial expense		7,588		25,824		97,789	10,055	141,256
Profit (loss) before income taxes		9,491		55,220		(25,343)	(5,726)	33,642
Income tax expense (recovery)		1,633		9,504		(4,362)	(3,770)	3,005
<b>Profit (loss)</b>	<b>\$</b>	<b>7,858</b>	<b>\$</b>	<b>45,716</b>	<b>\$</b>	<b>(20,981)</b>	<b>\$ (1,956)</b>	<b>\$ 30,637</b>
<b>Total assets as at September 30 2020</b>	<b>\$</b>	<b>9,129,406</b>	<b>\$</b>	<b>13,870,924</b>	<b>\$</b>	<b>21,172</b>	<b>\$ 192,546</b>	<b>\$ 23,214,048</b>
<b>Total liabilities as at September 30 2020</b>	<b>\$</b>	<b>8,627,547</b>	<b>\$</b>	<b>13,379,411</b>	<b>\$</b>	<b>8,796</b>	<b>\$ 36,898</b>	<b>\$ 22,052,652</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 nine months ended September 30, 2019:

(Thousands of dollars)	Mandatory Liquidity Pool		Treasury		Digital & Payment Services		System Affiliates & Other	Total
Net financial income (expense), including impairment on financial assets	\$	29,977	\$	54,122	\$	(300)	\$ (1,393)	\$ 82,406
Non-financial income		(312)		25,831		71,964	10,779	108,262
Net financial and non-financial income		29,665		79,953		71,664	9,386	190,668
Non-financial expense		6,123		27,860		93,497	14,192	141,672
Profit (loss) before income taxes		23,542		52,093		(21,833)	(4,806)	48,996
Income tax expense (recovery)		4,268		9,562		(3,148)	(5,203)	5,479
<b>Profit (loss)</b>	<b>\$</b>	<b>19,274</b>	<b>\$</b>	<b>42,531</b>	<b>\$</b>	<b>(18,685)</b>	<b>\$ 397</b>	<b>\$ 43,517</b>
<b>Total assets as at September 30 2019</b>	<b>\$</b>	<b>8,137,684</b>	<b>\$</b>	<b>10,016,534</b>	<b>\$</b>	<b>25,328</b>	<b>\$ 188,385</b>	<b>\$ 18,367,931</b>
<b>Total liabilities as at September 30 2019</b>	<b>\$</b>	<b>7,639,004</b>	<b>\$</b>	<b>9,554,905</b>	<b>\$</b>	<b>(1,565)</b>	<b>\$ 35,684</b>	<b>\$ 17,228,028</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)	Sep 30 2020	Dec 31 2019
Commitments to extend credit	\$ 4,649,324	\$ 4,332,028
Guarantees		
Financial guarantees	\$ 767,600	\$ 622,600
Performance guarantees	\$ 100,000	\$ 100,000
Standby letters of credit	\$ 230,184	\$ 219,787
Future prepayment swap reinvestment commitment	\$ 1,795,284	\$ 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 September 30, 2020 are \$60.5 million, \$513.5 million and \$117.8 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 September 30, 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 September 30, 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)	Sep 30 2020	Dec 31 2019
Assets pledged to Bank of Canada & Direct Clearing Organizations <sup>(1)(2)</sup>	\$ 58,586	\$ 53,524
Assets pledged in relation to:		
Derivative financial instrument transactions	82,229	8,169
Securities lending	18,165	15,922
Obligations under the Canada Mortgage Bond Program	161,979	202,193
Reinvestment assets under the Canada Mortgage Bond Program	887,478	686,953
Securities under repurchase agreements	693,514	643,526
	<b>\$ 1,901,951</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);

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 September 30, 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:

Sep 30 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	\$	-	\$	-	\$	-	\$	786.1	\$ 786.1	
Securities		-		10,193.0		47.6		10,240.6	-	10,240.6
Reinvestment assets under the CMB Program		-		887.5		-		887.5	-	887.5
Loans		-		-		15.8		15.8	1,566.6	1,582.4
Derivative assets		-		107.4		-		107.4	-	107.4
MLP assets held for segregation		-		8,909.1		-		8,909.1	136.3	9,045.4
<b>Total financial assets</b>		-		20,097.0		63.4		20,160.4	2,489.0	22,649.4
<b>Financial liabilities</b>										
Deposits		-		1,052.4		-		1,052.4	7,787.3	8,839.7
Debt securities issued		-		-		-		-	1,561.5	1,561.5
Obligations under the CMB Program		-		1,069.8		-		1,069.8	-	1,069.8
Subordinated liabilities		-		-		-		-	223.2	223.2
Obligations related to securities sold short		-		156.2		-		156.2	-	156.2
Securities under repurchase agreements		-		-		-		-	693.5	693.5
Derivative liabilities		-		167.5		-		167.5	-	167.5
MLP liabilities held for segregation		-		5,038.7		-		5,038.7	3,586.3	8,625.0
<b>Total financial liabilities</b>	\$	-	\$	7,484.6	\$	-	\$	7,484.6	\$ 13,851.8	\$ 21,336.4

<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							Amounts at		
(Millions of dollars)	Level 1		Level 2		Level 3		Amounts at Fair Value	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 Sep 30 2020
Equity shares	\$ 47.3	\$ 0.3	\$ -	\$ -	0.0	\$ 47.6
Loans	17.3	-	(2.0)	-	0.5	15.8
Total financial assets	\$ 64.6	\$ 0.3	\$ (2.0)	\$ -	\$ 0.5	\$ 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, which was further increased from 18.0:1 to 20.0:1 effective May 31, 2020, and to increase its borrowing multiple from 17.0:1 to 20.0:1 for the MLP segment, effective March 31, 2020. On September 30, 2020 BCFSA announced, as of January 1, 2021, and until further notice, BCFSA will set Central 1's borrowing multiple limit at 18.0:1 and will apply the multiple to Central 1's Consolidated Statement of Financial Position.

Provincial regulations in British Columbia, which apply to B.C. credit unions as well as to Central 1, use a risk-weighted approach to capital adequacy that is based on standards issued by the Bank for International Settlements. The provincial risk weightings generally parallel the methodology used by OSFI to regulate Canadian chartered banks. Provincial Legislation requires Central 1's total capital ratio, calculated by dividing regulatory capital by risk-weighted assets, to be no

less than 8.0%. BCFSa guidance requires Central 1's total capital ratio to be no less than 10.0%. Additionally, Central 1 must maintain a total capital ratio of at least 10.0% to enable member credit unions to risk-weight their deposits with Central 1 at 0.0%.

Central 1's capital base includes Tier 1 capital in the form of share capital, contributed surplus and retained earnings. Subject to certain conditions, Central 1 may include its subordinated debt in Tier 2 capital. In calculating Central 1's capital base, certain deductions are required for certain assets.

Central 1 was in compliance with all regulatory capital requirements throughout the reporting periods ended September 30, 2020 and September 30, 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)	Sep 30 2020	Dec 31 2019
Mortgage loans outstanding at the end of the period	\$ 1,146	\$ 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)	For the three months ended		For the nine months ended	
	Sep 30 2020	Sep 30 2019	Sep 30 2020	Sep 30 2019
Salaries and short-term employee benefits	\$ 1,031	\$ 979	\$ 3,512	\$ 3,272
Incentive	-	-	2,579	1,232
Post-employment benefits	53	52	187	168
Termination benefits	-	-	198	576
	\$ 1,084	\$ 1,031	\$ 6,476	\$ 5,248

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)	For the three months ended		For the nine months ended	
	Sep 30 2020	Sep 30 2019	Sep 30 2020	Sep 30 2019
Total remuneration	\$ 169	\$ 159	\$ 457	\$ 511

**Significant subsidiaries**

(% of direct ownership outstanding)	Sep 30 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)	Sep 30 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%

To fund Payments Canada's modernization project, the Board of Directors of Interac Corp. (Interac) approved a capital call of \$33.0 million on June 10, 2020, the second tranche of a total \$75.0 million capital call with the first tranche of \$42.0 million raised in early 2019. Central 1 has both direct and indirect interests in Interac and is committed to support the capital call. During the third quarter, Central 1 satisfied its commitment by making a capital contribution of \$2.3 million, consisting of \$0.3 million for its direct interest and \$2.0 million for its indirect interest in Interac, through its ownership in 189286 Canada Inc.

**Substantial investments**

(% of direct ownership outstanding)	Sep 30 2020	Dec 31 2019
The Co-operators Group Limited	21%	21%
Canadian Credit Union Association	59%	59%