Management's Discussion & Analysis

December 31, 2023

Jump to table of contents

Our Performance in 2023

Total

$25.4 M

NET INCOME

Treasury

$56.1 M NET INCOME

$49.2M net loss | 2022

- The fair value of Treasury portfolio saw increases in 2023 due to the narrowing of credit spreads.
- Decrease in net interest income due to lower credit spreads combined with lower deposits levels.

System Affiliates & Other

($9.5 M) NET LOSS

$7.3M net loss | 2022

- Investments in strategic initiatives continued in 2023.

Payments & Digital Banking Platforms and Experiences

($21.2 M) NET LOSS

$13.2M net loss | 2022

- Increased transaction volumes and adoption of new products.
- Higher non-financial expense due to higher salaries and employee benefits.
- Decreased spending in strategic initiatives while being consistent with Central 1's strategic priorities.

Borrowing Multiple[1]

12.6:1

Tier 1 Capital Ratio[1]

12.9%

[1] *These are non-GAAP Financial Ratios. Refer to the "Non-GAAP and Other Financial Measures" section of this MD&A for more information.*

Jump to table of contents

Contents

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 March 21, 2024. The financial information included in this MD&A should be read in conjunction with our Consolidated Financial Statements for the period ended December 31, 2023, which were authorized for issue by the Board of Directors (the Board) on March 21, 2024. The results presented in this MD&A and in the Consolidated Financial Statements are reported in Canadian dollars. Except as otherwise indicated, financial information included in this MD&A has been prepared in accordance with IFRS Accounting Standards as described in Note 1 of the Consolidated Financial Statements. Additional information may be found on the System for Electronic Document Analysis and Retrieval (SEDAR) at **www.sedarplus.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 credit union members 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 Accounting Standards. For instance, the net operating income reported in this MD&A is not equivalent to income from continuing operations under IFRS Accounting Standards.

Cautionary Note Regarding Forward-Looking Statements

From time to time, Central 1 makes 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 other than statements of historical facts are or may be considered 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 and non-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 B.C. and Ontario member credit unions operate, the impacts of external events such as international conflicts, protests, natural disasters or pandemics. 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. Central 1 cautions 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, privacy, and related party risks and risks and uncertainty from ongoing geopolitical tensions and the impact of natural disasters and pandemics.

Readers are cautioned that the foregoing list is not intended to be exhaustive and other factors may adversely impact our results. Central 1 does not undertake to update forward-looking statements except as required by law.

Jump to table of contents

Management's Discussion and Analysis

Who We Are

Central 1 is a leading financial services partner, providing treasury, payments and digital solutions to nearly 300 financial institutions and their more than five-million members and customers across Canada.

Our purpose is grounded by our role to enable a thriving credit union system, in which we cooperatively empower those who deliver banking choice to Canadians. Aligned to this purpose, for more than 80 years, we have created and leveraged scale and expertise to further enable our members and clients to deliver exceptional member and customer experiences.

In line with our credit union roots, we exist for the benefit of our communities, not to maximize our profits. We are advocates for our members and clients, who support community development, drive local economies, and provide banking choice to Canadians.

Our Corporate Strategy

Driven by our purpose, our corporate strategy defines our direction for a three-year period which guides our decision-making and the efforts of our employees.

Central 1's 2023–2025 corporate strategy is rooted in three strategic priorities:

- **Strengthen offerings** to meet the system's evolving needs.
- **Transform together**, adopting a system-first approach to deliver value to stakeholders.
- **Operate reliably, effectively and efficiently.**

Our operational plan for each year brings our corporate strategy to life through the work our employees deliver, reflecting the evolving environment we operate within.

Progress Against Our Strategy

2023 was an important year in Central 1's evolution in which we made important decisions to enable the future of Central 1 and the credit union system overall. We also continued to make progress on our plans to further strengthen and grow our payments and treasury lines of business.

Strengthen offerings

- In payments, we successfully completed Wires EPP migration achieving full ISO 20022 format adoption, Lynx release 2, and delivered APIs for *Interac* e-Transfer®[1] for Business. We held education sessions and developed planning tools to support members in managing Payments Modernization costs.
- In treasury, we delivered new products and services, including the First Home Savings Account, while continuing to provide members and clients with data and insights to inform their decision-making.
- We delivered multiple digital banking enhancements including biometric logins, customized two-step verification, and tools to help clients comply with anti-money laundering regulations.

Transform together

- We are currently evaluating several strategies to support the evolution of our digital banking solution needs.
- We completed several successful deployments through our Forge Community innovation platform, maturing the offering and welcoming new contributors to Forge Community, and expanding collaboration in our ecosystem.
- We future-visioned the Central 1 Digital Financial Services Platform, working to bring a new approach to deliver digital products and services to support the evolving system needs.

[1]*Interac* e-Transfer® is a registered trade-mark of Interac Corp. used under license.

Jump to table of contents

Operate reliably, effectively and efficiently

- We achieved balanced financial results amidst volatile markets this year, including net income of $25.4 million, net interest income of $54.3 million, return on average equity[2] of 3.6 per cent and total assets of $11.2 billion.
- Reduced the average duration of system outage this year by 50 per cent from 2022 through the implementation of our Operational Excellence program in 2023.
- Progressed cyber defences through the completion of our API Security Project.

Our Plans for 2024

As a system utility, Central 1 provides critical building blocks for financial services, for today and the future. In response to emerging trends, competitive pressures and the evolving Canadian credit union system, Central 1 is addressing the challenges we face today and laying a strong foundation for our future success.

2024 is the second year of our 2023–2025 corporate strategy, which lays the foundation for future success while strengthening our core line of business offerings.

Through 2024, we will be focused on protecting and growing our payments and treasury business, including delivering modernized capabilities and services through the Central 1 Digital Financial Services Platform.

We will also continue to build on our enterprise capabilities, supporting and improving the efficiency of our operations, anchored on our commitments to operate in the best interest of our members and clients.

Our work in 2024 is aligned with our 2023–2025 corporate strategy and strategic objectives while applying agility to the strategy in response to our ever-evolving environment. Our efforts in 2024 will be focused on the following key initiatives and programs:

Strengthen offerings

- Selection of the path forward on Digital Banking and rollout of the Central 1 Digital Financial Services Platform.
- Continue to roll Central 1's Enterprise Fraud Management solution across applicable payment types.
- Elevate the banking experience for clients through the enhancement of Treasury's digital interfaces via application modernization.

Transform together

- Deliver robust client engagement through the rollout of the Digital Financial Services Platform.
- Enhance our core Payments offering by increasing value-added services and fostering partnerships that align with the Digital Financial Services Platform.
- Expand the Treasury footprint of clients and expand into client markets outside of B.C. and Ontario.

Operate reliably, effectively and efficiently

- Further improve service reliability and remove technical obstacles, delivering on our Operational Excellence and Cyber Security programs.
- Continue investment in key capabilities to improve delivery capabilities, culture and the Central 1 employee experience.

[1]These are non-GAAP financial measures. Refer to the "Non-GAAP and Other Financial Measures" section of this MD&A for more information.
[2]This is a non-GAAP financial ratio. Refer to the "Non-GAAP and Other Financial Measures" section of this MD&A for more information.

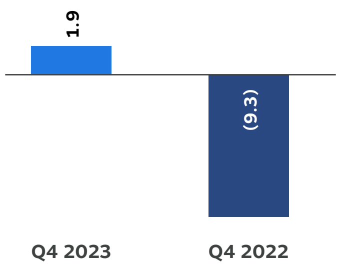
Jump to table of contents

2023 Financial Results

Overall Performance

Q4 2023 vs Q4 2022

Quarterly Net Income (Loss)
(Millions of dollars)



$ millions, except as indicated		Q4 2023		Q4 2022		Change
Net interest income	$	**13.0**	$	18.0	$	(5.0)
Gain on disposal of financial instruments		**4.5**		31.5		(27.0)
Change in fair value of financial instruments		**(0.4)**		(50.2)		49.8
Non-interest income, excluding strategic initiatives[1]		**41.5**		36.3		5.2
Total revenue		**58.6**		35.6		23.0
Recovery of credit losses		**(0.3)**		–		(0.3)
Non-interest expense, excluding strategic initiatives[1]		**47.8**		44.7		3.1
Strategic initiatives[1]		**7.7**		9.3		(1.6)
Income before income taxes		**3.4**		(18.4)		21.8
Income tax expense (recovery)		**1.5**		(9.1)		10.6
Net income (loss)	$	**1.9**	$	(9.3)		11.2
Return on average assets[2]		**0.1%**		(0.3%)		
Return on average equity[2]		**1.0%**		(5.4%)		
Average assets[1]	$	**10,240.4**	$	12,222.2	$	(1,981.8)
Average equity[1]	$	**735.4**	$	683.1		52.3
Weighted average shares outstanding *(# of shares in millions)*		**43.4**		43.4		–

Central 1 reported a net income of $1.9 million in the fourth quarter, compared to the $9.3 million net loss reported in the same quarter last year. Credit spreads narrowed in the fourth quarter of 2023, contributing to a $4.1 million net fair value gain[1] recognized during the quarter, compared to a $18.7 million net fair value loss[1] in the same quarter last year. Lower credit spreads combined with lower deposits levels resulted in a $5.0 million decrease in net interest income as compared to the same period in 2022.

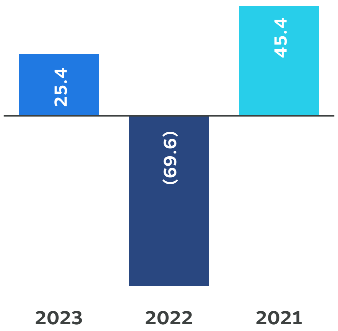
Investments in strategic initiatives[1], which include Payments Modernization and digital banking initiatives, continued at a planned lower level and remained consistent with Central 1's strategic priorities and plans, with the amount spent being $1.6 million lower year-over-year. Non-interest income, excluding strategic initiatives[1], which primarily includes income generated from Central 1's fee-for-service based business, increased $5.2 million from the same quarter last year. Non-interest expense, excluding strategic initiatives[1], went up by $3.1 million from $44.7 million reported in the same quarter last year to $47.8 million, primarily driven by higher salaries and employee benefits.

[1]These are non-GAAP financial measures. Refer to the "Non-GAAP and Other Financial Measures" section of this MD&A for more information.
[2]This is a non-GAAP financial ratio. Refer to the "Non-GAAP and Other Financial Measures" section of this MD&A for more information.

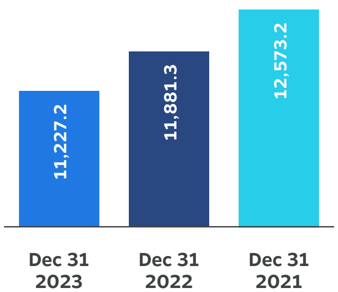
Jump to table of contents

YTD 2023 vs YTD 2022

Year-to-Date Net Income (Loss)
(Millions of dollars)



Total Assets
(Millions of dollars)



$ millions, except as indicated		2023		For the year ended December 31 2022		2021
Net interest income	**$**	**54.3**	$	75.9	$	61.5
Gain on disposal of financial instruments		**21.6**		6.0		15.0
Change in fair value of financial instruments		**6.7**		(149.0)		6.9
Non-interest income, excluding strategic initiatives[1]		**159.1**		150.0		151.6
Total revenue		**241.7**		82.9		235.0
Provision for credit losses		**0.2**		0.4		(1.4)
Non-interest expense, excluding strategic initiatives[1]		**176.1**		156.1		144.8
Strategic initiatives[1]		**35.4**		39.5		29.3
Income (loss) before income taxes		**30.0**		(113.1)		62.3
Income tax expense (recovery)		**4.6**		(43.5)		16.9
Net income (loss)	**$**	**25.4**	$	(69.6)	$	45.4
Return on average assets[2]		**0.2%**		(0.5%)		0.3%
Return on average equity[2]		**3.6%**		(9.8%)		5.9%
Average assets[1]	**$**	**10,787.1**	$	12,938.1	$	13,718.2
Average equity[1]	**$**	**717.8**	$	711.5	$	767.9
Weighted average shares outstanding *(# of shares in millions)*		**43.4**		43.4		51.0

Central 1 reported a net income of $25.4 million, compared to a net loss of $69.6 million reported in 2022. Contributing to this stronger result was a $28.3 million net fair value gain[1], compared to a $143.0 million net fair value loss[1] reported in 2022. Lower credit spreads combined with lower deposits levels resulted in a $21.6 million decrease in net interest income as compared to 2022.

Non-interest income, excluding strategic initiatives[1], increased $9.1 million from 2022 driven by increased transaction volumes in Payments. Investments in strategic initiatives[1] continued at a planned lower level and remained consistent with Central 1's strategic priorities and plans, with the amount spent being $4.1 million lower year-over-year. Non-interest expense, excluding strategic initiatives[1], was $176.1 million, up $20.0 million compared to last year, primarily driven by higher salaries and employee benefits.

[1]These are non-GAAP financial measures. Refer to the "Non-GAAP and Other Financial Measures" section of this MD&A for more information.
[2]This is a non-GAAP financial ratio. Refer to the "Non-GAAP and Other Financial Measures" section of this MD&A for more information.

Jump to table of contents

Income Tax

Central 1's combined federal and provincial statutory tax rate is 26.9 per cent. The effective income tax rate in 2023 was 15.3 per cent. The recognition of prior years' investment tax credits relating to the spend in initiatives that qualify for Canada's Scientific Research and Experimental Development (SR&ED) tax incentive credits, primarily contributed to a lower effective tax rate.

Deferred tax assets and liabilities represent the cumulative amount of tax applicable to temporary differences between the carrying amount of assets and liabilities and their values for tax purposes. Central 1 exercises judgement in estimating the actual amount of current taxes and making assumptions about the expected timing of the reversal of the deferred income tax assets and liabilities. If management's interpretations of the *Income Tax Act* differ from those of the tax authorities or if the actual timing of the reversals of the deferred income tax assets and liabilities is not as anticipated, the provision for income tax could increase or decrease in future periods. Detailed information about Central 1's income tax is disclosed in Notes 14 and 28 of Central 1's Consolidated Financial Statements

Other Comprehensive Income (Loss)

Other comprehensive income for the year ended December 31, 2023 totalled $9.6 million, compared to other comprehensive loss of $18.8 million in 2022. Other comprehensive income (loss) includes the mark-to-market movements of financial assets measured at fair value through other comprehensive income (FVOCI) and the fair value changes of financial liabilities designated at fair value through profit or loss (FVTPL) as a result of Central 1's own credit spreads movements. Fluctuations in the value of these instruments are generally attributed to changes in credit spreads and shifts in the interest rate curve.

Equity

Total equity ended at $726.0 million on December 31, 2023, up $35.1 million from $690.9 million on December 31, 2022. The increase in equity was led by the current year's net income of $25.4 million, followed by $9.6 million of other comprehensive income.

Selected Financial Information

	As at December 31 2023	2022	2021
Balance sheet *(millions of dollars)*			
Total assets	**$ 11,227.2**	$ 11,881.3	$ 13,383.6
Long-term liabilities[1]	**$ 2,322.7**	$ 1,816.6	$ 2,316.6
Regulatory ratios			
Total capital ratio[2]	**17.7 %**	17.8 %	20.6 %
Tier 1 capital ratio[2]	**12.9 %**	12.4 %	15.3 %
Borrowing multiple[2]	**12.6:1**	14.7:1	14.3:1
Share Information* *(thousands of dollars, unless otherwise indicated)*			
Outstanding shares *($) – $1 par value*			
Class A – credit unions	**$ 43,364**	$ 43,364	$ 43,359
Class B – cooperatives	**$ 11**	$ 11	$ 11
Class C – other	**$ 7**	$ 7	$ 7
Outstanding number of shares *(thousands of shares)*			
Class A – credit unions	**43,364**	43,364	43,359
Class B – cooperatives	**11**	11	11
Class C – other	**7**	7	7
Outstanding shares *($) – $0.01 par value shares with redemption value of $100*			
Class E – credit unions	**$ 21**	$ 21	$ 21
Treasury shares	**$ (2)**	$ (2)	$ (2)
Outstanding number of shares *(thousands of shares)*			
Class E – credit unions	**2,154**	2,154	2,154
Treasury shares	**(264)**	(264)	(264)

*Share information is presented as of the date of this MD&A. There has been no change from the period ending dates presented to this date.

The decrease in borrowings and increase in retained earnings in 2023 resulted in a lower borrowing multiple, flat capital ratio and higher Tier 1 capital ratio. Central 1 was in compliance with all regulatory capital requirements as at December 31, 2023 and December 31, 2022.

[1]These are non-GAAP financial measures. Refer to the "Non-GAAP and Other Financial Measures" section of this MD&A for more information.
[2]This is a non-GAAP financial ratio. Refer to the "Non-GAAP and Other Financial Measures" section of this MD&A for more information.

Jump to table of contents

Factors That May Affect Future Results

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

Economic Conditions

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

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

The interest rate differential, or credit spread, between Government of Canada (GoC) securities and those issued by other participants in fixed-income markets also affects our financial results. We earn income from accepting non-mandatory deposits based on senior bank deposit notes, and investing in securities issued by the GoC, other levels of government and corporations. To the extent that credit spreads change, our net interest income as well as the fair value of our financial instruments would be impacted.

Industry Regulation

There were few regulatory or legislative changes in 2023. However, one material development occurred in July, when BCFSA launched a consultation signalling its intention to modernize the capital framework for B.C.'s Credit Unions. The consultation sought feedback from Credit Unions and the public, as part of a multi-year initiative to align to the Basel III international standards. As of the end of 2023, BCFSA continued to review and consider that feedback. Central 1 has been working, and will continue to work, closely with the Canadian Credit Union Association (CCUA) and member Credit Unions to support BCFSA in this initiative.

System-Specific Factors

Our financial performance is heavily influenced by events and conditions that impact the credit union system and financial services in general. There is strong competition among Canada's financial services providers. The degree of such competition has repercussions on the financial performance of our organization and the credit union system. Credit unions enjoy strong member loyalty. Member retention is influenced by their ability to deliver relevant products and services at competitive prices and service levels compared to other financial services providers. Additionally, over the past year, credit unions are facing increased pressures and challenges in relation to net income and liquidity, which impacted their overall performance and long-term sustainability.

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

Corporate-Specific Factors

Our purpose as an organization is to enable a thriving credit union system by cooperatively empowering those who deliver banking choices to Canadians and providing services and products that can enhance our clients’ and members’ offerings in a manner that expresses our cooperative approach.

Delivering these products and services reliably, affordably and collaboratively strengthens our relationships with our clients, which in turn drives increased value that they are then able to pass on to their members or customers. This approach to delivery is a foundation for our reputation, which not only ensures we retain our existing clients and members, but it also helps us attract new partners.

We are selecting the path forward and will be rolling out the Central 1 Digital Financial Services Platform. These related initiatives will bring about a new approach to product and service delivery, and support. The determination of the path forward is aligned to our strategic priorities and to the evolving needs of the system.

Our future performance is also dependent on our ability to attract, develop and retain great talent at all levels of our organization.

Other Factors

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

Non-GAAP and Other Financial Measures

Management of Central 1 uses a number of financial measures and ratios to assess overall performance. Some of these measures do not have a standardized definition prescribed by Generally Accepted Accounting Principles (GAAP) and might not be comparable to similar measures presented by other companies. Presenting non-GAAP financial measures and ratios provides readers with an enhanced understanding of how management analyzes Central 1's results and assesses the underlying business performance. The discussions of non-GAAP financial measures and ratios that Central 1 uses in evaluating its operating results are presented as footnotes in the respective sections of this MD&A together with the required disclosure below in accordance with *National Instrument 52-112 Non-GAAP and Other Financial Measures Disclosure*.

Non-GAAP Financial Measures

The following non-GAAP financial measures exclude certain items from our financial results prepared in accordance with IFRS Accounting Standards. The tables below present reconciliations of these measures to their respective most directly comparable financial measures disclosed in Central 1's Consolidated Financial Statements.

Net Fair Value Gain (Loss)

Net fair value gain (loss) used across this MD&A is comprised of gain (loss) on disposal of financial instruments plus changes in fair value of financial instruments reported in the Consolidated Statement of Income (Loss). Reporting them combined provides better information on the fair value movements of Central 1's financial instruments to the readers.

				For the year ended December 31		
$ millions	Q4 2023	Q4 2022	Change	2023	2022	Change
Gain on disposal of financial instruments as reported	**$ 4.5**	$ 31.5	$ (27.0)	**$ 21.6**	$ 6.0	$ 15.6
Change in fair value of financial instruments as reported	**(0.4)**	(50.2)	49.8	**6.7**	(149.0)	155.7
Net fair value gain (loss)	**$ 4.1**	$ (18.7)	$ 22.8	**$ 28.3**	$ (143.0)	$ 171.3

Non-Interest Income, excluding Strategic Initiatives

Non-interest income, excluding strategic initiatives, presented in the Overall Performance and Results by Segment sections of this MD&A is derived by excluding Central 1's income from investments in strategic initiatives. Excluding income from strategic initiatives allows readers to better understand Central 1's recurring financial performance and related trends.

Overall Performance

				For the year ended December 31		
$ millions	Q4 2023	Q4 2022	Change	2023	2022	Change
Non-interest income as reported	**$ 42.5**	$ 36.3	$ 6.2	**$ 161.6**	$ 150.0	$ 11.6
Less: strategic initiatives income	**1.0**	–	1.0	**2.5**	–	2.5
Non-interest income, excluding strategic initiatives	**$ 41.5**	$ 36.3	$ 5.2	**$ 159.1**	$ 150.0	$ 9.1

Jump to table of contents

Results by Segment

Treasury

$ millions	Q4 2023	Q4 2022	Change	2023	2022	Change
				For the year ended December 31		
Non-interest income as reported	**$ 8.9**	$ 5.5	$ 3.4	**$ 33.9**	$ 29.6	$ 4.3
Less: strategic initiatives income	**0.4**	–	0.4	**0.4**	–	0.4
Non-interest income, excluding strategic initiatives	**$ 8.5**	$ 5.5	$ 3.0	**$ 33.5**	$ 29.6	$ 3.9

Payments & DBPX

$ millions	Q4 2023	Q4 2022	Change	2023	2022	Change
				For the year ended December 31		
Non-interest income as reported	**$ 31.4**	$ 30.9	$ 0.5	**$ 120.5**	$ 112.1	$ 8.4
Less: strategic initiatives income	**0.6**	–	0.6	**2.1**	–	2.1
Non-interest income, excluding strategic initiatives	**$ 30.8**	$ 30.9	$ (0.1)	**$ 118.4**	$ 112.1	$ 6.3

Non-Interest Expense, excluding Strategic Initiatives

Non-interest expense, excluding strategic initiatives, presented in the Overall Performance and Results by Segment sections of this MD&A is derived by excluding Central 1's investments in strategic initiatives to develop and deliver solutions to support the growth of the credit union system. Excluding strategic initiatives allows readers to better understand Central 1's recurring financial performance and related trends.

Overall Performance

$ millions	Q4 2023	Q4 2022	Change	2023	2022	Change
				For the year ended December 31		
Non-interest expense as reported	**$ 56.5**	$ 54.0	$ 2.5	**$ 214.0**	$ 195.6	$ 18.4
Less: strategic initiatives spend	**8.7**	9.3	(0.6)	**37.9**	39.5	(1.6)
Non-interest expense, excluding strategic initiatives	**$ 47.8**	$ 44.7	$ 3.1	**$ 176.1**	$ 156.1	$ 20.0

Jump to table of contents

Results by Segment

Treasury

$ millions	Q4 2023	Q4 2022	Change	For the year ended December 31 2023	2022	Change
Non-interest expense as reported	**$ 10.2**	$ 7.5	$ 2.7	**$ 41.7**	$ 37.3	$ 4.4
Less: strategic initiatives spend	**0.7**	–	0.7	**2.3**	–	2.3
Non-interest expense, excluding strategic initiatives	**$ 9.5**	$ 7.5	$ 2.0	**$ 39.4**	$ 37.3	$ 2.1

Payments & DBPX

$ millions	Q4 2023	Q4 2022	Change	For the year ended December 31 2023	2022	Change
Non-interest expense as reported	**$ 38.7**	$ 35.9	$ 2.8	**$ 151.9**	$ 139.3	$ 12.6
Less: strategic initiatives spend	**2.8**	6.3	(3.5)	**22.0**	27.8	(5.8)
Non-interest expense, excluding strategic initiatives	**$ 35.9**	$ 29.6	$ 6.3	**$ 129.9**	$ 111.5	$ 18.4

System Affiliates & Other

$ millions	Q4 2023	Q4 2022	Change	For the year ended December 31 2023	2022	Change
Non-interest expense as reported	**$ 7.6**	$ 10.5	$ (2.9)	**$ 20.4**	$ 19.0	$ 1.4
Less: strategic initiatives spend	**5.2**	3.0	2.2	**13.6**	11.7	1.9
Non-interest expense, excluding strategic initiatives	**$ 2.4**	$ 7.5	$ (5.1)	**$ 6.8**	$ 7.3	$ (0.5)

Jump to table of contents

Average Assets and Average Equity

Average assets and average equity are non-GAAP financial measures, calculated from daily average balances for assets and equity. Average assets and average equity are used to calculate return on average assets and return on average equity, respectively, which are non-GAAP financial ratios as listed in the non-GAAP financial ratios section below.

$ millions, except as indicated	Q4 2023	Q4 2022	Change	2023	For the year ended December 31 2022	Change
Reported net income (loss)	**$ 1.8**	$ (9.3)	$ 11.1	**$ 25.4**	$ (69.6)	$ 95.0
Total assets as reported, as at December 31	**$ 11,227.2**	$ 11,881.3	$ (654.1)	**$ 11,227.2**	$ 11,881.3	$ (654.1)
Impact of averaging daily balances	**(986.8)**	340.9	(1,327.7)	**(440.1)**	1,056.8	(1,497.0)
Average assets, as at December 31	**$ 10,240.4**	$ 12,222.2	$ (1,981.8)	**$ 10,787.1**	$ 12,938.1	$ (2,151.1)
Return on average assets	**0.1%**	(5.4%)		**0.2%**	(0.5%)	
Total equity as reported, as at December 31	**$ 726.0**	$ 690.9	$ 35.1	**$ 726.0**	$ 690.9	$ 35.1
Impact of averaging daily balances	**9.4**	(7.8)	17.2	**(8.2)**	20.6	(28.8)
Average equity, as at December 31	**$ 735.4**	$ 683.1	$ 52.3	**$ 717.8**	$ 711.5	$ 6.3
Return on average equity	**1.0%**	(5.4%)		**3.6%**	(9.8%)	

Liquid Assets

Liquid assets maintained by Central 1 give credit unions access to liquidity when they need it. Detailed disclosures are included in the Cash and Liquid Assets section of this MD&A. The major component of liquid assets are securities reported on the Consolidated Statement of Financial Position, excluding equity investments. A separate presentation of liquid assets in the MD&A provides the readers with better information on Central 1's liquidity position.

$ millions, as at December 31	2023	2022	2021
Federal and provincial government issued and guaranteed securities	**$ 3,403.6**	$ 4,578.2	$ 5,360.0
Corporate and financial institutions securities	**3,326.2**	3,333.9	4,029.7
Asset backed securities	**203.0**	205.4	339.2
Insured mortgages	**26.6**	35.7	64.9
Total liquid assets	**$ 6,959.4**	$ 8,153.2	$ 9,793.8
Add: equity instruments	**40.9**	40.3	60.5
Less: securities as reported under held for distribution	**–**	–	(5.7)
Securities as reported	**$ 7,000.3**	$ 8,193.5	$ 9,848.6

Jump to table of contents

Tier 1 Capital

Tier 1 capital is used to calculate the Tier 1 capital ratio which is used to monitor if Central 1's capital position is within regulatory limits set by BCFSA. It consists of share capital and retained earnings, excluding accumulative net after-tax gain in investment property. The quantitative reconciliation for Tier 1 capital is disclosed under Capital Management and Capital Resources section of this MD&A.

Tier 2 Capital

Tier 2 capital is used to calculate the total capital ratio which is used to monitor if Central 1's capital position is within regulatory limits set by BCFSA. It consists of subordinated debt net of any required amortization in its final five years and the accumulated net after tax gain in investment property. The quantitative reconciliation for Tier 2 capital is disclosed under the Capital Management and Capital Resources section of this MD&A.

Total Regulatory Capital

Total regulatory capital is used to calculate the total capital ratio which is used to monitor Central 1's capital position is within regulatory limits set by BCFSA. It is the sum of Tier 1 capital and Tier 2 capital minus statutory capital adjustments. The quantitative reconciliation for total regulatory capital is disclosed under Capital Management and Capital Resources section of this MD&A.

Total Borrowings

Total borrowings are used to calculate borrowing multiple. Central 1 is required by BCFSA to maintain a consolidated borrowing multiple within the regulatory limits. Total borrowings include the line items reported in the Consolidated Statement of Financial Position, such as deposits, debt securities issued, securitization liabilities, securities under the repurchase agreements, derivative liabilities and settlement-in-transit liabilities, minus any regulatory adjustments. In addition, the subsidiaries deposits held by Central 1, which are eliminated through consolidation, are also included in total borrowings.

$ millions, as at December 31	2023	2022	2021
Total liabilities as reported	**$ 10,501.2**	$ 11,190.3	$ 12,597.1
Less: other liabilities as reported	**(90.0)**	(162.8)	(93.6)
Less: subordinated liabilities	**(182.1)**	(198.9)	(220.3)
Less: settlements in-transit excluded from total borrowings	**(689.3)**	(33.8)	(2.0)
Add: subsidiary deposits	**0.2**	0.2	0.9
Total borrowings	**$ 9,540.0**	$ 10,795.0	$ 12,282.1

Non-GAAP Financial Ratios

Return on Average Assets and Return on Average Equity

Return on average assets and return on average equity are used to measure Central 1's profitability and present the profit as a percentage of average assets and average equity, respectively, which are based on averaging month end balances.

Total Capital Ratio

Total capital ratio is used to monitor if Central 1's capital position is within the regulatory limits and is calculated by dividing total regulatory capital by the risk weighted assets[1] which are calculated using different risk weightings for different assets as required by the BCFSA.

Tier 1 Capital Ratio

Tier 1 capital ratio is used to monitor if Central 1's capital position is within the regulatory limits and is calculated by dividing the Tier 1 capital by the risk weighted assets.

Borrowing Multiple

Borrowing multiple is used to monitor if Central 1's capital position is within the regulatory limits and is calculated using total borrowings divided by total regulatory capital. Total borrowings and total regulatory capital are non-GAAP financial measures. The quantitative reconciliation for total borrowings is disclosed above in and the breakdown of total regulatory capital can be found in the Capital Management and Capital Resources section of this MD&A.

Supplementary Financial Measures

Central 1 also uses the following supplementary financial measures which are not disclosed in the Consolidated Financial Statements, but do not meet the definition of non-GAAP financial measures or ratios.

Assets under Administration (AUA)

AUA include government approved registered plans for tax deferral purposes, which are trusteed and administered by Central 1 or one of its wholly owned subsidiaries. Central 1 provides trust and administrative services on AUA for the beneficial owners and members of the B.C. credit union system and Class C members.

Liquidity Coverage Ratio (LCR)

LCR demonstrates whether Central 1 has a sufficient stock of liquid assets to meet 30-day cashflow requirements under a severe stress scenario. It is calculated using the stock of liquid assets, calculated based on Office of the Superintendent of Financial Institutions (OSFI) regulatory requirements, divided by the net cash outflows over the next 30 days.

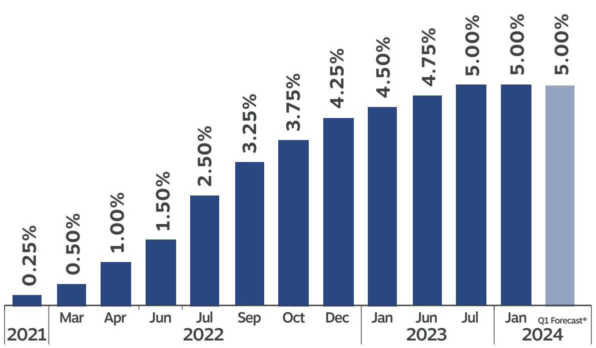
[1]These are non-GAAP financial measures. Refer to the "Non-GAAP and Other Financial Measures" section of this MD&A for more information.
[2]This is a non-GAAP financial ratio. Refer to the "Non-GAAP and Other Financial Measures" section of this MD&A for more information.

Economic Developments and Outlook

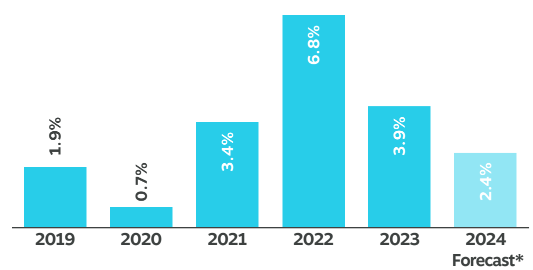
Central 1 operates in the Canadian markets and invests in bonds. Any developments in Canadian economic outlook and movements in the financial markets, which are directly impacted by the global economic environment and market conditions, will impact its financial performance. The following summaries of the economic environment and the state of financial markets offer a context for interpreting our quarterly results and provide insights into our future performance.

Economic Environment

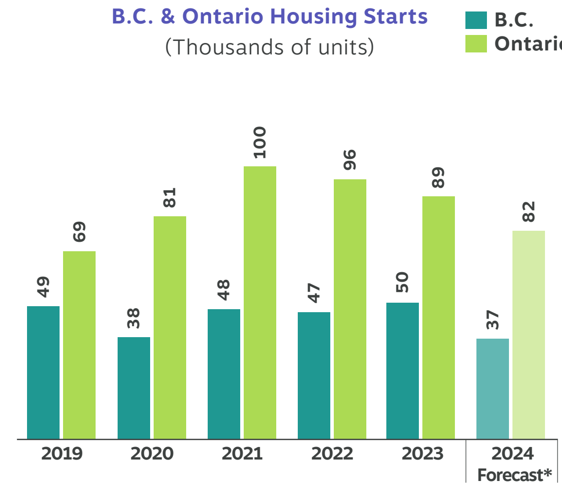
Overnight Rates



Canadian Consumer Price Index
(% change in annual average)



B.C. & Ontario Housing Starts
(Thousands of units)



*Forecast source: Central 1 Economics

The Canadian economy has slowed significantly through the second half of 2023. Economic growth in the third quarter was revised downward to negative 1.1 per cent on an annualized basis while the current forecast for the fourth quarter is likely to show little momentum. Expectations of weakness will persist in 2024, especially during the first half, as past monetary policy tightening continues to drag on the economy. Specifically, mortgage renewals at significantly higher rates leads to higher debt servicing costs and slowing of consumer spending. Business investment has contracted, and export growth have also been weak on elevated borrowing cost and tight credit conditions. Household consumption has remained flat through most of 2023 as inflation and high borrow cost erode consumers discretionary spending budgets. Labour markets are also softening as hiring activity weakens with job vacancy rates returning to normal and unemployment rates rising from near record lows. High population growth from immigration has also helped ease labour markets. Inflation, which has come down, is still above target rates. Monetary policy remains tight and continues to limit economic growth. Higher interest rates have also kept home sales and home prices down and they are expected to continue to be suppressed into 2024 until monetary policy loosens. Given the weak conditions heading into 2024, Central 1 Economics is forecasting real GDP growth to be only 0.8 per cent for the coming year. The unemployment rate will also continue to rise and is forecasted to average 6.3 per cent in 2024.

The global economy has slowed down significantly this year while inflation has declined from multidecade highs. Headline inflation in G20 economies has declined from its peak of 9.5 per cent year-over-year growth in September 2022 to 5.8 per cent in November 2023 according to the Organization for Economic Co-Operation and Development. While this is a significant decrease in inflation, it is still above the target levels of many of their central banks and above what was seen before the COVID-19 pandemic. There are indications that it will take a long time to bring inflation down and therefore expectations are that monetary policy within these economies will remain tight. The economic slowdown is also not spread evenly across the G20 countries. The U.S. economy is still showing very robust growth in the most recent quarters but countries including Canada, UK, Germany, and Japan are experiencing negative growth. China has also slowed down significantly with preliminary GDP numbers for 2023 at 5.2 per cent, the slowest growth it has seen in three decades. Overall, global economic growth in 2024 as forecasted by the IMF is expected to be only 2.4 per cent with advanced economies only growing at 1.4 per cent and emerging economies growing at 3.8 per cent. Further risk to the downside is present if geopolitical tensions and shocks cause higher volatility to commodity prices and disruptions to international trade. Entrenched inflation will also likely ensure tighter monetary policy remains, further slowing the global economy.

The U.S. economy defied expectations and grew at a brisk pace in 2023. The latest projections from the U.S. Federal Reserve showed real GDP growth for 2023 at 2.6 per cent, much higher than the 0.5 per cent growth expected at the end of 2022. Despite the surge in economic activities, the inflation rate has declined. However, the year-over-year change in the consumer price index has hovered around 3.2 per cent during the second half of 2023, suggesting there is still a way to go before it reaches the target rate. Also, the unemployment rate remains near historic lows of below 4.0 per cent. That said, current projections for 2024 are that the economy will slow down as the impact of higher interest rates will finally have an effect on the economy. The U.S. Federal Reserve's current 2024 projections are for GDP to decline to 1.4 per cent while the unemployment rate should climb slightly to 4.1 per cent.

British Columbia

British Columbia's economy was forecasted to have grown by 0.9 per cent in 2023 according to Central 1 Economics. This would be the weakest year of economic growth in the last 20 years outside of the COVID-19 pandemic and the 2008/09 financial crisis, and was only supported by the unprecedented surge in population growth and past major project construction. Household spending has slowed due to high inflation and higher interest rates, weak private-sector expansion, and a retrenchment in sectors like forestry and housing. Consumers and businesses will continue to adapt through constrained spending, hiring and investment, while an uncertain external economic environment will further constrain growth. Forecasts for 2024 are for GDP to only grow by 0.9 per cent again while the average unemployment rate rises to 6.1 per cent.

Ontario

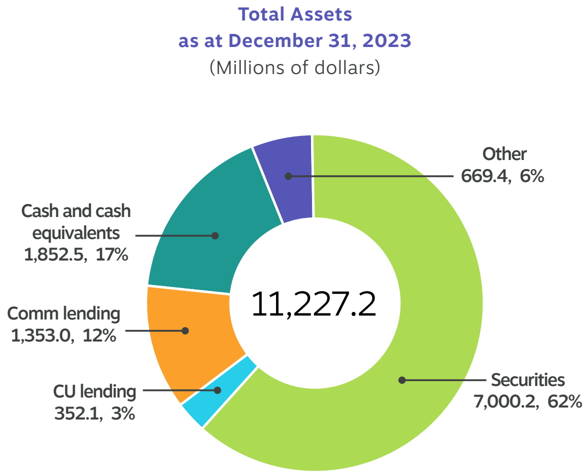
Ontario economic performance has shown signs of weakness in the second half of 2023 after a moderately strong first half. Ontario's real GDP was forecasted to grow at 1.2 per cent for 2023, according to Central 1 Economics as it was propelled by household spending, non-residential investment and to a lesser extent, trade. More growth was seen in the second half of the manufacturing industry. The return of supply chains to normalcy and rising auto sales boosted performance in this sector. Residential investment contracted through all of 2023 and is likely to continue into 2024. Weak housing market conditions through the second half of 2023 are also expected to persist into 2024. Real GDP growth is forecasted to slow to 0.9 per cent as consumers and businesses pull back amidst uncertainty, offsetting some gains in exports. Employment is still expected to grow in 2024, but only by 0.9 per cent. Combined with the high population growth rate from immigration that will exceed employment growth, the resulting unemployment rate is forecasted to increase to 6.9 per cent for 2024.

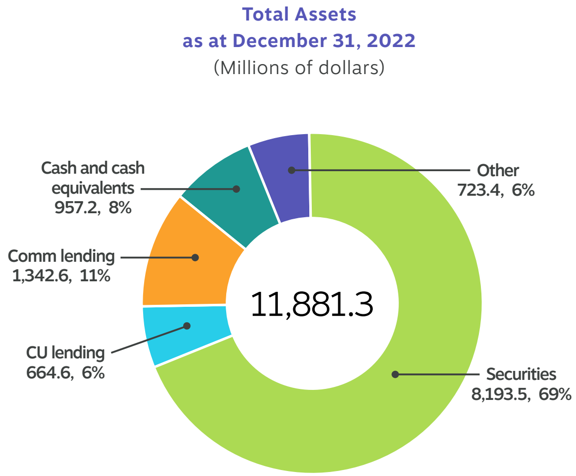
Financial Markets

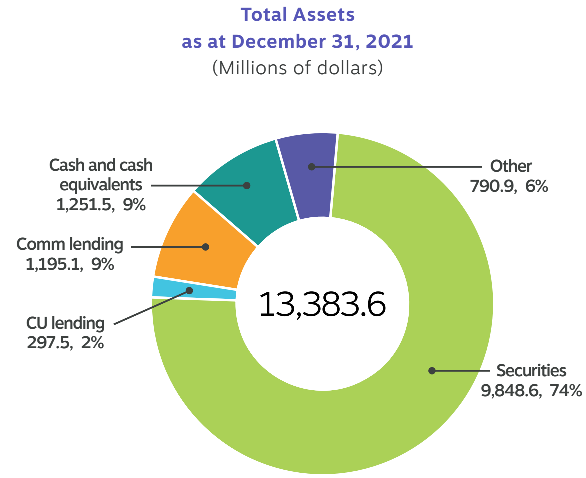
Financial market conditions began to loosen at the end of 2023 as the BoC and the U.S. Federal Reserve both held their policy rates steady. Bond markets then anticipated a potential for rates to decline in 2024, and as a result, bond yields declined. However, inflation has remained stubbornly above the target rates in both the Canadian and the U.S. economies. Both yield curves also remain inverted. Overall, the market expects both central banks to begin cutting rates in 2024 however the timing remains uncertain. Corporate spreads, which declined from the pause in rate hikes, have remained lower than they were throughout 2023. Equity markets also responded positively to the pause in rate hikes with the S&P500 climbing almost 10 per cent in the last two months of 2023 and ended the year with a 20 per cent increase. The TSX composite index also climbed but by a lesser magnitude. Commodity prices are also down for 2023 as measured by the BoC's commodity price index.

Consolidated Statement of Financial Position

Total Assets



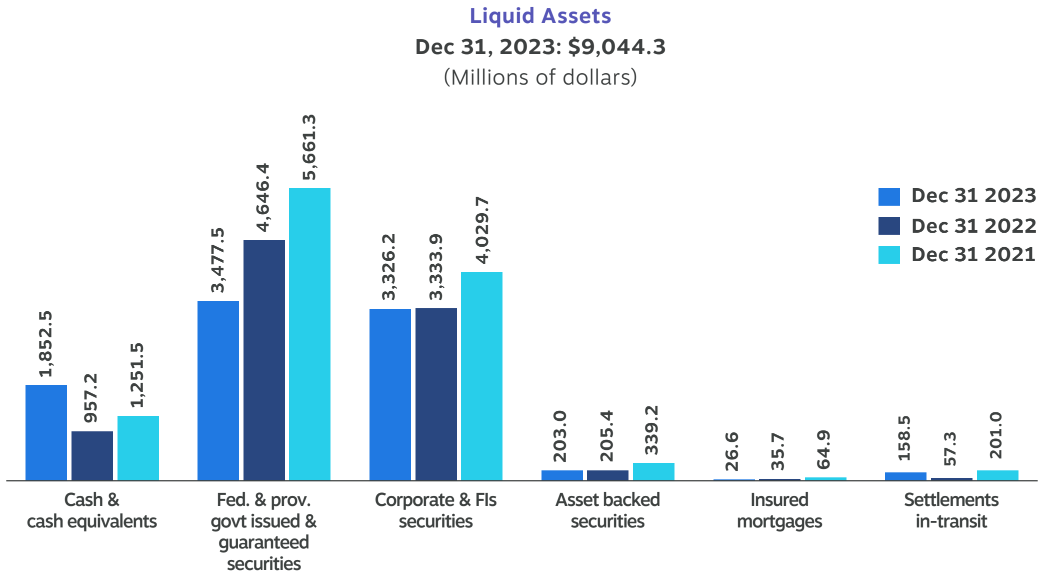




The change in total assets correlates to the change in the size of our funding portfolios. Total assets as at December 31, 2023 decreased by $654.1 million from December 31, 2022 driven by a decrease in securities and credit union lending, partially offset by increased cash and cash equivalents.

Total assets as at December 31, 2023 decreased by $2.2 billion from December 31, 2021 as credit unions withdrew some of their deposits to fund loan growth.

Cash and Liquid Assets



$ millions, as at December 31, 2023	Liquid Assets	Securities Received as Collateral	Total Liquid Assets	Encumbered Assets	Unencumbered Assets*
Cash and cash equivalents	$ 1,852.5	$ –	**$ 1,852.5**	$ –	$ 1,852.5
Federal and provincial government issued and guaranteed securities	3,403.6	73.9	**3,477.5**	1,654.2	1,823.3
Corporate and financial institutions securities	3,326.2	–	**3,326.2**	46.7	3,279.5
Asset backed securities	203.0	–	**203.0**	–	203.0
Insured mortgages	26.6	–	**26.6**	–	26.6
Settlements in-transit	158.5	–	**158.5**	–	158.5
Total	$ 8,970.4	$ 73.9	**$ 9,044.3**	$ 1,700.9	$ 7,343.4

*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.

Jump to table of contents

$ millions, as at December 31, 2022		Liquid Assets		Securities Received as Collateral		Total Liquid Assets		Encumbered Assets		Unencumbered Assets*
Cash and cash equivalents	$	957.2	$	-	$	957.2	$	–	$	957.2
Federal and provincial government issued and guaranteed securities		4,578.2		68.2		4,646.4		2,998.4		1,648.0
Corporate and financial institutions securities		3,333.9		–		3,333.9		61.4		3,272.5
Asset backed securities		205.4		–		205.4		–		205.4
Insured mortgages		35.7		–		35.7		–		35.7
Settlements in-transit		57.3		–		57.3		–		57.3
Total	$	9,167.7	$	68.2	$	9,235.9	$	3,059.8	$	6,176.1

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

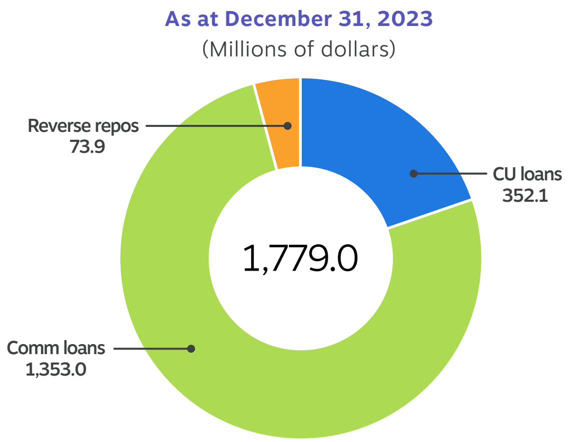
$ millions, as at December 31, 2021		Liquid Assets		Securities Received as Collateral		Total Liquid Assets		Encumbered Assets		Unencumbered Assets*
Cash and cash equivalents	$	1,251.5	$	–	$	1,251.5	$	–	$	1,251.5
Federal and provincial government issued and guaranteed securities		5,360.0		301.3		5,661.3		2,569.3		3,092.0
Corporate and financial institutions securities		4,029.70		–		4,029.7		84.6		3,945.1
Asset backed securities		339.2		–		339.2		21.0		318.2
Insured mortgages		64.9		–		64.9		–		64.9
Settlements in-transit		201.0		–		201.0		–		201.0
Total	$	11,246.3	$	301.3	$	11,547.6	$	2,674.9	$	8,872.7

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

Central 1 manages its liquidity by maintaining a portfolio of high-quality liquid assets to ensure that credit unions have access to reliable and cost-effective sources of liquidity.

Cash and liquid assets at December 31, 2023 decreased $191.6 million from December 31, 2022, as credit union members withdrew deposits held with Central 1 to fund their loan growth.

Loans

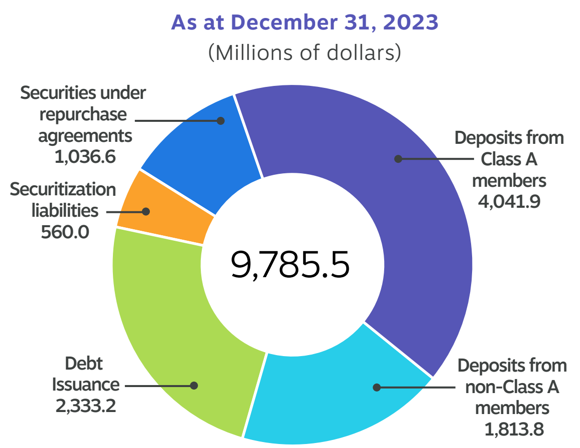


$ millions, as at December 31	2023	2022	2021
Loans to credit unions	**$ 352.1**	$ 664.6	$ 297.5
Commercial and other loans	**1,353.0**	1,342.6	1,196.5
Reverse repurchase agreements	**73.9**	68.2	301.3
	$ 1,779.0	$ 2,075.4	$ 1,795.3

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

As at December 31, 2023, loans to credit unions were $312.5 million lower than December 31, 2022 as credit unions had sufficient liquidity on their balance sheet to fund their loan growth. Commercial loans as at December 31, 2023 increased $10.4 million from December 31, 2022.

Funding



$ millions, as at December 31	2023	2022	2021
Deposits			
Deposits from Class A members	**$ 4,041.9**	$ 4,146.8	$ 5,541.1
Deposits from non-Class A members	**1,813.8**	1,172.8	1,659.1
	5,855.7	5,319.6	7,200.2
Debt Issuance			
Commercial paper	**853.4**	979.5	866.7
Medium-term notes	**1,297.7**	1,018.1	1,195.5
Subordinated liabilities	**182.1**	198.9	220.3
	2,333.2	2,196.5	2,282.5
Securitization liabilities	**560.0**	992.1	960.8
Securities under repurchase agreements	**1,036.6**	1,909.7	1,553.3
	$ 9,785.5	$ 10,417.9	$ 11,996.8

Central 1 is largely funded through deposits generated from member credit unions. Since 2021, member credit unions drew down their deposits with Central 1 to fund loan growth until the fourth quarter of 2023 when deposit level increased by $536.1 million. During 2023, Central 1 maintained good access to external markets and diversified sources of funding, which includes medium term notes, commercial paper, subordinated liabilities, and repurchase agreements. Central 1 expects to generate sufficient working capital from its operations and does not expect significant changes in its future funding sources.

Jump to table of contents

Results by Segment

Central 1's operations and activities are reported around two key business segments: Treasury, and Payments & Digital Banking Platforms and Experiences (DBPX). All other activities or transactions are reported in System Affiliates & Other including Central 1's 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 align our organizational structure more closely with Central 1's strategic priorities. Results for prior periods are restated accordingly to conform to the current period presentation.

Central 1 Credit Union

Key Business Segments	Treasury	Payments & DBPX

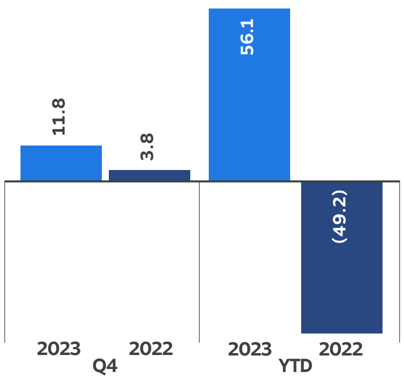
Core Operations & Activities	• Supports the financial and liquidity needs of member credit unions
	• Provides member credit unions with access to:
	  • securitization services;
	  • capital markets for short and long-term fundings;
	  • foreign exchange services;
	  • derivative capabilities;
	  • Group Clearer settlement function; and
	  • other treasury services
		• Develops and operates innovative digital banking technologies and payment processing solutions for member credit unions, other financial institutions and corporate clients
		• Implementing the Payments Modernization Processing initiative to enable clients to be compliant with new Payments Canada and BoC requirements

System Affiliates & Other

- Includes Central 1's investments in equity shares of system-related entities
- Includes the costs of implementing certain strategic initiatives other than ones included in the key segments of business above

Jump to table of contents

Treasury



$ millions	Q4 2023	Q4 2022	Change	For the year ended December 31 2023	2022	Change
Net interest income	**$ 13.5**	$ 18.2	$ (4.7)	**$ 56.9**	$ 76.3	$ (19.4)
Gain on disposal of financial instruments	**4.5**	12.8	(8.3)	**21.6**	(12.6)	34.2
Change in fair value of financial instruments	**(1.1)**	(31.7)	30.6	**6.0**	(133.4)	139.4
Non-interest income, excl. strategic intiatives[1]	**8.5**	5.5	3.0	**33.5**	29.6	3.9
Total revenue	**25.4**	4.8	20.6	**118.0**	(40.1)	158.1
Recovery of credit losses	**(0.3)**	–	(0.3)	**0.2**	0.4	(0.2)
Non-interest expense, excl. strategic initiatives[1]	**9.5**	7.5	2.0	**39.4**	37.3	2.1
Strategic initiatives[1]	**0.3**	–	0.3	**1.9**	–	1.9
Income (loss) before income taxes	**15.9**	(2.7)	18.6	**76.5**	(77.8)	154.3
Income tax expense (recovery)	**4.1**	(6.5)	10.6	**20.4**	(28.6)	49.0
Net income (loss)	**$ 11.8**	$ 3.8	$ 8.0	**$ 56.1**	$ (49.2)	$ 105.3

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

Q4 2023 vs Q4 2022

For the fourth quarter of 2023, Treasury reported a net income of $11.8 million, up $8.0 million from the $3.8 million reported in the same quarter last year. The narrowing of credit spreads resulted in a $3.4 million net fair value gain[1] in the Treasury Securities Portfolio for the current quarter, compared to the $18.9 million net fair value loss[1] reported in the same quarter last year. This gain was partially offset by a $4.7 million decrease in net interest income due to lower credit spreads combined with lower deposits levels. Provision for credit losses saw a recovery of $0.3 million from the same quarter last year. Treasury's fee-based business continued to generate consistent revenue, reflective of a marginal increase year-over-year.

Investments in strategic initiatives[1] started in 2023 and are consistent with Central 1's strategic priorities with the amount spent being $0.3 million in the fourth quarter of 2023. Non-interest expense, excluding strategic initiatives[1], was also broadly in line with the same period last year.

YTD 2023 vs YTD 2022

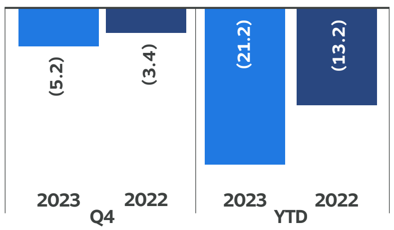
For the year ended December 31, 2023, Treasury reported a net income of $56.1 million, compared to a net loss of $49.2 million from 2022. Treasury reported a $27.6 million net fair value gain[1] year-over-year, compared to a $146.0 million net fair value loss[1] reported in 2022 when economic uncertainty caused credit spreads to increase, which reduced the fair value of financial instruments. Credit spreads narrowed during 2023, contributing to the increased fair value of Treasury's portfolio. The narrowed credit spreads in combination with lower deposit levels contributed to a $19.4 million decrease in net interest income which partially offset the fair value increase. Non-interest income, excluding strategic initiatives[1] and non-interest expense, excluding strategic initiatives[1] remained relatively stable year-over-year. Investments in strategic initiatives[1] are also consistent with Central 1's strategic priorities.

[1]These are non-GAAP financial measures. Refer to the "Non-GAAP and Other Financial Measures" section of this MD&A for more information.
[2]This is a non-GAAP financial ratio. Refer to the "Non-GAAP and Other Financial Measures" section of this MD&A for more information.

Jump to table of contents

Payments & DBPX

Net Loss
(Millions of dollars)



$ millions	Q4 2023	Q4 2022	Change	For the year ended December 31 2023	2022	Change
Net interest expense	**$ (0.5)**	$ (0.2)	$ (0.3)	**$ (2.6)**	$ (0.5)	$ (2.1)
Non-interest income, excl. strategic initiatives[1]	**30.8**	30.9	(0.1)	**118.4**	112.1	6.3
Total revenue	**30.3**	30.7	(0.4)	**115.8**	111.6	4.2
Non-interest expense, excl. strategic initiatives[1]	**35.9**	29.6	6.3	**129.9**	111.5	18.4
Strategic initiatives[1]	**2.2**	6.3	(4.1)	**19.9**	27.8	(7.9)
Loss before income taxes	**(7.8)**	(5.2)	(2.6)	**(34.0)**	(27.7)	(6.3)
Income tax recovery	**(2.6)**	(1.8)	(0.8)	**(12.8)**	(14.5)	1.7
Net loss	**$ (5.2)**	$ (3.4)	$ (1.8)	**$ (21.2)**	$ (13.2)	$ (8.0)

Q4 2023 vs Q4 2022

Payments & DBPX reported a net loss of $5.2 million in the fourth quarter of 2023, compared to a net loss of $3.4 million reported in the same quarter last year. Non-interest income, excluding strategic initiatives[1], was largely consistent year-over-year supported by relatively stable transaction volumes and adoption of new products in digital and payments. Non-interest expense, excluding strategic initiatives[1], increased $6.3 million year-over-year due to higher salaries and employee benefits. Investments in strategic initiatives[1], which included the Payments Modernization and Forge 2.0 initiatives, continued in the fourth quarter and were consistent with Central 1's strategic priorities with the amount spent being $4.1 million lower compared with the same quarter last year.

YTD 2023 vs YTD 2022

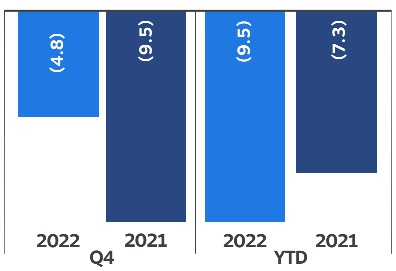
For the year ended December 31, 2023, Payments & DBPX reported a net loss of $21.2 million, compared to a net loss of $13.2 million reported in 2022. Non-interest income, excluding strategic initiatives[1], increased $6.3 million year-over-year due to higher transaction volumes and adoption of new products in digital and payments. Non-interest expense, excluding strategic initiatives[1], increased $18.4 million year-over-year due to higher salaries and employee benefits. Investments in strategic initiatives[1], which included the Payments Modernization and Forge 2.0 initiatives, continued in the fourth quarter and were consistent with Central 1's strategic priorities with the amount spent being $7.9 million lower compared to 2022.

[1]These are non-GAAP financial measures. Refer to the "Non-GAAP and Other Financial Measures" section of this MD&A for more information.
[2]This is a non-GAAP financial ratio. Refer to the "Non-GAAP and Other Financial Measures" section of this MD&A for more information.

Jump to table of contents

System Affiliates & Other

Net Loss
(Millions of dollars)



$ millions	Q4 2023	Q4 2022	Change	For the year ended December 31 2023	2022	Change
Gain on disposal of financial instruments	**$ –**	$ 18.7	$ (18.7)	**$ –**	$ 18.7	$ (18.7)
Change in fair value of financial instruments	**0.7**	(18.5)	19.2	**0.7**	(15.6)	16.3
Non-interest income	**2.2**	–	2.2	**7.2**	8.2	(1.0)
Total revenue	**2.9**	0.2	2.7	**7.9**	11.3	(3.4)
Non-interest expense, excl. strategic initiatives[1]	**2.4**	7.5	(5.1)	**6.8**	7.3	(0.5)
Strategic initiatives[1]	**5.2**	3.0	2.2	**13.6**	11.7	1.9
Loss before income taxes	**(4.7)**	(10.3)	5.6	**(12.5)**	(7.7)	(4.8)
Income tax recovery	**0.1**	(0.8)	0.9	**(3.0)**	(0.4)	(2.6)
Net loss	**$ (4.8)**	$ (9.5)	$ 4.7	**$ (9.5)**	$ (7.3)	$ (2.2)

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

Q4 2023 vs Q4 2022

System Affiliates & Other reported a net loss of $4.8 million, compared to a net loss of $9.5 million in the same quarter last year. Non-interest income increased $2.2 million from the same quarter last year, supported by a higher income from investment in affiliates. Non-interest expense, excluding strategic initiatives[1] was down by $5.1 million reflective of the restructuring in the current quarter. Investments in strategic initiatives[1] continued, consistent with Central 1's strategic priorities, and was up by $2.2 million from the same quarter last year.

YTD 2023 vs YTD 2022

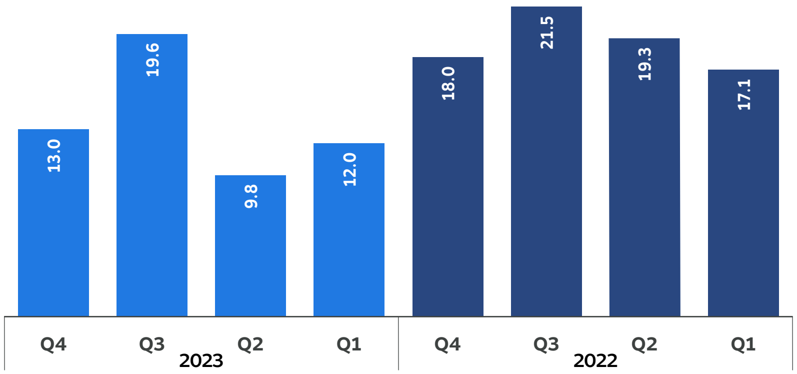
For the year ended December 31, 2023, System Affiliates & Other reported a net loss of $9.5 million, compared to a net loss of $7.3 million from last year which included a fair value gain[1] from the sale of Concentra Bank. Non-interest income has been consistent year-over-year and non-interest expense, excluding strategic initiatives[1] was flat year-over-year. Central 1's investments in strategic initiatives[1] continued at a planned level, broadly in line with last year.

[1]These are non-GAAP financial measures. Refer to the "Non-GAAP and Other Financial Measures" section of this MD&A for more information.
[2]This is a non-GAAP financial ratio. Refer to the "Non-GAAP and Other Financial Measures" section of this MD&A for more information.

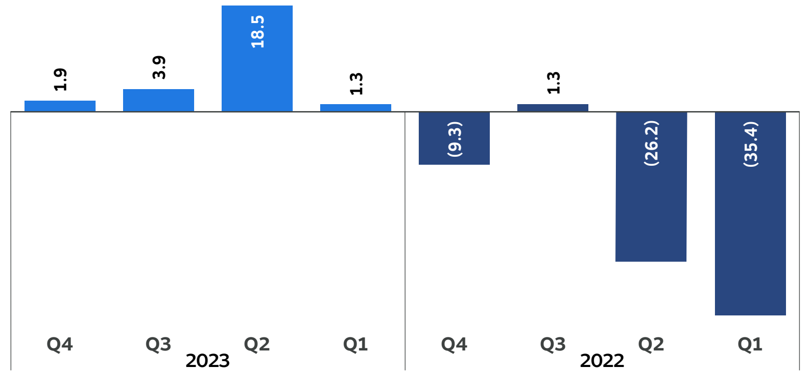
Jump to table of contents

Summary of Quarterly Results

Net Interest Income
(Millions of dollars)



Net Income (Loss)
(Millions of dollars)



$ thousands, except as indicated	2023 Q4	2023 Q3	2023 Q2	2023 Q1	2022 Q4	2022 Q3	2022 Q2	2022 Q1
Interest income	**$ 111,370**	$ 118,800	$ 102,196	$ 99,215	$ 94,605	$ 79,841	$ 52,660	$ 36,974
Interest expense	**98,368**	99,206	92,426	87,264	76,626	58,372	33,335	19,893
Net interest income	**13,002**	19,594	9,770	11,951	17,979	21,469	19,325	17,081
Gain (loss) on disposal of financial instruments	**4,537**	721	5,426	10,964	31,479	(4,175)	(7,665)	(13,595)
Change in fair value of financial instruments	**(409)**	(2,777)	27,171	(17,247)	(50,185)	(9,113)	(36,522)	(53,204)
Non-interest income[1]	**42,483**	39,372	38,123	41,669	36,263	39,747	35,733	38,265
Total revenue	**59,613**	56,910	80,490	47,337	35,536	47,928	10,871	(11,453)
Provision for (recovery of) credit losses	**(280)**	991	212	(701)	(13)	394	413	(433)
Non-interest expense[1]	**56,461**	50,882	54,913	51,779	53,871	45,944	50,509	45,338
Income (loss) before income taxes	**3,432**	5,037	25,365	(3,741)	(18,322)	1,590	(40,051)	(56,358)
Income tax expense (recovery)	**1,561**	1,162	6,905	(5,022)	(9,061)	335	(13,823)	(20,982)
Net income (loss)	**$ 1,871**	$ 3,875	$ 18,460	$ 1,281	$ (9,261)	$ 1,255	$ (26,228)	$ (35,376)
Weighted average shares outstanding *(millions)*	**43.4**	43.4	43.4	43.4	43.4	43.4	43.4	43.4
Earnings (loss) per share *(cents)*[2]								
Basic/Diluted	**4.4**	9.0	42.6	3.0	(21.4)	3.0	(60.4)	(81.6)

[1]Non-interest income and non-interest expense includes investments in strategic initiatives.
[2]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 the Central 1's Board of Directors.

Jump to table of contents

The past eight quarters reflect the sustained performance of all business segments and helps readers identify the items that have favourably or unfavourably affected results. The upward trend of net interest income seen during the first three quarters of 2022 started to taper off in the fourth quarter with a bigger drop in 2023 as a result of credit spreads narrowing along with lower deposits levels.

The last quarter of 2021 reflected stabilized financial markets and positive economic outlook. The first quarter of 2022 started the year with a significant net fair value loss[1], as a result of the economic uncertainty primarily from rising inflation and the Russia – Ukraine conflict, which increased credit spreads across all tenors. For the remainder of 2022, credit spreads remained elevated until the first quarter in 2023 when Regional Banking concerns in the U.S. caused credit spreads to temporarily widen resulting in a smaller net fair value loss[1]. Corporate bonds' credit spreads started narrowing during the second quarter of 2023, reflective of a net fair value gain[1] of $32.6 million and $4.1 million reported in the second and fourth quarter, respectively. The net fair value loss[1] of $2.1 million reported in the third quarter of 2023 was driven by the unfavourable movements from National Housing Act Mortgage-Backed Securities (NHA MBS) credit spreads.

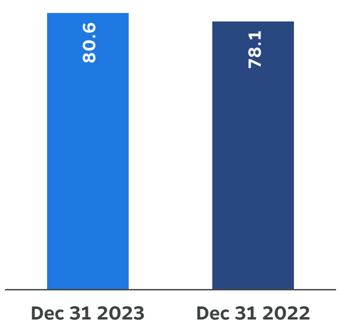
From the third quarter of 2021 to the first quarter of 2023, Central 1 received liquidation distributions from U.S. Federal Credit Union totalling $10.2 million (US $8.0 million), of which $5.5 million (US $4.4 million) was received in 2021 and $4.2 million (US $3.2 million) was received in 2022 and the final distribution of $0.5 million (US $0.4 million) was received in the first quarter of 2023. In addition, Central 1 received a $0.8 million Provincial Sales Tax (PST) rebate from the B.C. government in the first quarter of 2023 as a result of its temporary COVID-19 economic recovery plan by granting a PST rebate on qualifying machinery and equipment for eligible businesses. Excluding this income, non-interest income remained relatively stable quarter-over-quarter with the transaction volumes in Payment products in the first quarter of 2023 trending upwards. Non-interest expense also saw an upward trend over the past few quarters in 2022 and into 2023 driven by higher salaries and employee benefits.

[1]These are non-GAAP financial measures. Refer to the "Non-GAAP and Other Financial Measures" section of this MD&A for more information.
[2]This is a non-GAAP financial ratio. Refer to the "Non-GAAP and Other Financial Measures" section of this MD&A for more information.

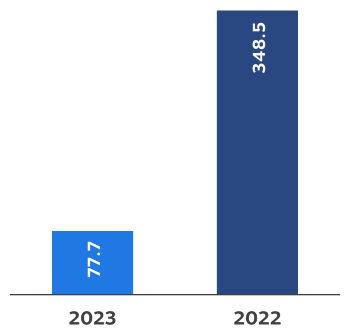
Credit Union System Performance

British Columbia

Total Assets
(Billions of dollars)



Net Operating Income
(Millions of dollars)



Comparative figure has been represented.

309 Branches

1.49 million Members

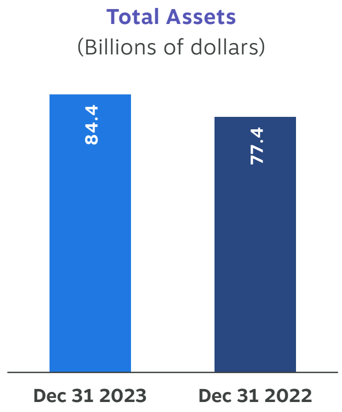
30 Credit Unions

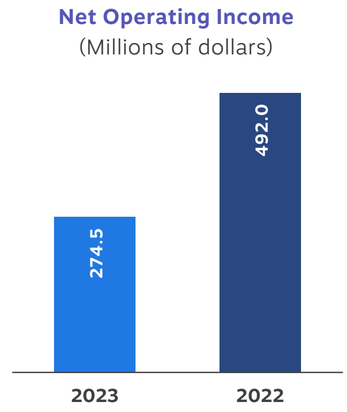
Net operating income totalled $77.7 million for 2023, down from $348.5 million in 2022. This was driven by an increase in interest expense, which was up 132.2 per cent, resulting in a 20.6 per cent or $300.8 million decrease in net interest income. Non-interest income increased 14.7 per cent to $306.7 million led by higher trading of financial instruments. Non-interest expenses in 2023 increased 0.7 per cent year-over-year to $1.4 billion.

Assets of the B.C. system totalled $80.6 billion at the end of 2023, up $2.5 billion or 3.2 per cent from a year earlier. Asset growth was largely due to an increase in personal and commercial loans. Liability growth was led by non-registered term deposits, which was up by $2.5 billion or 8.5 per cent and offset by a $1.8 billion or 6.1 per cent decrease in non-registered demand deposits. The 90-day delinquency rate at year-end stood at 0.3 per cent of the loan portfolio, up 21 basis points (bps) from a year earlier. Net loan loss expense was 0.03 per cent of average loans in 2023, down four bps from a year earlier. Reserves held against loan losses totalled 0.3 per cent of the portfolio at year-end, which is up one bp from a year earlier.

The B.C. system had $38.0 billion in risk weighted assets (RWA) and regulatory capital as a percentage of RWA was at 14.9 per cent as at December 31, 2023, up 24 bps year-over-year. The system's liquidity ratio was 16.1 per cent at the end of 2023, up seven bps from a year earlier. B.C. credit union membership stood at approximately 1.5 million at year-end, largely in line with prior year.

Ontario





Comparative figure has been represented.

The Ontario credit union system saw a decline in 2023 profits. Net operating income totalled $274.5 million, down 44.2 per cent or $217.5 million from 2022. Financial margin declined 7.9 per cent to $1.4 billion as lending spreads declined. Non-financial income decreased by 1.8 per cent to $271.7 million while non-financial expenses increased 7.7 per cent to $1.4 billion, led by higher salaries and benefits.

Asset growth was strong in 2023 and finished the year at a total asset of $84.4 billion, up nine per cent year-over-year. Net loans grew by 9.3 per cent to $73.1 billion. Liabilities grew 8.9 per cent to $78.4 billion. Deposits totalled $66.5 billion at year-end, up 8.0 per cent from a year earlier. Deposit growth was largely in term deposits, which was up $5.1 billion or 22.7 per cent from a year earlier.

The system's liquidity ratio ended 2023 at 14.3 per cent, up from 13.0 per cent from 2022. The system had $39.8 billion in RWA at the end of 2023 and the risk-weighted capital ratio increased 42 bps to 13.9 per cent. The system's credit risk measures increased with the overall 90-day delinquency rate up from 0.15 per cent to 0.35 per cent at year end, while total loan loss reserves ended 2023 at 0.3 per cent of the portfolio. The rate of loan loss expense was four bps in 2023, up two bps from 2022. Ontario credit unions' membership stood at approximately 1.6 million at year-end, largely consistent with prior year.

Jump to table of contents

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, commitments, and contingencies and assets under administration.

Derivative Financial Instruments

Notional Amount $ millions, as at December 31	2023	2022	2021
Interest rate contracts			
Swap contracts	**$ 31,718.3**	$ 31,844.0	$ 32,435.1
Futures contracts	**1,191.0**	604.0	653.0
Bond forwards	**–**	–	41.0
	32,909.3	32,448.0	33,129.1
Foreign exchange contracts			
Foreign exchange forward contracts	**535.8**	543.5	587.1
Other derivative contracts			
Equity index-linked options	**183.1**	221.1	216.8
	$ 33,628.2	$ 33,212.6	$ 33,933.0

Central 1 acts as a swap intermediary between the Canada Housing Trust and member credit unions and additionally provides derivative capabilities to member credit unions to be used in the asset/liability management of their respective balance sheets.

The changes in fair values of these derivatives are recognized in our Consolidated Statement of Financial Position but the notional amounts of these derivatives are not presented on our 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. Market risk arising from these derivative contracts is managed within the context of our overall market risk policies as disclosed in the Risk Review section of this MD&A.

Guarantees, Commitments and Contingencies

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

$ millions, as at December 31		2023		2022		2021
Commitments to extend credit	**$**	**5,093.4**	$	4,976.6	$	5,083.4
Guarantees						
Financial guarantees	**$**	**793.6**	$	717.6	$	802.6
Performance guarantees	**$**	**500.0**	$	130.0	$	100.0
Standby letters of credit	**$**	**229.0**	$	236.9	$	239.4
Future prepayment reinvestment commitment	**$**	**883.9**	$	797.9	$	1,089.5

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, standby letter of credit, and future prepayment reinvestment commitment.

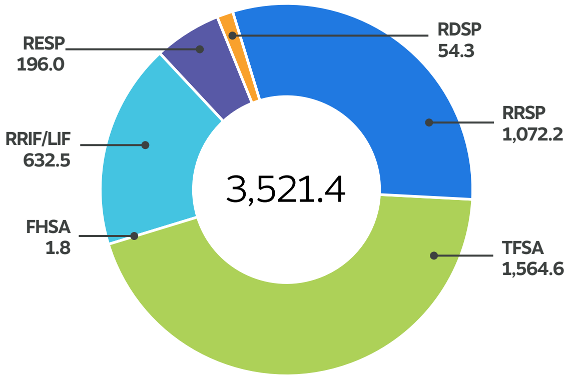
Commitments to extend credit, representing undrawn commitments, increased $116.8 million from December 31, 2022. Performance guarantees increased $370.0 million from December 31, 2022, while standby letters of credit were in line with the prior years.

Future prepayment reinvestment commitments decreased by $205.6 million from a year ago due to the maturity of NHA MBS which was reinvested through Central 1's indirect securitization activities, reflective of the higher reinvestment assets in Central 1's Consolidated Statement of Financial Position.

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. Counterparty credit risk arising from these guarantee contracts is managed within the context of our overall credit risk policies as disclosed in the Risk Review section of this MD&A.

Assets under Administration

As at December 31,2023
(Millions of dollars)



$ millions, as at December 31		2023		2022		2021
Registered Retirement Savings Plans (RRSP)	**$**	**1,072.2**	$	1,062.2	$	1,066.9
Tax-Free Savings Accounts (TFSA)		**1,564.6**		1,382.9		1,271.4
First-Home Savings Account (FHSA)		**1.8**		–		–
Registered Retirement Income Funds/Life Income Funds (RRIF/LIF)		**632.5**		585.2		552.3
Registered Education Savings Plans (RESP)		**196.0**		194.5		200.2
Registered Disability Savings Plans (RDSP)		**54.3**		48.2		42.8
	$	**3,521.4**	$	3,273.0	$	3,133.6

Comparative figures have been represented.

AUA mainly consists of government approved registered plans, which are trusteed and administered by Central 1 or one of its wholly owned subsidiaries. Central 1 provides trust and administrative services on AUA for the beneficial owners and members of the B.C. credit union system and Class C members.

Central 1 Trust Company (the Trust), a wholly owned subsidiary of Central 1, provides the equivalent services for members of the Ontario and Manitoba credit union system and Class C members. The Trust was also registered in Alberta, Newfoundland, Nova Scotia, PEI, and Saskatchewan in 2023 as part of its national expansion plan.

Growth in AUA contracts resulted from an overall increase in business in B.C. and Ontario, along with market value appreciation contributed to an overall 7.6 per cent increase in AUA from a year ago. With the advent of the new tax-free First Home Savings Account (FHSA), released April 1, 2023, uptake started to increase near the end of the year as credit unions promoted the system into production. The FHSA is expected to compete with RRSP and TFSA contributions.

Conversely, TFSA sales continued its upward trend, due to increasing popularity amount investors as an alternative to RRSPs and the desire to keep cash at hand during this period of financial uncertainty.

Central 1's risk exposure to AUA contracts is managed within the context of our overall operational risk and compliance risk policies as disclosed in the Risk Review section of this MD&A.

Jump to table of contents

Capital Management and Capital Resources

Central 1 manages capital to maintain strong capital ratios in support of the risks and activities of the organization. In addition to the regulatory requirements, we maintain capital to meet the expectations of credit rating agencies, to accommodate credit union system growth and to maintain internal capital ratios.

Capital Management Framework

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.

The Board of Directors, with endorsement from the Risk Review and Investment & Loan Committee (RRILC), provides oversight of Central 1's capital management through the approval of our risk appetite, capital policy and plan. The RRILC is provided with regular updates on our capital position including performance to date, updated forecasts, and any material regulatory developments that may impact our future capital position. The RRILC is also tasked with reviewing the Internal Capital Adequacy Assessment process (ICAAP) annually. The Asset Liability Committee (ALCO) monitors Central 1's capital position against regulatory requirements and internal capital targets monthly.

Key management activities of the framework include:

- the determination of the required capital to cover material risks to which the organization is exposed. This is achieved through the ICAAP which incorporates Central 1's enterprise-wide stress test and scenario analysis that is conducted to assess the impact of various stress conditions on our risk profile and capital requirements;
- the annual budget process which establishes operating targets for the organization. This supports the capital planning process which includes forecasted growth in assets, earnings, and projected market conditions; and
- the establishment of internal capital targets and the implementation of capital strategies

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

Central 1 expects to have sufficient working capital generated from operations to satisfy its capital requirements to advance its strategic initiatives[1] and fund continued growth.

[1]These are non-GAAP financial measures. Refer to the "Non-GAAP and Other Financial Measures" section of this MD&A for more information.

Regulatory Capital

$ millions, except as indicated, as at December 31	2023	2022	2021
Share capital	**$ 43.4**	$ 43.4	$ 43.4
Retained earnings	**682.5**	656.8	727.2
Less: accumulated net after tax gain in investment property	**(4.7)**	(4.7)	(4.7)
Tier 1 capital[2]	**721.2**	695.5	765.9
Subordinated debt[1]	**200.0**	212.6	216.8
Add: accumulated net after tax gain in investment property	**4.7**	4.7	4.7
Tier 2 capital[2]	**204.7**	217.3	221.5
Total capital	**925.9**	912.8	987.4
Statutory capital adjustments	**(169.9)**	(176.3)	(125.6)
Total regulatory capital[2]	**$ 756.0**	$ 736.5	$ 861.8
Borrowing multiple – Consolidated[3]	**12.6:1**	14.7:1	14.3:1

[1]Subordinated debt, net of any required amortization in an instrument's final five years, is restricted to a maximum of 50 per cent of Tier 1 capital.
[2]These are non-GAAP financial measures. Refer to the "Non-GAAP and Other Financial Measures" section of this MD&A for more information.
[3]These are non-GAAP financial ratios. Refer to the "Non-GAAP and Other Financial Measures" section of this MD&A for more information.

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

On September 30, 2020, BCFSA announced that 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 borrowing multiple through growth in retained earnings and subordinated debt.

On October 2, 2020, Central 1 announced that its members passed a special resolution approving amendments to its Constitution and Rules. The amendments became effective on January 1, 2021. 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 a liquid form, excluding that amount that is maintained in cash, in satisfaction of applicable legislation. The amendments also removed all provisions in the Rules relating to Class F shares. Under Central 1's Rules prior to the amendments becoming effective, Class F shares were issued to Class A members that had deposits in the MLP. On January 1, 2021, Central 1 redeemed all outstanding Class F Shares for the redemption price of $1.00 per share to be paid to the holders of Class F shares on or before January 8, 2021.

At December 31, 2023, Central 1's consolidated borrowing multiple was 12.6:1 compared to 14.7:1 at December 31, 2022, largely due to the reduction in borrowings and increase in retained earnings. Central 1 was in compliance with all regulatory capital requirements as at December 31, 2023 and December 31, 2022.

Jump to table of contents

Risk Review

Central 1's business operations, industry and environment expose us to a wide variety of risks, some of which are well known and readily managed and others, such as industry or environment driven risks, that are outside of our immediate control and influence. Central 1's risk management framework is focused on effectively managing those risks we can control and creating organizational readiness and resilience for those risks we have limited ability to manage. Risk management prioritizes awareness of all the risks we face and, once identified, measuring or assessing and then monitoring our risks. Central 1 also ensures that we have the financial strength through our profitability and capital adequacy to support our businesses and their resultant risks.

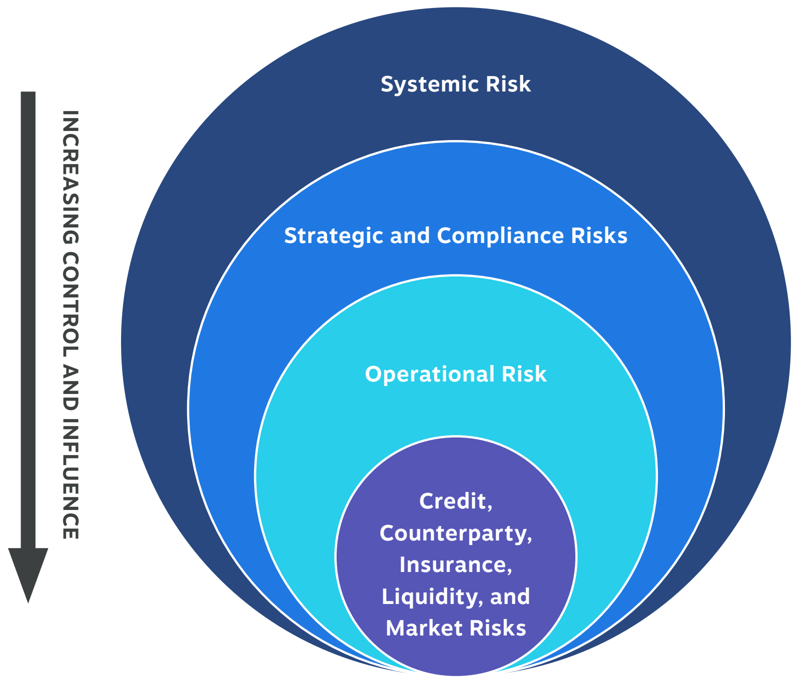
Central 1 employs a multifaceted risk management framework designed in keeping with our business operations and role in the credit union system, our operational capabilities and our designation by BCFSA as a Domestic Systemically Important Financial Institution (D-SIFI). Central 1's risk management framework provides independent risk oversight across the organization and our capabilities consider risk across the credit union system.

The risk management framework is founded on several key principles:

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

Business and Operations Risk

Central 1's business involves treasury and portfolio management services, forward-thinking technology and payment settlement services and other innovative services and solutions aimed at providing a competitive edge to member credit unions and other corporate clients. These business activities involve inherent risks arising from day-to-day activities and systemic and strategic risks arising from the highly competitive and constantly evolving financial sector. These risks are identified in this section and further discussed in the following sections.



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

Strategic risk is the potential for gaining or losing value related to making and executing strategic business decisions in response to changes of the business environment. We have control over our strategic decisions and decision processes but competitive pressures and/or emerging industry trends are continually evolving. We are also part of a system of credit unions and support organizations and our strategy needs to be created and managed within this dynamic system.

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

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

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

Counterparty risk is the potential for financial loss resulting from the inability of a counterparty to fulfill its obligation to deliver on the terms of a contract at the agreed-upon time in a value-exchange transaction (i.e. derivative transactions) after Central 1 has fulfilled its own obligation. Counterparty credit risk is managed within the context of our overall credit risk policy framework.

Liquidity risk is the potential for financial loss resulting from the inability to meet cash flow obligations in a timely manner due to an inability to generate sufficient cash from assets or funding sources. We provide fully secured lending to the credit union system. We take deposits from our credit union members and manage our liquidity risk to support a liquid credit union system.

Market risk is the potential for financial gain or loss resulting from favourable or unfavourable movements in interest rates, credit spreads, and foreign exchange rates. We use Value-at-Risk (VaR), DV01, duration and stress scenarios among other risk measures to monitor and report on market risk.

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

Risk Governance

The governance of risk management includes the Board and management risk committees, risk policies, management standards and procedures, clear authorities and responsibilities, effective control and oversight functions with clear and independent reporting lines and risk education on key topics.

The Board and our Committees

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

Jump to table of contents

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

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

The Audit and Finance Committee (AFC) has responsibility for assisting the Board in its oversight over the financial reporting process and internal controls. The Chairpersons of the AFC and the RRILC are members of both committees as mandated by the committees' terms of reference. The Technology and Innovation Committee has oversight over all technology risk, cyber risk, and major project risks. The Human Resources Committee has oversight of people risk.

Management and our Risk Committees

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

Central 1's business lines are overseen by key members of our executive management team. The Chief Investment Officer (CIO) is responsible for the management of the Treasury portfolio, including a variety of investment and funding programs to meet the differing needs of our members and clients, and the Chief Product Officer is responsible for the management of the payments and digital banking to member credit unions and other corporate clients.

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

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

Corporate Policy Coverage

Central 1's risk policy framework outlines the roles and responsibilities of the business and operations functions, the Risk Group and corporate support groups in the effective creation, approval, maintenance and communication of corporate risk policies as well as management risk standards.

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

Central 1's risk policy framework includes the organization's Risk Appetite Statement (RAS), which defines the types and amounts of risk that they are willing to take in pursuit of their strategic objectives. The RAS covers all their main risk categories, including Compliance Risk, Credit Risk, Counterparty Risk, Liquidity Risk, Market Risk, Operational Risk and Strategic Risk.

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

Central 1 undertakes risk education on several key topics. All our staff are required to complete information security training as part of the employee onboarding process. All staff involved with funds flows, whether deposit, loan or payments flows, must complete annual AML/CTF training. We have a business continuity plan (BCP) and all employees with planning and/or resolution responsibilities must complete annual BCP training. In addition, on a periodic basis and as needed, Central 1 runs various specialized and general risk awareness sessions to maintain and further evolve Central 1's risk management capabilities.

Risk Process

Central 1's Corporate Risk Management Policy outlines the Risk Process.

The process is based on five related and reinforcing steps, as follows:

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

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

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

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

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

Risk Analysis

Central 1's approach to managing and mitigating specific types of risk are as follows:

Strategic Risk

Central 1 believes that pressures on all financial institutions including credit unions, from, among other things, tight margins and financial technology disruption characterize the current environment. We need to be prepared to respond to the resulting changes and opportunities. We rely on the underlying system's direction, ongoing member and client engagement and a continuous strategic planning process to pursue a strategy that prepares us for the risks inherent in the environment and to deliver value for credit unions and clients.

Compliance Risk

Compliance risk is the potential for legal or regulatory sanctions, material financial loss or damage to Central 1's reputation resulting from failure to comply with applicable laws, regulations, rules, related self-regulatory organization standards and/or codes of conduct. Central 1 is exposed to compliance risk in all areas of the organization and has implemented an organization wide compliance framework to manage this risk.

As a domestic systemically important financial institution, Central 1 has implemented a regulatory compliance management program consistent with regulatory guidance including the maintenance of a regulatory inventory, tracking of regulatory developments, risk assessments and compliance testing. In addition, Central 1's compliance framework includes a set of organization wide compliance policies, management standards and procedures as well as mandatory training to ensure compliance with relevant regulation. A privacy program managed by a dedicated Privacy Officer is in place as well as a financial crime compliance program lead by its CAMLO, including measures to ensure compliance with anti-money laundering, sanctions and anti-bribery and corruption regulation.

The Compliance function, headed by the Chief Compliance Officer acts as second line of defense in advising the first line and overseeing their compliance. The Chief Compliance Officer regularly reports on compliance risk to the Risk Review and Investment & Loan Committee as well as Central 1's Board of Directors.

Credit Risk

Central 1 is exposed to credit risk from our investment and lending activities, as well as through our role as Group Clearer and other settlement business. Our policies establish the parameters within which we manage our credit risk. These policies are implemented through a number of key business procedures. Together, the policies, management standards and procedures form a framework that includes:

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

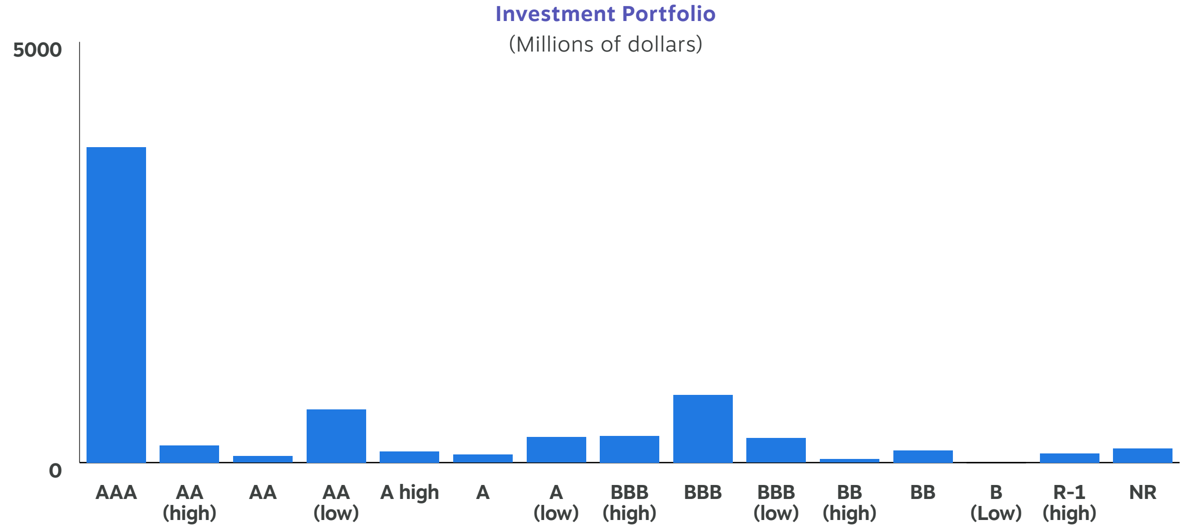
All potential and existing borrowers are evaluated by skilled lenders and are adjudicated by independent credit risk professionals. Annually, the status of each counterparty and transaction are reviewed through a comprehensive assessment process.

The credit exposures are concentrated in low-risk investment securities and credit facilities with zero or a very limited exposure to underperforming loans within the lending portfolios.

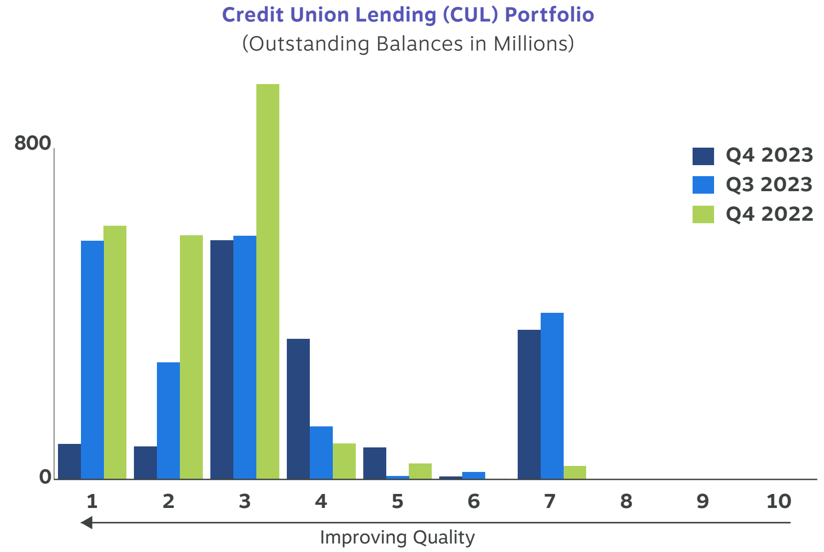
In the fourth quarter of 2023, Central 1 reduced its expected credit loss allowances for the Commercial Real Estate Lending (CREL) portfolio by $172.1 thousand to a total of $3.81 million. Expected credit loss allowances for the Investment portfolio were decreased by $119.6 thousand to a total of $228.0 thousand. Zero expected credit loss remained in the Credit Union Lending portfolio given ample security pledged to secure credit facilities.

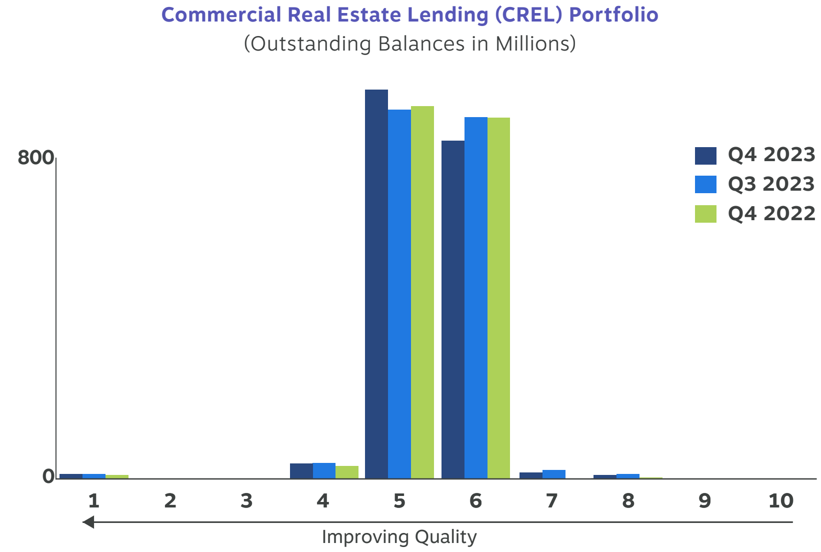
Jump to table of contents

The following chart illustrates our credit exposure and risk profile based on outstanding balances in the Investment Portfolio.



The following charts provide our credit exposure and risk profile based on outstanding balances in the Credit Union Lending and Commercial Real Estate Lending Portfolios.





Credit Quality Performance

As part of our risk management activities, we perform ongoing stress tests to measure the resiliency of our lending 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 Investments Portfolio.

Credit Union Lending (CU Lending)

Currently, there are no impaired loan facilities in the CU Lending portfolio. As at December 31, 2023, there were five Ontario credit unions classified as Watch List (risk rating 7). The Watch List accounts represented 7.14 per cent of the authorized portfolio as at December 31, 2023. A Watch List rating is assigned to entities whose level of default risk increased materially, but loans are not in default and remain on an accrual basis. Watch List accounts require enhanced monitoring and/or workout planning. The security provided for the Watch List facilities is substantial and no losses are expected.

Commercial Real Estate Lending (CREL)

During the fourth quarter, two impaired accounts within the CREL portfolio were paid in full without credit losses. As at December 31, 2023, there was one impaired loan representing 0.15 per cent of the outstanding portfolio balance, and one Watch List account representing 0.83 per cent of the outstanding portfolio balance. The loans are secured by a first priority security interest over real estate assets and are subject to close monitoring.

Counterparty Risk

Within the Treasury operations, Central 1 incurs counterparty risk by entering into contracts with counterparties in return for a bilateral value-exchange of services. The counterparty risk is managed within the same risk assessment 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 (Morningstar DBRS), and credit union system where a robust internal risk rating regime is utilized.

Liquidity Risk

Liquidity risk arises from 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 framework enables Central 1 to support a liquid credit union system in both normal and stressed market conditions.

Central 1's Treasury business line provides capital markets products and services to Class A, B and C members. Product offerings include current accounts, commercial lending, access to securitization vehicles, foreign exchange services, and derivatives. Treasury is funded through members' discretionary deposits and capital markets under our commercial paper and medium-term note programs.

Central 1 provides payment clearing and settlement services to Class A, B and C members. Central 1 manages the Group Clearer function on behalf of the credit union system nationally (excluding Quebec) and is a direct clearer through the Payments Canada network. Central 1 provides access to global correspondent banks for the credit union system to settle foreign currency payments. These activities directly expose Central 1 to liquidity and settlement risk from other direct participants in the payments network as well as downstream to our indirect settlement participants. The liquidity and settlement risk of these core banking functions are managed by the Treasury.

Central 1 has established a comprehensive liquidity risk framework that is comprised of:

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

Jump to table of contents

Investment Strategies

Central 1 invests in a sufficient quantity of highly liquid assets to ensure that it can meet the deposit withdrawal and borrowing requirements of our member in normal and stressed market environments. We view the following assets as highly liquid and include them in our assessment of portfolio liquidity:

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

Treasury liquidity management is subject to a rigorous measurement and monitoring regime. The majority of Treasury liabilities are invested in HQLA as defined above, sufficient to ensure that liquidity objectives are met, and exposures remain within the organization’s risk appetite. These liabilities also fund credit union and commercial lending. As part of its normal business operations, we offer committed credit facilities to credit unions and commercial borrowers, enter into derivative and securities lending transactions, and participate directly in the national clearing and settlements network. A portion of Treasury’s highly liquid assets are encumbered to support these activities.

Diversification of Funding

Central 1’s liquidity management framework is designed to ensure that reliable and cost-effective funding sources are available to satisfy Central 1’s current and prospective financial commitments, and those of our member credit unions. Diversification of funding sources provides flexibility and minimizes concentration risk. It is a crucial component of our overall liquidity management strategy.

Treasury is funded through a combination of Class A, B and C member deposits and capital markets borrowing. We regularly issue commercial paper and medium-term notes in the capital markets. We also issue subordinated debt. Regular participation in these markets and the maintenance of a strong external credit rating is critical for ensuring that capital markets access is maintained. We fund a portion of our purchases of residential mortgages and credit union NHA MBS through the NHA MBS and CMB mortgage securitization programs.

Credit Union System Health Analysis

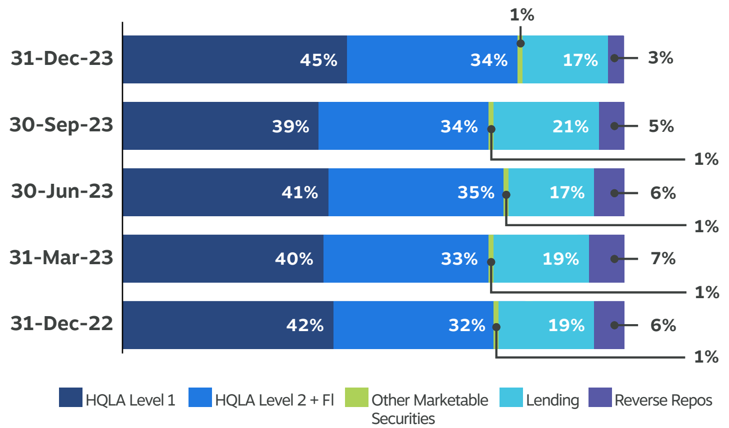
Central 1’s liquidity is directly affected by the liquidity of the B.C. and Ontario credit union systems and the liquidity of our Class B and C members. We closely monitor credit unions’ financial positions for any indication of negative liquidity trends. Utilization of lending facilities, liquidity ratios, deposit levels, economic conditions, and use of capital market and other funding sources are among the items regularly monitored.

Jump to table of contents

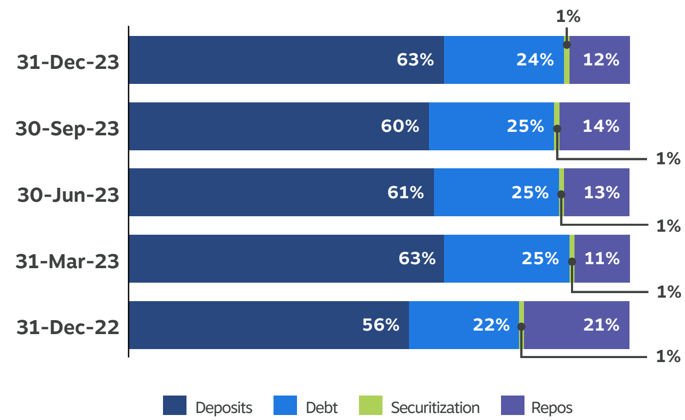
Risk Monitoring

We monitor our asset and liability positions, encumbrances, commitments, cash flows and funding to better understand our liquidity capacity and our sensitivity to changing market conditions. The majority of Central 1's assets are held in actively traded marketable securities that can be readily sold, or pledged to the BoC, to generate cash to support member deposit withdrawals or the drawdown of committed loan facilities in both normal and stressed markets. While the Treasury holds other less liquid assets, the quantity of highly liquid assets is greater than the level of funding provided by member deposits. The following charts illustrate the relationship between assets and liabilities.

Treasury Assets

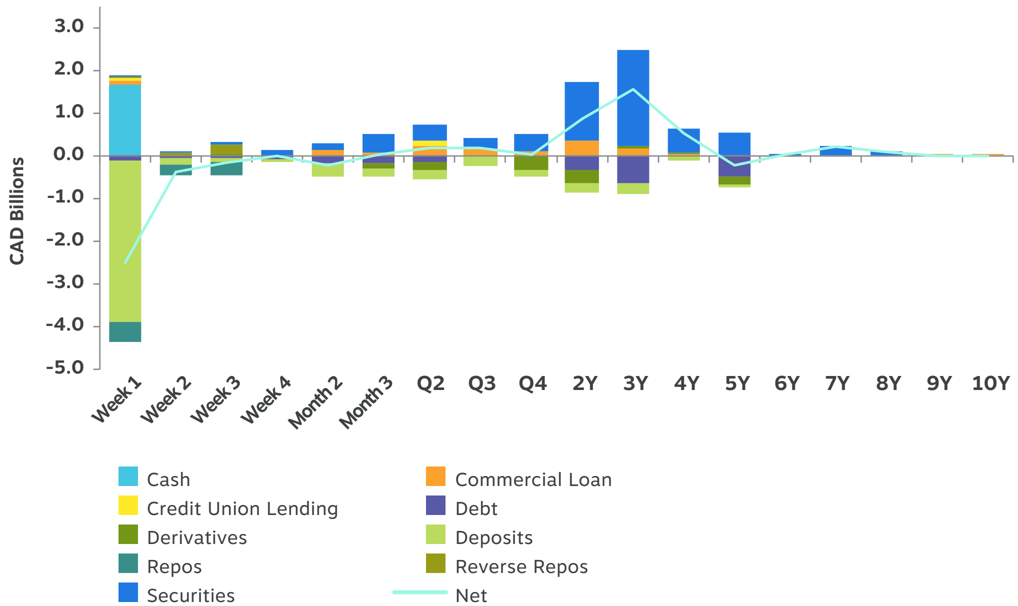


Treasury Liabilities



The Maturity Gap provides a picture of the mismatch between the contractual maturity of our assets and liabilities. These gaps, even under normal market conditions, must be closed by receiving additional funding or liquidating assets. The maturity gaps reported for Treasury are within normal levels.

Maturity Gap Report



Note: Deposits in Week 1 include entire balance of demand deposits (deposits without maturity)

Liquidity risk is assessed based on a suite of key risk indicators that include the industry standard and BCFSA's recommended Liquidity Coverage Ratio (LCR) and Net Cumulative Cash Flow (NCCF), as well internally developed metrics (i.e., Stressed LCR, Stressed Cashflow, Stressed NCCF, Funding Coverage Ratio). The LCR measures whether a financial institution has a sufficient stock of liquid assets to meet 30-day cash flow requirements under a combined idiosyncratic and market-wide stressed events. The cash flow requirements include working capital requirements and off-balance sheet commitments. LCR assumes significant withdrawals of eligible deposits, increased utilization of committed credit and liquidity facilities, 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 in the market value. Central 1 calculates different versions of LCR. The OSFI regulatory LCR, which applies a narrower definition of HQLA in which Bank and financial institution debt are not considered HQLA-eligible, and a Standing Liquidity Facility (SLF) LCR which utilizes a broader definition of HQLA, and asset haircut assumptions, that align with the haircuts applied to SLF-eligible collateral. As a result of this, Central 1's OSFI LCR tracks below the SLF-defined LCR. Central 1 uses the OSFI LCR for its risk appetite limit but reports both versions of LCR to the BCFSA monthly.

Similarly, the NCCF assesses whether a financial institution has sufficient asset liquidity to meet its net cash flow obligations over a 12-month time horizon under a liquidity scenario that encompasses a combination of idiosyncratic and systemic stresses. Both the LCR and NCCF are used as tools for monitoring structural liquidity risk and operational liquidity and ensuring prudent and enhanced liquidity and funding management.

In addition, Central 1 further stresses the NCCF by applying haircuts to securities and run-off rates on deposits that are more severe than those prescribed by OSFI, and drawdown rates for every time bucket.

Central 1's liquidity position as of December 31, 2023, remains strong based on assessment of the LCR, NCCF and other key risk indicators. The OSFI LCR of 139.8 per cent as of December 31, 2023, was higher than the previous quarters and indicates a high level of liquidity. The NCCF was net positive in all time buckets up to 12 months. Also, the Stressed LCR and Stressed NCCF show a high level of liquidity. No funding concerns based on the forecast for the next 12 months. Central 1 remains in a strong position to support the system's liquidity needs.

	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	LTM Average[1]
OSFI LCR	**139.8 %**	131.1 %	131.1 %	127.6 %	124.1 %	117.5 %

[1] Last twelve months (LTM) refers to the timeframe of the immediately preceding 12 months from the reporting date.

Market Risk

The level of market risk Central 1 is exposed to varies according to market conditions and the composition of our investment, securitization, lending, and derivative portfolios. We manage our exposure to market risk through a range of governance and management processes. Central 1's overall appetite for market risk and aggregate market risk exposure limits are established in the Risk Appetite Statement while Central 1's Market Risk Policy sets out the key principles governing our management of market risk. Central 1 does not assume additional market risk for speculative purposes or in pursuit of returns beyond those required to fulfill its primary mandate of safeguarding system liquidity.

Central 1 manages its exposure to market risk through various means. The sensitivity of portfolio market values to changes in interest rates, foreign exchange (FX) rates and credit spreads are tracked in real-time to actively manage exposures. Central 1 also uses stress testing and Value-at-Risk (VaR) to monitor and quantify overall market risk under normal and stressed market environments. To the extent possible, Treasury asset and liability portfolios are matched by term and currency to offset much of Central 1's interest rate and foreign exchange risk. Credit spread risk is the largest source of market risk in the portfolio but is mitigated through concentration limits.

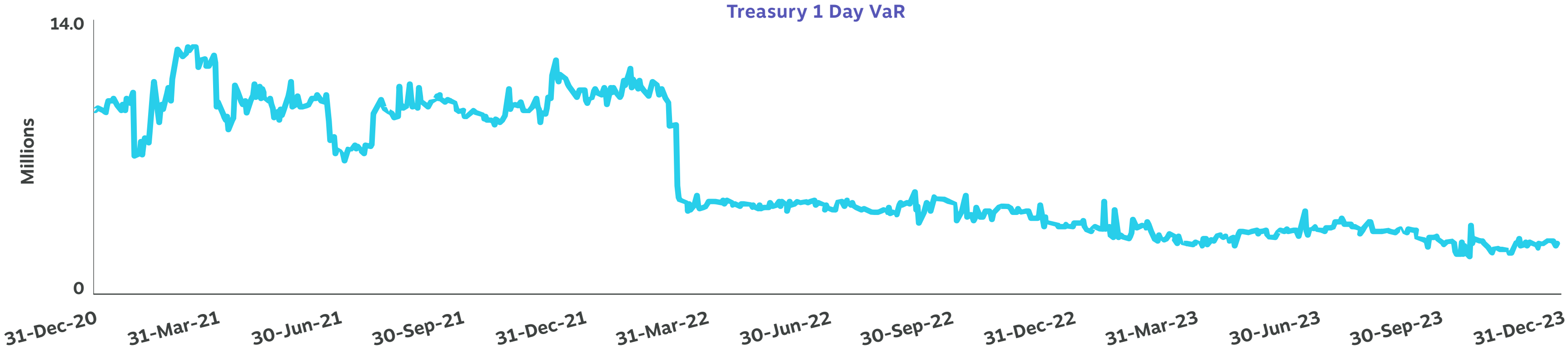
Value at Risk

VaR is a statistical measure of potential losses in portfolio market value due to changes in market prices and rates. Central 1 calculates VaR for a 1-day holding period at a 99 per cent confidence interval. This means that portfolio losses are not expected to exceed the calculated VaR more than one out of every 100 business days. VaR is computed using a historical simulation approach based on 500 business days (2-years) of historically observed changes in interest rates, foreign exchange rates, equity prices and credit spreads. Total VaR considers the impact on portfolio market values of these changes in aggregate while VaR by Risk Factor considers the changes in isolation. Expected Shortfall is an estimate of the size of the loss for the one business day where portfolio losses exceed VaR at a 99 per cent confidence interval.

VaR decreased in the fourth quarter. The portfolio's exposure to interest rates and credit spreads has been managed down to reduce risk.

	Treasury				Last 12 Months		
$ millions	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Average	High	Low
Interest Rate VaR	**$ 2.2**	$ 2.7	$ 2.8	$ 2.4	$ 2.6	$ 4.3	$ 1.9
Credit Spread VaR	**2.0**	2.4	2.3	2.3	2.3	3.9	1.9
Foreign Exchange VaR	**1.8**	1.4	2.1	2.3	2.0	3.4	1.1
Diversification[1]	**(2.6)**	(2.9)	(3.4)	(3.3)	(3.2)	nm	nm
Total VaR	**$ 3.4**	$ 3.6	$ 3.8	$ 3.7	$ 3.7	$ 5.1	$ 2.9
Expected Shortfall	**$ 3.7**	$ 4.0	$ 4.2	$ 4.5	$ 4.3	$ 5.6	$ 3.2

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



Stress Testing

In addition to running generic stress testing scenarios, Central 1 calculates Stressed Value-at-Risk (SVaR) to quantify portfolio market risk under stressed market conditions. SVaR is calculated by the same methodology as VaR except that it is calibrated to historical data from a continuous 1-year period of significant financial stress for current portfolios. SVaR is calculated for 1-day and 10-day horizons at a 99 per cent confidence interval. Treasury SVaR is currently calibrated to 2008/2009. SVaR has decreased over the period due to the reduction of risk exposures.

	Treasury				Last 12 Months		
$ millions	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Average	High	Low
1-Day SVaR	**$ 8.3**	$ 8.4	$ 9.9	$ 9.4	$ 9.3	$ 11.5	$ 8.0
10-Day SVaR	**$ 23.3**	$ 26.9	$ 25.1	$ 26.6	$ 26.3	$ 35.4	$ 20.3

Foreign Exchange Rate Exposure

Most of Central 1's foreign exchange (FX) exposure is concentrated in USD. Further exposure to other currencies arises from the foreign exchange services and products offered to member credit unions and other clients. The risk associated with fluctuating foreign currency values is managed by monitoring and limiting FX balances, utilizing FX derivatives to hedge exposures, and through VaR monitoring and limits.

$ millions	Balance Sheet in Native Currency	Off-Balance Sheet Items – Foreign Exchange Forwards	Net Position in Native Currency	BOC Closing Rate	CAD Equivalent
USD	$ (10.2)	$ (21.2)	$ (31.4)	1.3240	(41.6)

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 Central 1 processes 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.

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 policies, management standards, 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;
- involvement of subject matter experts to assess the impact of third party risks on Central 1;
- strengthening the first and second line of defense roles and responsibilities and increasing use of quantifiable risk appetite statements to inform management decision making;
- 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

Reputation

Central 1 recognizes that our reputation is among our most important assets and considers reputational impact in all of our business and planning practices. Integrity and ethical conduct are core values for the organization and these are fostered at the most fundamental levels of the organization through the adherence of each employee and contractor to our Code of Conduct. In addition to the key principles listed in the Corporate Risk Management Policy (the Policy) the following specific principles govern our management of our reputation:

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

Emerging Risks

Emerging Risks for Central 1 are new and evolving risks that are not yet well understood with the potential to have significant negative impacts on Central 1.

As of December 31, 2023, the key Emerging Risks for Central 1 are:

- **Elevated economic uncertainty:** Geopolitical tensions, inflation, and heightened interest rates from Central Banks are creating a sense of uncertainty in the economy. The present economic landscape is putting pressure on the Credit Union System. Central 1 is particularly exposed to economic downturns due to the potential to increase probability of defaults, profit margins tightening and credit spreads widening.
- **Regulatory pressures:** Central 1, along with other financial institutions is facing increasing regulatory expectations in a range of areas, most notably in BCFSA's capital modernization. In addition, there is also increased scrutiny in areas such as environmental, social and governance issues (ESG).
- **Operational Resilience:** The increased reliance on the use of internet and telecommunications technology to conduct financial transactions, geopolitical tensions, the complex exposure by partners and collaborators within the Central 1 ecosystem impacts the continuous effective functioning of critical infrastructure. This can include natural disasters, cyber-attacks, or other disruptions. To be technology resilient, a system must be able to recover

Jump to table of contents

quickly from disruptions, maintain a high level of availability, and protect against potential vulnerabilities.

- **Technology & Digital Innovation:** Talent retention challenges and changing consumer demand for financial technologies leads to the overreliance on third-parties, increasing the risks of disruptions in our supply chain. The increasing complexity of the financial service platforms, competitive pressures from digital disruptors, increasing adoption of emerging technologies, Artificial Intelligence, out of date processes, and key persons attrition increase the likelihood of technical obsolescence and decreases our ability to meet strategic objectives and consumer needs.

Accounting and Control Matters

Our 2023 Consolidated Financial Statements have been prepared using the accounting policies as set out in Note 5 to those statements.

Use of Estimates and Judgements

In preparing these Consolidated Financial Statements, management has exercised judgements and made estimates and assumptions that affect the application of Central 1's accounting policies and the carrying amounts of assets, liabilities, income and related disclosures. The most significant areas for which management must make subjective or complex estimates and judgements include provision for credit losses (ECL) and determining fair value of level 3 financial instruments.

Judgement, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. While management makes its best estimates and assumptions, actual results may differ from those estimates and assumptions. Estimates and underlying assumptions are reviewed on an ongoing basis with revisions to estimates being recognized prospectively.

Provision for Credit Losses (ECL)

In determining whether there has been a significant increase in credit risk (SICR) and in calculating the amount of ECL, Central 1 exercises experienced credit judgements to incorporate multiple probability-weighted economic scenarios including a base case scenario and optimistic and pessimistic scenarios, all of which are developed by Central 1's Economic group. 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.

Additional information regarding the ECL allowance is included in Note 10 of the Consolidated Financial Statements.

Changes in Material Accounting Policies

A number of amendments in IFRS Accounting Standards became effective on January 1, 2023. Except for the amendments to IAS 1 and IFRS Practice Statement 2 relating to disclosure of material accounting policies, the other amendments are applicable to Central 1 but do not have a material impact on Central 1's Consolidated Financial Statements.

Material Accounting Policy Information

Central 1 adopted *Disclosure of Accounting Policies* (Amendments to IAS 1 and IFRS Practice Statement 2) from January 1, 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements.

The amendments require the disclosure of 'material', rather than 'significant', accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements.

Management reviewed the accounting policies and made updates to the information disclosed in Note 5 Material Accounting Policies (2022: Accounting Policies) in certain instances in line with the amendments.

Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12 Income Taxes)

Central 1 adopted *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* (Amendments to IAS 12, Income Tax) on January 1, 2023. The main change in these amendments is an exemption from the initial recognition exemption provided in IAS 12. Accordingly, the initial recognition exemption provided in IAS 12 does not apply to transactions in which both deductible and taxable temporary differences arise on initial recognition that result in the recognition of equal deferred tax assets and liabilities. The adoption of this amendment did not have any impact on Central 1's Consolidated Financial Statements.

Definition of Accounting Estimates (Amendments to IAS 8)

Central 1 adopted *Definition of Accounting Estimates* (Amendments to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*) on January 1, 2023.

The amendments introduce a new definition for accounting estimates by clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. The adoption of this amendment did not have any impact on Central 1's Consolidated Financial Statements.

Related Party Disclosures

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 and their close family members. There was no outstanding balance against key management personnel as on December 31, 2023 and December 31, 2022.

Details of our related party disclosures were disclosed in Note 36 of the Consolidated Financial Statements.

Controls and Procedures

Central 1 has designed and implemented disclosure controls and procedures and internal controls over financial reporting to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management. This ensures appropriate decisions can be made regarding public disclosure and provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. Central 1 has evaluated the design of their disclosure controls and procedures and their internal controls over financial reporting for the year ended December 31, 2023. Based on that evaluation, Central 1 has concluded that the design of their internal monitoring controls and procedures over financial reporting was effective.

Corporate Governance

Central 1's disclosure in accordance with Section 2.2. of National Instrument 58-101 *Disclosure of Corporate Governance Practices* and Section 6.2 of National Instrument 52-110 – *Audit Committees* is attached as Schedule "A" to this MD&A.

Glossary of Financial Terms

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

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

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

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

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

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

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

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

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

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

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

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

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

Non-Interest Income consists of income excluding net interest income, derived from activities related to our other core business operations. This includes income generated from fees, dues and equity income, plus realized and unrealized gains or losses on financial instruments.

Non-Interest Expense consists of expense incurred from activities not related to our core business operations.

Securities lending transactions in which the owner of securities agrees to lend it under the terms of a contract to a borrower for a fee. Collateral for the underlying transaction consists of either securities or cash.

Jump to table of contents

Schedule A / Corporate Governance

Jump to table of contents

Corporate Information

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

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

Membership in Central 1

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

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

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

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

As of December 31, 2023, Central 1's membership consisted of 86 Class A members, 113 Class B members and 85 Class C members.

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

Jump to table of contents

Corporate Governance Disclosure

Board of Directors

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

Shelley McDade

Campbell River, British Columbia

Board Chair (2023). Director since 2017
Currently serving a third term (2023–2026)

Shelley's financial services career spans over 40 years in the B.C. credit union system. She is currently Chief Executive Officer of Sunshine Coast Credit Union, a cooperative in operation for more than 80 years with close to $1 billion dollars in assets under administration.

Shelley is best known for her commitment and passion for leveraging collaboration to create value for members locally and across the system. A well-respected leader and advisor to a variety of community and industry groups, she has also dedicated her time to championing collaborative opportunities across the credit union network including the Solutions Centre, Risk Management Alliance, and CUSO Wealth.

Shelley's board experience includes serving on the Capilano University Board of Governors, Wealth Management CUSO Strategies Board and the Central 1 Solutions Center Board. Currently, she serves on the board of Sunshine Coast Insurance Services, The Co-operators Group, and Rhiza Capital Investments.

An accredited director through ICSA Canada, Shelley obtained her Master of Business Administration from Aspen University and successfully completed her ICD-Rotman Directors Designation in 2021.

Central 1's Board/ Committee Memberships	Attendance at Meetings during 2023		
	Attendance	Term in 2023	% of Meetings Attended
Vice Chair and Board Chair (since April 26, 2023), Board of Director	11/11	Jan 1 – Dec 31	100%
Member, Human Resources Committee	4/4	Jan 1 – Dec 31	100%
Member, Technology & Innovation Committee	3/3	Jan 1 – Apr 26	100%
Other Current Boards/Committee Memberships			
Director, Rhiza Capital Investments, Sunshine Coast Insurance Services and The Co-operators Group boards			
Areas of Expertise			
Credit Union/Cooperative Sector, P&L Ownership, Financial Acumen, Risk Management, Individual F.I. Liquidity, Regulatory Expertise, Governance Experience, Community Engagement			

Carolyn Burke

Oakville, Ontario

Vice Chair (2023). Director since 2021
Currently serving a second term (2023–2026)

Carolyn retired in 2020 as the Executive Head, Enterprise Payments at RBC where she had worked since 1985. She was responsible for leading RBC's payments strategy and council including that organization's payment modernization program. An experienced board member in the Canadian financial services industry, Carolyn served on the Canadian Payments Association board, Payments Canada Member Advisory Council (past chair), Payments Canada Board, Interac board, Acxsys board, and on CertaPay, Mondex and Visa Senior Advisory Councils. She also represented RBC at the Canadian Bankers' Association (CBA) Senior Payments Committee for a decade.

Carolyn holds a master's degree in Business Administration from McGill University and the Chartered Director (C.Dir.) designation from The Directors College. She previously served as a director of Rise, a national charity, supporting entrepreneurship for individuals with mental health or addiction challenges, is a director on the board of another financial institution in Canada and an advisory director to a Canadian fintech.

Central 1's Board/ Committee Memberships	Attendance at Meetings during 2023		
	Attendance	Term in 2023	% of Meetings Attended
Board of Directors (Vice Chair since April 26, 2023)	11/11	Jan 1 – Dec 31	100%
Member, Human Resources Committee	4/4	Jan 1 – Dec 31	100%
Chair, Technology & Innovation Committee	7/7	Jan 1 – Dec 31	100%
Member, Ad Hoc Committee of the Board	7/7	Sep 8 – Dec 31	100%
Other Current Boards/Committee Memberships			
Director, Financial Institution / Advisory Director, Fintech			
Areas of Expertise			
Technology Business; Governance Experience; P&L Ownership; Regulatory Experience; Canadian Payments Expertise			

Paul Challinor

Delta, British Columbia

Director since 2020
Currently serving a second term (2023–2026)

Paul was first elected to Central 1's Board of Directors in 2020. He is a Chartered Professional Accountant (FCPA) with more than 35 years of public practice experience and has been a director of First West Credit Union since 2019.

Now retired as a Partner at PricewaterhouseCoopers (PwC) Vancouver, Paul was the leader of PwC's Financial Services practice in BC from 2000 to 2015. Throughout his PwC career he served many of BC's large public, private and member-owned financial services organizations – credit unions, trust companies, insurance companies and investment managers. His governance experience includes three years on the board of the Chartered Professional Accountants of British Columbia, two years on the Audit Advisory Committee of the Public Guardian and Trustee of British Columbia, six years on the board of Canuck Place Children's Hospice and three years on the board of the Delta Hospital and Community Health Foundation.

Paul's key board competencies are financial accounting and audit, and risk management. He holds a BA (Honours) in Industrial Economics from the University of Nottingham (UK) and completed his ICD - Rotman Directors Designation in 2019.

Central 1's Board/ Committee Memberships	Attendance at Meetings during 2023		
	Attendance	Term in 2023	% of Meetings Attended
Board of Directors	11/11	Jan 1 – Dec 31	100%
Chair, Audit and Finance Committee	5/5	Jan 1 – Dec 31	100%
Member, Risk Review and Investment & Loan Committee	4/4	Jan 1 – Dec 31	100%
Other Current Boards/Committee Memberships			
Director, First West Credit Union – Chair of Risk, Investment & Loan Committee; Member of Audit and Conduct Review Committee			
Director, First West Foundation – Chair of Finance Committee			
Member, Investigation Committee, Chartered Professional Accountants of British Columbia			
Director and Treasurer – Delta Hospital and Community Health Foundation			
Areas of Expertise			
Credit Union/Cooperative Sector, Financial Acumen, Risk Management, Liquidity Management, Investment Management, Regulatory Expertise, Governance Experience, Human Resources, Community Engagement			

Richard Davies

Oakville, Ontario

Director since 2021
Currently serving a first term (2021–2024)

Richard is President and Chief Executive Officer of Tandia Financial Credit Union in Hamilton, Ontario a position he has held since 2014. Previous roles include CEO at Gulf & Fraser Fishermen's and United Savings Credit Unions (which merged with Gulf & Fraser), in BC. His 29 years as CEO in the BC and Ontario credit union systems have provided experience executing mergers, developing engaged leadership teams and attaining long-term growth.

Richard's board experience includes serving on the Board of Governors and Chair of the Audit Committee of Capilano College, Credential Financial Inc. Board of Directors and Member of the Audit Committee & Risk Management Committee, Member of Alliance of Large Ontario Credit Unions (ALOCU) and Member of CGI CU National Advisory Committee.

Richard holds the Fellowship Designation from the Credit Union Institute of Canada, a diploma in administrative management from Capilano College and an MBA from Queens University.

Central 1's Board/ Committee Memberships	Attendance at Meetings during 2023		
	Attendance	Term in 2023	% of Meetings Attended
Board of Directors	11/11	Jan 1 – Dec 31	100%
Member, Conduct Review and Corporate Governance Committee	5/5	Jan 1 – Dec 31	100%
Member, Technology & Innovation Committee	6/7	Jan 1 – Dec 31	85.7%
Guest, Ad Hoc Committee of the Board	5/5	Oct 4 – Dec 31	100%
Other Current Boards/Committee Memberships			
None at this time.			
Areas of Expertise			
Credit Union/Cooperative Sector, P&L Ownership, Financial Acumen, Risk Management, Individual F.I. Liquidity, Regulatory Expertise, Technology Business Expertise, Governance Experience, Human Resources Experience, Community Engagement			

Barry Delaney

Salmon Arm, British Columbia

Director since 2021
Currently serving a first term (2021–2024)

Barry is President and Chief Executive Officer of SASCU (Salmon Arm Savings and Credit Union), a position he has held since 2016. Prior to joining SASCU, he was interim CEO at Northern Savings Credit Union (six months) after 17 years in executive management roles at First West Credit Union.

Barry holds a Bachelor of Commerce from the University of Calgary and an MBA from Queens University. He has served on a number of boards in the not-for-profit (Co-operative Development Foundation) and post secondary education sectors, including Board Chair of the University of the Fraser Valley. Barry is a Lean Certified Executive.

His first job after graduating from University was a six-month work assignment at Lego, in their marketing department, in Denmark. This remains the only professional achievement of which his children are proud.

Central 1's Board/ Committee Memberships	Attendance at Meetings during 2023		
	Attendance	**Term in 2023**	**% of Meetings Attended**
Board of Directors	11/11	Jan 1 – Dec 31	100%
Member, Audit and Finance Committee	5/5	Jan 1 – Dec 31	100%
Member, Conduct Review and Corporate Governance Committee	3/3	Apr 26 – Dec 31	100%
Chair, Nominations & Elections Committee	1/1	Jan 1 – Apr 26	100%
Other Current Boards/Committee Memberships			
Director, Board of SASCU Insurance Services			
Alternate Delegate, BC Region, The Co-operators Group Ltd.			
Areas of Expertise			
Credit Union/Cooperative Sector, P&L Ownership, Risk Management, Regulatory Expertise, Governance Experience, Human Resources Experience, Community Engagement			

Connie Denesiuk

Summerland, British Columbia

Director since 2022
Currently serving a first term (2022–2025)

Connie was elected to Central 1's Board in 2022 and is in her ninth year as a director on the board of Summerland & District Credit Union. For almost 40 years, she was the administrative partner in the Summerland-based construction business owned by her and her husband.

Connie brings experience in leadership, governance and financial oversight to the Board table having served 19 years on the Okanagan Skaha School Board (including nine as chair). She also served on the boards of the BC School Trustees Association; the Canadian School Board Association; Okanagan College Board of Governors; and the board of the Okanagan College Foundation.

Connie is active in her community, having volunteered on a number of committees and boards including the Chamber of Commerce and the Advisory Planning Commission. She is currently active in the local Rotary Club.

Connie holds a Master of Arts in Leadership degree from Royal Roads University and recently completed the High-Performing Board digital series (2-year program) offered by CUES.

Central 1's Board/ Committee Memberships	Attendance at Meetings during 2023		
	Attendance	**Term in 2023**	**% of Meetings Attended**
Board of Directors	11/11	Jan 1 – Dec 31	100%
Member, Conduct Review and Corporate Governance Committee	5/5	Jan 1 – Dec 31	100%
Member, Nominations & Elections Committee	3/3	Jan 1 – Dec 31	100%
Other Current Boards/Committee Memberships			
Director, Summerland and District Credit Union			
Areas of Expertise			
Credit Union/Cooperative Sector, P&L Ownership, Risk Management, Governance Experience, Human Resources Experience			

John Klassen

New Hamburg, Ontario

Director since 2021
Currently serving a first term (2021–2024)

John Klassen currently is Interim Chief Executive Officer (since October 2023) for Kindred Credit Union in Kitchener, Ontario. He has served as the Chief Finance and Compliance/Chief Financial Officer, for Kindred, since 2009. John has worked in a in number of member-facing capacities including MSR, Loans Officer and Certified Financial Planner before moving to Kindred's Head Office in 2000 as Chief Operating Officer.

John is a Chartered Professional Accountant, CPA, CMA as well as a Certified Financial Planner (CFP) and holds a Bachelor of Science Degree (Honours), Peace and Conflict Studies Minor from the University of Waterloo. He is active in his community including past service on the boards at Rockway Mennonite Collegiate, Tri-County Mennonite Homes, and Meritas Mutual Funds.

Central 1's Board/ Committee Memberships	Attendance at Meetings during 2023		
	Attendance	Term in 2023	% of Meetings Attended
Board of Directors	11/11	Jan 1 – Dec 31	100%
Member, Audit and Finance Committee	5/5	Jan 1 – Dec 31	100%
Member, Technology & Innovation Committee	7/7	Jan 1 – Dec 31	100%
Guest, Ad Hoc Committee of the Board	5/5	Oct 4 – Dec 31	100%
Other Current Boards/Committee Memberships			
None at this time			
Areas of Expertise			
Credit Union/Cooperative Sector, P&L Ownership, Risk Management, Financial Acumen, Liquidity Management, Regulatory Expertise, Governance Experience, Community Engagement, Canadian Payments Expertise, Investment Management Expertise			

John Kortram

Nelson, British Columbia

Director since 2017
Currently serving a third term (2021–2024)

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

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

Central 1's Board/ Committee Memberships	Attendance at Meetings during 2023		
	Attendance	Term in 2023	% of Meetings Attended
Board of Directors	11/11	Jan 1 – Dec 31	100%
Member, Conduct Review and Corporate Governance Committee	5/5	Jan 1 – Dec 31	100%
Member, Risk Review and Investment & Loan Committee	4/4	Jan 1 – Dec 31	100%
Other Current Boards/Committee Memberships			
Director, Nelson & District Credit Union			
Director, Kootenay Insurance Service			
Areas of Expertise			
Credit Union/Cooperative Sector, P&L Ownership, Risk Management, Governance, Human Resources Experience			

Penny-Lynn McPherson

Shirley, British Columbia

Director since 2015
Currently serving a third term (2021–2024)

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

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

Central 1's Board/ Committee Memberships	Attendance at Meetings during 2023		
	Attendance	Term in 2023	% of Meetings Attended
Board of Directors	10/11	Jan 1 – Dec 31	90.9%
Member, Audit and Finance Committee	4/5	Jan 1 – Dec 31	80%
Chair, Risk Review and Investment & Loan Committee	4/4	Jan 1 – Dec 31	100%
Member, Technology & Innovation Committee	7/7	Jan 1 – Dec 31	100%
Chair, Ad Hoc Committee of the Board	7/7	Sep 8 – Dec 31	100%
Other Current Boards/Committee Memberships			
Director, Facility Association Board			
Areas of Expertise			
Credit Union/Cooperative Sector, Financial Acumen, Risk Management, Liquidity Management Expertise, Regulatory Expertise, Legal Expertise, Governance Experience, Human Resources Experience, Payments Expertise			

Sanjit S. Sodhi

Toronto, Ontario

Director since 2019
Currently serving a second term (2022–2025)

Sunny is Chief Legal and Corporate Affairs Officer at Meridian Credit Union, Ontario's largest credit union, and second largest in Canada, with over $30 billion in assets under management. As a member of the senior executive team at Meridian, Sunny is responsible for overseeing the following five corporate functions: legal; environment, social, and governance (ESG); corporate governance; internal audit; and government and stakeholder relations.

Prior to joining Meridian, Sunny practiced corporate law with a focus on advising domestic and international banks and insurance companies on a broad array of complex corporate and regulatory matters. He practiced in Toronto with Torys LLP and then Fasken Martineau DuMoulin LLP as a partner, and he also practiced abroad with top international law firm Freshfields Bruckhaus Deringer LLP in its Singapore office. Sunny has been recognized repeatedly by top international legal rankings as a leading lawyer in Canada for corporate/M&A and banking.

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

Central 1's Board/ Committee Memberships	Attendance at Meetings during 2023		
	Attendance	Term in 2023	% of Meetings Attended
Board of Directors	11/11	Jan 1 – Dec 31	100%
Chair, Conduct Review and Corporate Governance Committee	5/5	Jan 1 – Dec 31	100%
Member, Human Resources Committee	4/4	Jan 1 – Dec 31	100%
Member, Ad Hoc Committee of the Board	6/7	Sep 8 – Dec 31	85.7%
Other Current Boards/Committee Memberships			
Director: Meridian OneCap Credit Corporation / Motus Bank / Centre for Addiction and Mental Health (CAMH) / Focal Healthcare Limited			
Chair, Ontario Pension Sub-Committee			
Delegate, The Co-operators Group			
Areas of Expertise			
Credit Union/Cooperative Sector, Financial Acumen, Risk Management, Legal, Corporate Governance, Human Resources Management, Government Relations, Corporate Communications, Enterprise Strategy			

Christie Stephenson

Vancouver, BC

Director since 2021
Currently serving a second term (2023–2026)

Christie is the Executive Director of the Peter P. Dhillon Centre for Business Ethics at the University of British Columbia's Sauder School of Business, where she focuses on environmental, social and governance (ESG) investing and governance. Christie is a regular TV, print and radio media commentator on responsible business and investing. She is a member of the Climate Governance Experts Network of the Canadian Climate Law Initiative, the Metro Vancouver Zero Emissions Innovation Centre's investment committee, and the British Columbia Securities Commission Corporate Finance Stakeholder Forum, and has served as a judge for the Governance Professionals of Canada's Excellence in Governance Awards and the Chartered Professional Accountants of Canada's Corporate Reporting Awards.

Prior to joining UBC Sauder, she spent 15 years working at ESG investing firms Jantzi Research Associates (Sustainalytics), NEI Investments (Ethical Funds), and Rally Assets (Purpose Capital). Christie has more than two decades of diverse director experience, serving on the boards of organizations from start-ups to large mature entities, including private companies, cooperatives, non-profit organizations, university governance bodies, and a multi-employer pension plan.

Throughout her life, Christie has had deep roots in the credit union movement and co-operative sector, including serving on the boards and committees of credit unions in BC and Ontario. Currently, she is a director of Vancouver City Savings Credit Union and has served on its governance, audit, equity and people, technology and nominations committees.

Central 1's Board/ Committee Memberships	Attendance at Meetings during 2023		
	Attendance	Term in 2023	% of Meetings Attended
Board of Directors	11/11	Jan 1 – Dec 31	100%
Member, Conduct Review and Corporate Governance Committee	5/5	Jan 1 – Dec 31	100%
Member, Risk Review and Investment & Loan Committee	4/4	Jan 1 – Dec 31	100%
Other Current Boards/Committee Memberships			
Director, Vancouver City Savings Credit Union			
Director, The Co-operators			
Areas of Expertise			
Credit Union/Cooperative Sector, Governance Experience, Community Engagement			

Art Van Pelt

Maple Ridge, BC

Director since 2022
Currently serving a first term (2022–2025)

Art was elected to Central 1's Board in 2022 and is a director on Prospera Credit Union's board. First elected to the board of Westminster Savings in 2013 (Prospera and Westminster Savings Credit Unions merged January 1, 2020) he served as chair of that board from 2018 to 2020 and, following the merger, of Prospera's board from 2020 to 2023.

Art is a seasoned human resources professional with more than 35 years experience. A former vice president for People at Overwaitea Food Group (Save-On-Foods), he has extensive experience managing compensation, payroll, health and safety, recognition, training, succession planning and labour relations. In the community, Art has served on various boards, including the Canadian Grocery HR Council, Alouette Addictions Services Society and the Ridge Meadows Hospital Foundation. He is secretary and lead management trustee of the United Food and Commercial Workers Industry Pension Trust, serves as a member of the Investment Subcommittee and a member of the Fengate Infrastructure Yield Fund Advisory Committee.

Art holds a BA with a major in business administration and economics from Simon Fraser University. He is a Chartered Professional in Human Resources and a member of the Institute of Corporate Directors and graduate of the ICD.D program.

Central 1's Board/ Committee Memberships	Attendance at Meetings during 2023		
	Attendance	Term in 2023	% of Meetings Attended
Board of Directors	11/11	Jan 1 – Dec 31	100%
Member, Conduct Review and Corporate Governance Committee	2/2	Jan 1 – Apr 26	100%
Member, Human Resources Committee	4/4	Jan 1 – Dec 31	100%
Member, Nominations and Elections Committee	3/3	Jan 1 – Dec 31	100%
Other Current Boards/Committee Memberships			
Director, Member, Governance and Nominations and People Experience Committees - Prospera Credit Union			
Board Chair, Prospera Foundation			
Trustee; Member, Investment Subcommittee - UFCW Pension Trust			
Member, Advisory Committee, Fengate Infrastructure Yield Fund			
Areas of Expertise			
Credit Union/Cooperative Sector, Risk Management, Governance Experience, Human Resources Experience			

Tom Vandeloo

Richmond Hill, Ontario

Director since 2021
Currently serving a second term (2023–2026)

Tom is a director on the Board of DUCA Financial Services Credit Union. He joined DUCA's board in 2015 and has served as its board chair since 2016.

Tom Vandeloo retired in 2020, culminating his career as a Partner at PwC. He has nearly thirty years of consulting experience in business integration & separation, cost optimization, business performance improvement, procurement & strategic sourcing, and supply chain services.

Tom holds a Bachelor of Math (Computer Science) from the University of Waterloo and is a Certified Director (ICD.D).

Central 1's Board/ Committee Memberships	Attendance at Meetings during 2023		
	Attendance	Term in 2023	% of Meetings Attended
Board of Directors	11/11	Jan 1 – Dec 31	100%
Member, Audit and Finance Committee	5/5	Jan 1 – Dec 31	100%
Chair, Human Resources Committee	3/3	Apr 26 – Dec 31	100%
Member, Risk Review and Investment & Loan Committee	1/1	Jan 1 – Apr 26	100%
Other Current Boards/Committee Memberships			
Member, Ontario Pension Sub-Committee			
Board Chairperson, DUCA Financial Services Credit Union			
Areas of Expertise			
Credit Union/Cooperative Sector, P&L Ownership, Risk Management, Technology Business Expertise, Governance Experience, Human Resources Experience			

Russell Voutour

Guelph, Ontario

Director since 2023
Currently serving a first term (2023–2026)

Russ Voutour is currently Chief Information Officer, at Your Neighbourhood Credit Union Limited (YNCU) where he oversees Infrastructure, Enterprise Services, Information Technology Governance, Innovation and Business Intelligence/Analytics. He joined YNCU in March 2021. Russ has worked in the financial services industry for 15 years, including various areas such as Digital, Analytics and Architecture.

Throughout his career, Russ has demonstrated the ability to understand the complexities of the financial services industry and apply technology to solve business challenges. He has played a key role in driving digital transformation at several leading financial service organizations. He has done so by leveraging technologies such as artificial intelligence and cloud computing to streamline operations and create new digital distribution channels.Before joining YNCU, Russ was a member of the founding team for Sonnet Insurance, Canada's first digital direct insurance company and Head of Technology for TD Insurance.

A big believer in serving his community, Russ is a supporter of Habitat for Humanity. He holds a degree in Computer Science from the University of Guelph.

Central 1's Board/ Committee Memberships	Attendance at Meetings during 2023		
	Attendance	Term in 2023	% of Meetings Attended
Board of Directors	10/10	Apr 26 – Dec 31	100%
Member, Risk Review and Investment & Loan Committee	4/4	Apr 26 – Dec 31	100%
Member, Technology & Innovation Committee	3/3	Apr 26 – Dec 31	100%
Guest, Ad Hoc Committee of the Board	5/5	Oct 4 – Dec 31	100%
Other Current Boards/Committee Memberships			
None at this time			
Areas of Expertise			
Credit Union/Cooperative Sector, Financial Acumen, Risk Management, Regulatory Expertise, Governance Experience, Human Resources, Experience, Community Engagement			

Cheryl Wallace

Prince George, British Columbia

Director since 2019
Currently serving a second term (2022–2025)

Cheryl was elected to Central 1's Board in 2019. She is a director on the board of Integris Credit Union in Prince George, and has served as its Chair and Vice Chair. She has lived in Prince George for 19 years originally moving from the Lower Mainland and has served on various not for profit boards and provides volunteer financial literacy sessions to the community.

Cheryl teaches at the University of Northern British Columbia (UNBC) and volunteers teaching financial literacy along with her own consulting business. She has extensive not-for-profit experience working and volunteering including the YMCA, Junior Achievement BC and most recently, as CFO with Carrier Sekani Family Service, a non-profit organization which delivers a wide selection of Health and Social programs to ten First Nations communities in Northern BC.

Cheryl is a Chartered Professional Accountant (CPA, CMA) holds a Master of Business Administration (MBA) from UNBC and has completed the ICD.D designation through the Institute of Corporate Directors.

Central 1's Board/ Committee Memberships	Attendance at Meetings during 2023		
	Attendance	Term in 2023	% of Meetings Attended
Board of Directors	11/11	Jan 1 – Dec 31	100%
Member, Human Resources Committee	4/4	Jan 1 – Dec 31	100%
Member and Chair since Apr 26, 2023, Nominations & Elections Committee	3/3	Jan 1 – Dec 31	100%
Other Current Boards/Committee Memberships			
Vice Chair: Integris Credit Union			
Areas of Expertise			
Credit Union/Cooperative Sector, Financial Acumen, Risk Management, Regulatory Expertise, Governance Experience, Human Resources, Experience, Community Engagement			

Board and Committee Meetings

Directors are expected to attend all Board and Committee meetings. While most meetings are planned a year in advance, from time to time a Board or Committee will schedule a meeting at short notice resulting in some directors not being able to attend the meeting. Currently, Board meetings are conducted in person (may also participate via videoconference), while Committee meetings are conducted by videoconference. The following tables set out a summary of the Board and Committee meetings held during 2023.

Board/Committee	Total Number of Meetings
Board	11
Audit and Finance Committee	5
Conduct Review and Corporate Governance Committee	5
Human Resources Committee	4
Nominations and Elections Committee	3
Risk Review and Investment & Loan Committee	4
Technology & Innovation Committee	7
Ad Hoc Committee of the Board	7

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

Director	Committee Meetings	Board Meetings	Percentage of Meetings Attended
C. Burke	18/18	11/11	100%
P. Challinor	9/9	11/11	100%
R. Davies	16/17	11/11	96%
B. Delaney	9/9	11/11	100%
C. Denesiuk	8/8	11/11	100%
J. Klassen	17/17	11/11	100%
J. Kortram	9/9	11/11	100%
S. McDade	7/7	11/11	100%
P. McPherson	22/23	10/11	94%
S. Sodhi	15/16	11/11	96%
C. Stephenson	9/9	11/11	100%
A. Van Pelt	9/9	11/11	100%
T. Vandeloo	9/9	11/11	100%
R. Voutour	12/12	10/10	100%
C. Wallace	7/7	11/11	100%

Governance Framework

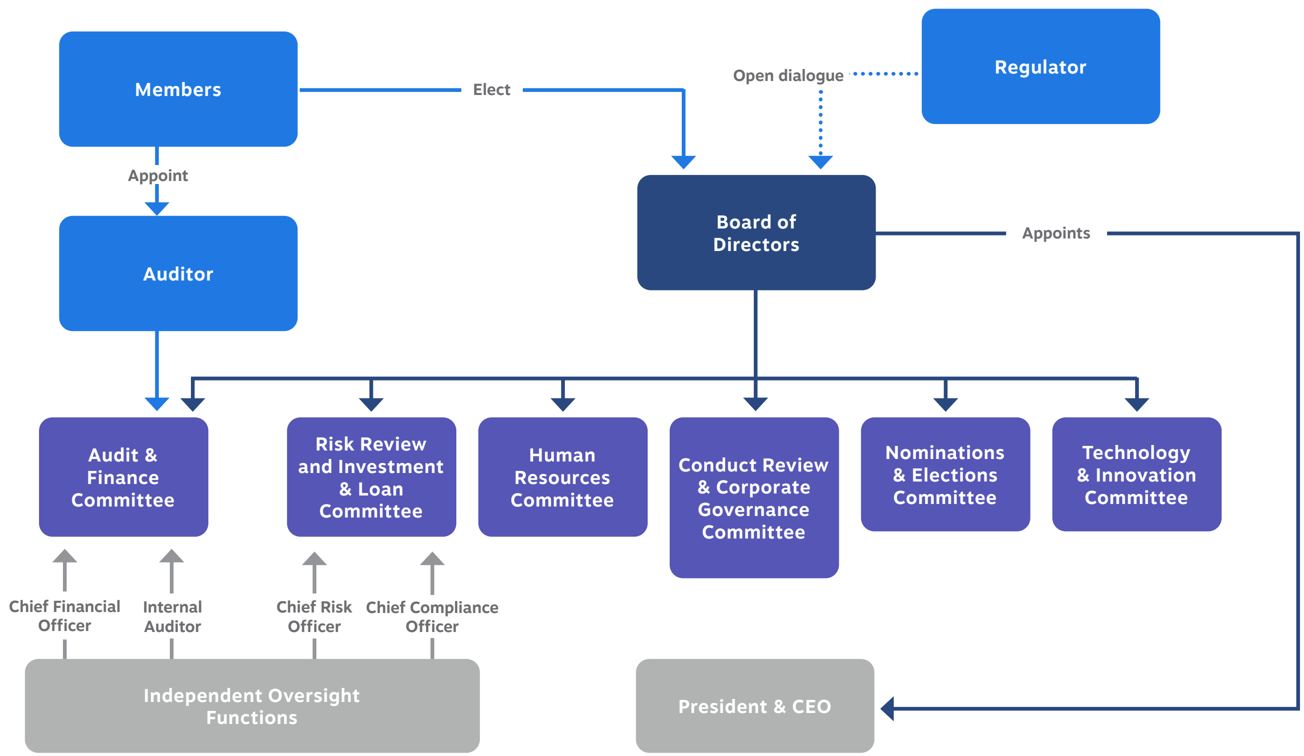
This framework provides an overview of the corporate governance structures, principles, policies and practices of the Board of Central 1, which together enable Central 1 to meet or exceed governance expectations of the British Columbia Financial Services Authority (BSFSA), the Canadian Securities Administrators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

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

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

Governance Structure

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



Jump to table of contents

Board Mandate

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

Committees of the Board

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

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

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

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

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

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

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

Audit and Finance Committee

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

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

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

Jump to table of contents

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

Audit and Finance Committee Member	Relevant Education	Met 2023 requirements for CPD*	Relevant Experience
Paul Challinor	BA (Honours) Industrial Economics, CPA	Completed	Board Member, First West Credit Union, chair of its Risk, Investment and Loan and member of Audit and Conduct Review committees. Previous senior level experience in financial accounting and audit, business growth and transformation and risk management.
Barry Delaney	BComm, MBA	Completed	CEO SASCU (Salmon Arm Savings Credit Union). Previous experience as SVP Risk at First West Credit Union
John Klassen	BSc (Honours) with Peace and Conflict Studies Minor, CFP, CPA	Completed	Interim CEO; Chief Finance and Compliance/Chief Financial Officer, Kindred Credit Union Limited. Previous senior level experience as Chief Operating Officer.
Penny-Lynn McPherson	BA, LLB	Completed	Chair, Central 1's Risk Review and Investment & Loan Committee and member of its Technology & Innovation Committee. Previously VP General Counsel and Corporate Secretary, Payments Canada.
Tom Vandeloo	BMath (Computer Science), ICD.D	Completed	Board Chair, DUCA Financial Services Credit Union - member (ex-officio) Audit, Credit, Governance, HR & Compensation, and Risk Committees

*Continuing Professional Development for relevant professional designations.

External Auditor Service Fees

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

	2023	2022
Audit Fees[1]	$ 1,228,350	$ 1,152,642
Audit-related Fees[2]	96,850	90,400
Tax Fees[3]	230,650	182,300
All Other Fees		
MLP Segregation Fees[4]	$ 54,714	$ -
Other Fees[5]	25,000	109,338
Total[6]	$ $1,635,564	$ 1,534,679

[1] Audit fees in both years included audits of Central 1 and subsidiaries and quarterly reviews of Central 1.
[2] Audit-related fees in both years included audits of Central 1's Ontario Registered Retirement Plan and specified procedures over mortgage-backed securities.
[3] Tax fees in both years included tax advisory and compliance fees for Central 1 and subsidiaries.
[4] MLP Segregation in both years included tax and advisory services related to the planned legal segregation of Central 1's Mandatory Liquidity Portfolio operating segment.
[5] Other fees include consulting fees related to Central 1's ERP system or other advisory projects.
[6] All fees are before Canadian Public Accountability Board and administration fee charges as well as applicable taxes.

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

Pre-Approval of Services

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

Conduct Review and Corporate Governance Committee

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

Human Resources Committee

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

Nominations and Elections Committee

The Nominations and Elections Committee is responsible for overseeing the director nomination and election process. Its responsibilities include recruiting and recommending candidates for election to the Board. Committee members ensure that the competencies identified in the Board-approved skills and experience matrix are present on the Board to meet the current needs of Central 1's governance leadership and strategic intent. Central 1 is committed to building and sustaining a diverse and inclusive Board that both supports Central 1's strategy and reflects the credit union system it serves. This committee is comprised of five members who are not standing for election, two of whom are not directors on Central 1's Board.

Risk Review and Investment & Loan Committee

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

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

Technology & Innovation Committee

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

Management's Role In Board Effectiveness

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

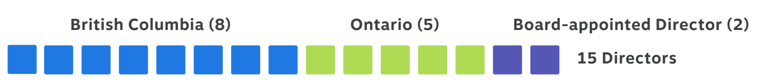
The CEO is appointed by the Board and is responsible for managing the day-to-day affairs of Central 1. The CEO's key responsibilities involve working with the Board to determine the strategic direction of Central 1 and providing leadership to management in achieving strategy objectives. The CEO, together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

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

Board Composition

Board Size

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



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

Central 1 completes a governance review every three years. The most recent review completed in 2022 with Class "A" Members passing two of three special resolutions approving amendments to Central 1's Constitution and Rules ("Rules") at the 2022 Annual General and Special Meeting. The next regularly scheduled governance review will be undertaken in 2025.

Director Tenure

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

Independence

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

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

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

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

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

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

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

Each year, the directors complete the Annual Director Self-Assessment of his/her perceived level of skills against the various elements in the Skills Matrix. CRCGC reviews the results and determines whether Central 1 has ideal Board composition; identifies any gaps that need to be filled; and reports any skill gap(s) to the Nominations and Elections Committee for recruiting the candidates in the upcoming year.

An external consultant may be engaged to participate in the candidate interviews to provide additional third party, external perspective and feedback to the NEC.

Interlocking Directorships

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

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

- a director of Central 1 is a member of a Class A member credit union and may be a director or an officer of a Class A member credit union of Central 1 and may be a director or officer of:
  (i) a subsidiary of Central 1; or
  (ii) a corporation in which Central 1 or Central 1 and one or more local credit unions have a financial or other interest; and
- a senior officer of Central 1 may be a director, officer, or both, of a subsidiary of Central 1 or a director or officer of a corporation in which Central 1 has a financial or other interest.

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

Jump to table of contents

The CRCGC is required to resolve conflicts of interest that may arise and to ensure that Central 1's dealings with its related parties comply with federal and provincial legislation. The CRCGC is required to review Central 1's conflict of interest procedures biennially. The CRCGC undertook such a review in 2022.

Diversity

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

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

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

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

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

The Board aspires towards a composition that reflects the broader population of Central 1 and the credit union system it serves. Currently the Board is comprised of forty per cent women and sixty per cent men.

Board Operations

Chair of the Board

Each year, the directors elect a Chair. Ms. Shelley McDade is currently Chair of the Board.

Board and Committee Meetings

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

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

In-camera Sessions

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

Compensation

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

Key Policies

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

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

  All directors, officers and salaried employees are asked to acknowledge that they have read and understand the Code and undertake to abide by it. In March 2022, 100 per cent of Central 1's directors, officers and salaried employees provided their acknowledgement and agreement to abide by the policies.

- **Conflict of Interest Policies and Procedures:** These Policies and Procedures define conflicts of interest that may arise and how conflicts must be disclosed and managed. Directors and executive officers must ensure that they identify and avoid any actual, potential or perceived conflict of interest that might influence their decisions in their capacity as directors or executive officers of Central 1. Where the conflict can potentially interfere with or be perceived to interfere with a director's independent judgment, the director must either eliminate the interest or duty giving rise to the conflict or resign as a director of Central 1. Where a conflict of interest arises from a transaction or proposed transaction between Central 1 or an affiliate of Central 1, and any person (including a corporation) who is a related party of Central 1 because of a relationship with the director, the affected director and Central 1 shall comply with the requirements of Part 5 of the FIA, and, whenever the director has a direct or indirect interest in the transaction, by complying with the applicable provisions of the CUIA.
- **Diversity and Inclusion Policy:** In 2020, the Board approved a Diversity and Inclusion Policy. This Policy sets out the Board's philosophy and commitment in considering diversity when determining the optimum composition of the Board and its committees, recognizing that a diverse composition can result in a more effective board.
- **Ethical Reporting Policy:** Employees are often the first to realize there may be something wrong within an organization. They may not express their concerns, however, because they feel speaking up would be disloyal. They may also fear recrimination, harassment or victimization and feel it would be easier to ignore the concern. This policy establishes the framework which allows employees to report suspected wrongdoing, without fear of recrimination.
- **Disclosure Policy:** Central 1 issues timely, fair and accurate disclosure of material information relating to Central 1 to keep members and the public informed about its affairs in accordance with applicable laws. Respecting its Disclosure Policy is critical to maintaining integrity, and each director, executive officer and employee has an obligation to make sure they conduct themselves according to the policy and its objectives.

Stewardship of Environmental Social Governance (ESG) at Central 1

Central 1 is committed to building environmental sustainability, social responsibility, and effective corporate governance into all aspects of our business. Our approach to ESG is to target where Central 1's core business functions and in-house expertise overlap with critical ESG issues to embed ESG as a way we all do business.

There are three ESG issues selected as our focus, based on their materiality to our business and their prevalence in Central 1's sustainability commitments (listed below under the "Governance" heading).

1. **Diversity, Equity, and Inclusion**
   Finding where we can build a diverse, equitable, and inclusive culture in our workplace, and where our business (products, services, investments, procurement, etc.) can reduce societal barriers for a fuller potential for all.
2. **Climate**
   Finding where our core business functions can minimize environmental damage and contribute to the transition towards a low carbon economy.
3. **Indigenous Reconciliation**
   Finding where our core business functions can enact the Truth and Reconciliation Commission's call to action #92 for the Canadian corporate sector- both as a responsibility and an opportunity.

For the purpose of highlighting the importance of ESG factors and these three particular themes, we have gathered a summary of some ESG activities at Central 1. You may recognize some activities below as integrated parts of our business previously mentioned in this report.

Environmental: Climate

- **Environmental impact as a decision-making lens in our investing**
  Central 1's Treasury and Portfolio Management team is committed to addressing climate-related challenges. As a proud signatory of the UN-PRI, we are striving to progress and improve our climate disclosure and provide more insight into our investment portfolio. We continue to support further expansion of responsible investing through our continued membership in the Responsible Investing Association (RIA) and the Canadian Bond Investors Association (CBIA) ESG subcommittee. Assessing issuer and issuance against ESG criteria has become a standard part of all our credit reviews of potential investments. A cross department Responsible Impacting Investing Committee (RIIC) has been established to quarterly review Central 1's investing activities to ensure they meet with the Board approved ESG Policy as well as broader industry best practices.
- **Environmental impact as a decision-making lens in our supply chain**
  Central 1's procurement team integrates questions on vendors' responsible and sustainable business practices in our RFx (Request for something) process. In this way, we filter where our money is spent to support more vendors that have developed an approach to business that propels social/ environmental impact. Our RFx process is designed to bring some clarity to choices we can make that do not indirectly exacerbate the climate crisis.

Social Factors: Diversity, Equity, and Inclusion; Indigenous Reconciliation

- **Central 1 embarks on development of its ESG strategic roadmap**
  In late May 2023, Central 1 assembled an ESG Council comprised of senior leaders across the organization to collaborate with an external firm in developing a high level ESG Strategic Roadmap. The 6-month initiative included stakeholder consultation with internal and external parties to identify its maturity and gaps and propose a draft recommendation of strategic initiatives and goals for Central 1's ESG strategy implementation roadmap. The roadmap will be aligned with Central 1's overall strategy to identify key areas of focus for the next 1–3 years.
- **Employee-led inclusion initiatives provide meaningful connections**
  Central 1 maintains an executive-sponsored, Employee Resource Group (ERG). Events organized in 2023 included:
  - celebrating Black History Month through education and awareness
  - recognizing International Women's month with potluck events in both offices and stories shared by two new female members of the Executive Leadership Team.
  - Asian Heritage Month was recognized with education and potluck events in both offices.
  - a focus on mental health awareness included engagement on Teams Channels, Burnout and Prevention Workshops and employee-led fitness sessions.
- **Employee development on DEI topics**
  Central 1 offers employee development and learning on a wide library of DEI topics through our employer partnership with the Canadian Centre for Diversity and Inclusion and with LinkedIn learning.
- **DEI as a decision-making lens in our supply chain**
  Central 1's procurement team integrates questions on vendors' responsible and sustainable business practices in our RFx process. In this way, we filter where our money is spent to support more vendors that have developed an approach to business that propels social/environmental impact. Our RFx process is designed to bring some clarity to choices we can make that do not indirectly exacerbate social inequities.
- **DEI as a decision-making lens in our investing**
  As part of our responsible investment framework, our investing team integrates social aspects like diversity, equity, and inclusion into our investing practices.
- **Closed in recognition, respect, and learning for the National Day of Recognition for Truth and Reconciliation**
  As part of our continued observation and awareness, in May 2023, an education session on Indigenous Reconciliation was hosted by Holly Fortier and well-attended by employees and Board members. The session met with a positive response from all stakeholders for its authentic and inspirational storytelling. Later in the year, a workshop provided to management focused on communication and managing business relationships with Indigenous peoples.
- **Employee-directed donations to diverse community needs**
  In 2023, Central 1 employees maximized a corporate match donation program, raising $30,903 to unlock at match of $10,000 to a total of $40,903 to the United Way.
- **Annual Gary Gillam Award honours two careers dedicated to significant impact**
  The Gary Gillam Award was established to honour the memory and work of Gary H. Gillam in advancing social responsibility in the credit union system. The award is co-sponsored by Alterna Savings and Central 1 to recognize exemplary leadership in environmental and/or social responsibility through the promotion of credit unions as socially responsible alternatives to banks and other financial institutions. In 2023, Thelma Rodriguez Cantu at Community Savings Credit Union and Miriam Wohl at Co-operative Housing Federation of Toronto were recognized for their work in their communities. Read further **here**.

Governance:

- **ESG Policy to govern and guide decision making**
  Central 1's leadership and Board are guided by its an Environmental Social Governance Policy approved in May 2021. The eight guiding statements of the policy thread three prevalent ESG themes (climate; diversity, equity, and inclusion; and Indigenous reconciliation) throughout each of our business lines- connecting our everyday activities with generating positive impact. As such, the result we strive for is having ESG factors integrated in to how we do business.
- **As a co-operative, we have a stakeholder-driven governance model**
  Our Board is democratically elected from our membership. This ensures the direction of our organization is aligned to the needs of the credit union system that we serve. We also benefit in learning from the ESG expertise

Jump to table of contents

our Board members bring to Central 1 leadership with representation from community-rooted financial institutions, Living Wage employers, a B Corp, and members of the Global Alliance for Banking on Values.

- **We are founded on co-operative principles that embed ESG in our business model**
  In particular, co-operative principle 7, care for community, binds Central 1 to strive to do business in a way that serves our present needs without compromising the ability of future generations to meet their own needs. In 2023, we continued to be faced with visible strains to the systems we operate in with converging crisis of climate, pandemic, and inequality. We collectively are reaching limits that conflict with principle 7 demonstrating why our co-operative foundations are more relevant today than ever.

Central 1 governance and management leaders demonstrate the importance of ESG through signing the following commitments and aligning to the following networks where we can continually improve our approach:

- Signatories to the UN-supported Principles for Responsible Investment
- Signatories to the Canadian Investor Statement on Diversity and Inclusion
- Employer Partner of the Canadian Centre for Diversity and Inclusion
- Member of the Responsible Investment Association
- Signatories to Minerva BC's Face of Leadership Diversity Pledge
- Signatories of the Different Together pledge led by the Honourable Janet Austin, Lieutenant Governor of British Columbia
- Signatories of the BC Business Council's Stand Against Racism statement

Collaborative ESG system partnerships:

- Founded and chair of the credit union Diversity, Equity and Inclusion Working Group
- Member of the Community Impact Committee run by the Canadian Credit Union Association
- Member of the Canadian Bond Association's Environmental Social Governance Committee
- Member of the Climate Action Working Group run by the Canadian Credit Union Association

Member Communication and Engagement

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

- Publishing our Performance Scorecard on the Member Centre with invitations to our Class A CEO and Board Chairs to review our progress. These are published following the corresponding Central 1 Board meetings and quarterly financial disclosure;
- Information posted on our website and/or Client Centre, providing regular updates on services, issues and initiatives;
- Informational webinars and events on relevant topics impacting members and/or their business

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

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

Director Orientation, Education and Development

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

Our Board recognizes that investing in ongoing education and development is an important component of effective governance of Central 1. A comprehensive approach to director orientation, education and development is necessary to ensure that all directors:

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

New Director Orientation

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

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

Mandatory Education

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

Ongoing Director Education

During 2023, directors attended a number of in-house education sessions.

Following is a list of those education sessions held in 2023:

Attendees	Session
Board Members	Complying with the Competition Act
Board Members	Basel III / Directors and Conflicts of Interest
Board Members	Mergers and Acquisitions
Board Members	AML and Compliance
Risk Review and Investment & Loan Committee Members	Responsible Investing and ESG / Internal Capital Adequacy Assessment Process

Jump to table of contents

In addition to in-house training sessions, the following table shows the continuing professional development reported to be completed by Central 1's directors in 2023.

Director	Continuing Formal and Informal Education Sessions in 2023
Carolyn Burke	Central 1 Member Forum and AGM, Toronto, April 2023 Momentum 2023, Vancouver, November 2023
Paul Challinor	Central 1 Member Forum and AGM, Toronto, April 2023 Momentum 2023, Vancouver, November 2023 Completed CPD requirements
Richard Davies	Central 1 Member Forum and AGM, Toronto, April 2023 WOCCU and CCUA 2023 Conference, Vancouver, July 2023 Momentum 2023, Vancouver, November 2023 CUDA - Governing Market Risk CUDA – Governing Credit Risk
Barry Delaney	Central 1 Member Forum and AGM, Toronto, April 2023 WOCCU and CCUA 2023 Conference, Vancouver, July 2023 Momentum 2023, Vancouver, November 2023
Connie Denesiuk	Central 1 Member Forum and AGM, Toronto, April 2023 Credit Union Director Achievement Program, CCUA, June 2023 WOCCU and CCUA 2023 Conference, Vancouver, July 2023 Momentum 2023, Vancouver, November 2023 High Performing Board (2-year program), CUES, 2023
John Klassen	Global Alliance for Banking on Values Summit, New York, April 2023 Central 1 Member Forum & AGM, Toronto, April 2023 WOCCU and CCUA 2023 Conference, Vancouver, July 2023 Completed all 2023 CPD requirements for Certified Financial Planner (CFP) and Chartered Professional Accountant (CPA) designations.
John Kortram	Central 1 Member Forum & AGM, Toronto , April 2023 Credit Union Technology Forum, Halifax, June 2023 WOCCU and CCUA 2023 Conference, Vancouver, July 2023 Understanding DEI, Decisions and Bias, CUDA, October 2023 Momentum 2023, Vancouver, November 2023
Shelley McDade	Central 1 Member Forum and AGM, Toronto, April 2023 WOCCU and CCUA 2023 Conference, Vancouver, July 2023 Momentum 2023, Vancouver, November 2023
Penny-Lynn McPherson	ICD/TMX - Navigating Rising Expectations for Canadian Boards Part 1, January 2023 ICD - Navigating Rising Expectations for Canadian Boards Part 2, February 2023 ICD - Navigating Rising Expectations for Canadian Boards Part 3, March 2023 C1 Strategic Insights - Financial Resilience in Canada: Insights, Opportunities & Business Benefits for Credit Unions Completed CPD requirements

Director	Continuing Formal and Informal Education Sessions in 2023
Sunny Sodhi	Central 1 Member Forum and AGM, Toronto, April 2023 WOCCU and CCUA 2023 Conference, Vancouver, July 2023 Completed CPD requirements
Christie Stephenson	Shareholder Association for Research and Education Summit, February 2023 Emerging Trends in responsible investing, UBC Sauder Business School, February 2023 Beyond ESG: Investing in Impact at Scale in the Private Sector, UBC Sauder Business School, February 2023 Indigenous Considerations in ESGI, UBC Sauder Business School, March 2023 Professionals of Canada 4th Annual ESG Conference, March 2023 Member Forum and AGM, Toronto, April 2023 ESG Oversight and Climate Competency for Boards, CCUA, June 2023 Effective Climate Governance for Canadian Credit Unions, June 2023 WOCCU and CCUA 2023 Conference, Vancouver, July 2023 The Canaries in the Coal Mine: the Insurance Industry's Complex Relationship with Climate Action, September 2023 Momentum 2023, Vancouver, November 2023
Art Van Pelt	Central 1 Member Forum and AGM, Toronto, April 2023 Momentum 2023, Vancouver, November 2023
Tom Vandeloo	2nd Annual FSRA exchange, January 2023 Central 1 Member Forum & AGM, Toronto, April 2023 Indigenous Culture and Awareness, May 2023 Six Priorities for CEOs in Turbulent Times, CCUA, June 2023 Payments Modernization, CCUA, June 2023 Resolution Planning for Large Credit Unions , FSRA, June 2023 WOCCU and CCUA 2023 Conference, Vancouver, July 2023 Unlocking Opportunities: Introducing the Caspian One Open Banking Platform for Canadian Credit Unions, December 2023 Momentum 2023, Vancouver, November 2023 Completed CPD requirements
Russell Voutour	Central 1 Member Forum and AGM, Toronto, April 2023 WOCCU and CCUA 2023 Conference, Vancouver, July 2023
Cheryl Wallace	Central 1 Member Forum and AGM, Toronto, April 2023 WOCCU and CCUA 2023 Conference, Vancouver, July 2023 Momentum 2023, Vancouver, November 2023

Jump to table of contents

Director Compensation Philosophy

Compensation Philosophy

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

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

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

Compensation Review

Director Compensation is reviewed not less than every three years to ensure directors are appropriately compensated for their contributions. The Conduct Review and Corporate Governance Committee undertook to review director compensation in 2022 and Hugessen's was engaged to assist in the director compensation review. Upon reviewing Hugessen's final report, the Committee made a recommendation to the Board which was approved in March 2023.

Director Compensation and Expense Policy

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

Jump to table of contents

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

Annual Retainer	Role	Amount
Board Retainers	Board Chair	$60,000
	Vice Chair	$40,000
	General Diector Member	$35,000
Committee Retainers	Audit & Finance Chair	$15,000
	Risk, Review and Investment Committee	$15,000
	All Other Committee Chairs (including Chairs of ad hoc committees pro-rated for the duration of said committee)	$8,500
	Non-chair Committee Members	$0

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

Jump to table of contents

2023 Director Compensation

The following table sets out the value of fees and other compensation paid to directors of Central 1 during 2023.

Director	Annual Cash Retainer	Meeting Fees	Total Remuneration (Annual Cash Retainer and Meeting Fees)[1]
Carolyn Burke	$49,282	$13,900	$63,182
Paul Challinor	$43,700	$6,300	$50,000
Richard Davies	$29,644	$12,500	$42,144
Barry Delaney	$31,534	$16,000	$47,534
Connie Denesiuk	$29,644	$16,400	$46,044
John Klassen	$29,644	$12,500	$42,144
John Kortram	$29,644	$23,800	$53,444
Shelley McDade	$50,547	$12,200	$62,747
Penny-Lynn McPherson	$58,700	$9,800	$68,500
Rob Paterson (Jan 1 - Apr 26, 2023)	$14,301	$7,800	$22,101
Sanjit (Sunny) Sodhi	$45,857	$16,900	$62,757
Christie Stephenson	$29,644	$10,400	$40,044
Art Van Pelt	$29,644	$13,700	$43,344
Tom Vandeloo	$35,466	$14,300	$49,766
Russell Voutour (from April 26, 2023)	$23,972	$11,300	$35,272
Cheryl Wallace	$35,466	$16,400	$51,866
Total	$566,688	$214,200	$780,888

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

Board and Committee Evaluations

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

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

In 2021, a whole Board and Committees evaluation was conducted by an external consultant. Upon receipt of the results, the consultant facilitated a session with the directors at the February Board meeting addressing concerns raised during the evaluation. The consultant also provided a summary of the evaluation to the Conduct Review and Corporate Governance Committee.

Communication with Members

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

Interaction with the Regulators

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

Our Total Rewards Philosophy

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

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

An equitable balance is sought between establishing cash compensation (both base and at risk incentive pay) to attract qualified people from the financial and non-financial community and providing non-cash benefits commensurate with those in the designated market. Overall the program is primarily cash-based. Central 1 does not grant options, stock appreciation rights, shares, units or other compensation securities as part of its compensation framework and has no outstanding equity compensation plans. Executive compensation is also subject to Central 1's Clawback Policy approved February 2021.

CEO Cash Compensation

Base Salary

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

The designated market for Central 1 is a blend of two peer groups: 1) Credit Union System & Crown corporations; and 2) Broader Private Sector Market organizations.

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

Short Term Incentive Program

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

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

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

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

Short-term Incentive Compensation Targets for 2023

	Target Incentive Payment	Maximum Incentive Payment (150 per cent of target)
President & CEO	75 per cent of base salary	112.5 per cent of base salary

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

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

Jump to table of contents

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

Long Term Incentive Program

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

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

Central 1's Board establishes the measures and targets at the start of each cycle and measures performance at the end of such cycle. Each LTIP cycle, the Board can elect different metrics and weighting depending on the strategic direction of the company.

Long-term Incentive Compensation Targets for 2023

	Target Incentive Payment	Maximum Incentive Payment (150 per cent of target)
President & CEO	95 per cent of base salary	142.5 per cent of base salary

Our Board reviews the performance of the CEO based on 3 key metrics: Strategy and Delivery, Leadership, and External Relations. A balanced scorecard approach (based on key performance indicator (KPI) categories) was created to structure the LTIP to recognize external, internal, system and strategic initiatives. Financial metrics are used as a gateway metric.

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

Other Cash-Based Compensation

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

Non-Cash Benefits

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

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

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

Appendix A

Audit and Finance Committee Terms of Reference

Approved: November 23, 2023   Reviewed: November 21, 2023

1.1 PURPOSE

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

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

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

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

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

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

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

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

1.2 COMPOSITION AND TERM OF OFFICE

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

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

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

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

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

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

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

1.3 OBJECTIVES/DELIVERABLES

1.3.1 Oversight of External Auditors:

a) **Selection:** the Committee shall annually recommend to the Board the appointment, reappointment or termination of the external auditor. This recommendation shall be done sufficiently in advance of the next annual meeting of Central 1 to allow the Board to seek membership approval. At regular intervals (not greater than every 5 years), the Committee will assess Central 1's external audit requirements and review the appropriateness of undertaking a full Request for Proposal (RFP) process, with such RFP process to be undertaken at the option of the Committee, if it so determines. The Committee shall report annually to the Board on the performance of the external auditor.

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

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

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

1.3.2 Compensation of External Auditors

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

1.3.3 Pre-approval of Services

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

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

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

1.3.4 Reporting of External Auditors

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

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

c) **Reports:** the Committee shall review all written or oral reports made by the external auditor. Such reports may include:
   i. Current and prospective changes in accounting policies and practices;
   ii. Alternative treatment of financial information within generally accepted accounting principles;
   iii. Review of transactions or investments, as brought forward by either the auditors or management, which could adversely affect the financial wellbeing of Central 1; and
   iv. Any other written communications between the external auditor and Central 1's management.

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

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

1.3.5 Oversight of Internal Auditor

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

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

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

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

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

The Risk Review and Investment & Loan Committee shall be provided access to Internal Audit reports prepared for the Committee.

1.3.6 Review of Financial Statements

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

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

a) Ensure that they are complete and consistent with the information known to the Committee;
b) Review the contents of management's representation letters to the external auditors;
c) Discuss with management and the external auditors whether they reflect appropriate accounting policies;
d) Discuss any actual or proposed changes in accounting or financial reporting and consider their impact on the financial statements;
e) Discuss any related party transactions; and
f) Discuss any unusual, complex or significant events, such as legal actions, claims or contingencies or areas where significant judgment has been exercised, such as valuations, provisions and reserves.

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

1.3.7 Review of Financial Disclosures

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

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

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

1.3.8 Controls and Procedures

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

Jump to table of contents

- Provide feedback to and receive feedback from the CEO on performance and qualifications of the Chief Financial Officer ("CFO") on an annual basis; and
- Review and recommend the appointment, replacement, or reassignment of the CFO to the Board.

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

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

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

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

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

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

Related Information: Ethical Reporting Policy

1.3.9. Oversight of Budgets

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

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

1.4 MEETINGS AND PROCEDURES

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

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

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

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

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

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

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

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

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

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

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

1.5 MANAGEMENT AND RESOURCES

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

1.5.2 The Committee shall have the authority to engage and determine funding for any independent counsel, accountants, and other external consultants and resources, as it may deem necessary to carry out its responsibilities, provided that all contracts for such services shall be reviewed, where appropriate, by Central 1's Legal Department and that any contract in excess of $10,000 must

Jump to table of contents

be approved by the Chair of the Board or the Board prior to execution. The Committee shall report to the Board on any undertakings to engage such advisors, including the level of compensation.

1.6 RECORDS

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

1.7 ACCOUNTABILITY

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

1.8 EVALUATION OF COMMITTEE EFFECTIVENESS

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

1.9 COMMITTEE OUTPUT

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

1.10 AMENDMENTS

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

Routine Outputs – Audit and Finance Committee

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

Jump to table of contents

Appendix 1

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

Approved: November 23, 2023

1.1 PURPOSE

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

Appendix 2

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

Approved: November 23, 2023

1.1 PURPOSE

Central 1's Audit & Finance Committee shall pre-approve all services to be provided by Central 1's external auditor to Central 1 and its subsidiaries. In addition to audit services, Central 1's external auditors may provide Central 1 with certain other services which are listed in the section below entitled Permitted Services. This document sets forth procedures and conditions whereby permissible non-assurance services provided by the independent auditor will be pre-approved for the entities within the corporate structure of Central 1. Central 1 may not engage its external auditors to perform services that are inconsistent with an auditors' independence. A description of prohibited services is included in the section below entitled Prohibited Services.

1.2 PERMITTED SERVICES

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

1.2.1

- a) Audit and Related Services
    - i. Agreed-upon procedures to comply with regulatory reporting matters and/or securitization programs
    - ii. Agreed-upon procedures to scrutineer the voting results of Central 1 Annual General or Special Meetings.
- b) Tax Services
    - i. Tax Compliance
        - a. Prepare and/or review federal and provincial corporate tax returns and trust returns (including any other applicable returns, forms, elections, designations, or any other tax reporting)
    - ii. General Tax Advisory Services relating to Tax Compliance
        - a. Various income, capital, payroll, and indirect tax compliance matters as they arise;
        - b. Canadian, U.S., and International tax advisory services relating to the Foreign Account Tax Compliance Act (FATCA) and the Common Reporting Standard (CRS);
        - c. Federal or provincial tax authority compliance matters;
        - d. U.S. corporate tax compliance, including research, advice and correspondence with IRS.
    - iii. Specific Tax Advisory and Tax planning services
        - a. Review tax implications and tax compliance requirements relating to complex tax issues or potential transactions (i.e. future state).
- c) Other Services
    - i. Perform a gap analysis or maturity assessment of the current state of a process, system, organizational structure, policy, controls over financial reporting, etc. against leading practices or other sources (such as client defined future state, accounting or regulatory standard). Provide advice, observations and recommendations.
    - ii. Perform accounting research to identify alternative accounting policies, leading practices, examples and KPMG's interpretation of the application of new or revised accounting standards (including IFRS and convergence projects).
    - iii. Information Technology Advisory and Risk Management Services (this includes assistance in ensuring that technology processes are operating efficiently)
    - iv. Transaction Services (this includes providing assistance in structuring significant acquisitions)
    - v. Operational Advisory and Risk Management Services

1.2.2 Prohibited Services

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

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

b) financial information systems design and implementation;

c) appraisal or valuation services for financial reporting purposes;

Jump to table of contents

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

e) internal audit outsourcing services;

f) management functions;

g) Human Resources; and

h) expert witness services.

1.3 POLICY

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

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

b) **Pre-Approval of Audit Related, Tax and Other Non-Audit Services:** Central 1 has adopted a general policy procedure to pre-approve non-assurance services to be provided by the independent auditor without obtaining specific pre-approval for each engagement.
   i. Under this procedure, the Board pre-approves the list of non-assurance services (through the approval of the Audit & Finance Committee Terms of Reference) in 1.2.1 that may be provided by the independent auditor without the need for the auditor to seek specific pre-approval from the Board or Audit & Finance Committee;
   ii. Unless a non-assurance service shall have received such general pre-approval, it will require specific pre-approval by the Audit & Finance Committee and the concurrence must be provided to the auditor before an engagement letter contracting the non-assurance service is signed.
   iii. This pre-approved list of non-assurance services remains in effect until amended by the Board.
   iv. The Audit & Finance Committee will be informed annually of the services on the attached list for which the auditor has been actually engaged.

c) **Approval of Additional Services:** The Chief Financial Officer will consider all other engagement requests and if deemed acceptable, submit the request to the Chair of Audit & Finance Committee for consideration and approval. The engagement may commence upon approval of the Chair of the Audit & Finance Committee. The full Audit & Finance Committee will subsequently be informed of any additional services, at its next meeting.

Consolidated Financial Statements

As at and for the Years Ended December 31, 2023 and 2022

Jump to table of contents

Management's Responsibility for Financial Reporting

The management of Central 1 Credit Union (Central 1) is responsible for the integrity, objectivity, reliability and fair presentation of the accompanying Consolidated Financial Statements. These Consolidated Financial Statements were prepared in accordance with IFRS Accounting Standards.

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

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

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

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

KPMG LLP, the independent auditor appointed by the members, has performed an independent audit on the Consolidated Financial Statements and issued their report, which follows. The auditor has full and complete access to, and meets periodically with, the Committee to discuss their audit and matters arising therefrom.

Sheila Vokey
President & Chief Executive Officer

Emma Hider
Chief Financial Officer

Jump to table of contents

Independent Auditor's Report

To the Members of Central 1 Credit Union

Opinion

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

- the consolidated statements of financial position as at December 31, 2023 and December 31, 2022
- the consolidated statements of income (loss) for the years then ended
- the consolidated statements of comprehensive income (loss) for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of material accounting policy information

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of Central 1 as at December 31, 2023 and December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditor's Responsibilities for the Audit of the Financial Statements**" section of our auditor's report.

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

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

Other Information

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

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

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

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

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditor's report thereon, included in a document likely to be entitled "Annual Report" is expected to be made available to us after the date of this auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

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

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

Jump to table of contents

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

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

KPMG LLP

Chartered Professional Accountants
Vancouver, Canada
March 21, 2024

Jump to table of contents

Consolidated Statement of Financial Position

As at December 31

$ thousands	Notes		2023		2022
Assets					
Cash and cash equivalents	6	$	**1,852,499**	$	957,228
Settlements in-transit assets			**158,539**		57,268
Securities	7		**7,000,251**		8,193,482
Loans	8		**1,783,708**		2,078,156
Derivative assets	9		**227,258**		378,674
Current tax assets			**729**		3,455
Property and equipment	11		**11,307**		16,691
Intangible assets	12		**19,694**		19,948
Investments in affiliates	13		**93,103**		88,935
Deferred tax assets	14		**55,715**		64,119
Other assets	15		**24,411**		23,303
		$	**11,227,214**	$	11,881,259
Liabilities					
Settlements in-transit liabilities		$	**544,941**	$	483,468
Deposits	16		**5,855,704**		5,319,628
Securities under repurchase agreements			**1,036,557**		1,909,708
Securitization liabilities	17		**559,990**		992,140
Derivative liabilities	9		**80,811**		126,142
Debt securities issued	18		**2,151,132**		1,997,569
Subordinated liabilities	19		**182,111**		198,887
Other liabilities	21		**89,984**		162,793
			10,501,230		11,190,335
Equity					
Share capital	22		**43,401**		43,401
Retained earnings			**682,526**		656,814
Accumulated other comprehensive income (loss)			**57**		(9,291)
Total equity			**725,984**		690,924
		$	**11,227,214**	$	11,881,259
Guarantees, commitments, contingencies and pledged assets	31				

Approved by the Directors:

Shelley McDade
Chair

Paul Challinor
Chair
Audit and Finance Committee

See accompanying Notes to the Consolidated Financial Statements

Jump to table of contents

Consolidated Statement of Income (Loss)

For the year ended December 31

$ thousands	Notes	2023	2022
Interest income			
Securities		$ **302,560**	$ 184,458
Loans		**129,021**	79,622
		431,581	264,080
Interest expense			
Deposits		**191,222**	89,673
Debt securities issued		**180,246**	92,750
Subordinated liabilities		**5,444**	5,271
Securitization liabilities		**352**	532
		377,264	188,226
Net interest income	23	**54,317**	75,854
Gain on disposal of financial instruments	24	**21,648**	6,044
Change in fair value of financial instruments	25	**6,738**	(149,024)
Non-interest income	26	**161,647**	150,008
Total revenue		**244,350**	82,882
Provision for credit losses	10	**222**	361
Non-interest expense			
Salaries and employee benefits		**122,878**	103,524
Management information systems		**17,326**	13,613
Depreciation and amortization		**5,733**	6,723
Other administrative expense	27	**68,098**	71,802
		214,035	195,662
Income (loss) before income taxes		**30,093**	(113,141)
Income tax expense (recovery)	28	**4,606**	(43,531)
Net income (loss)		$ **25,487**	$ (69,610)

See accompanying Notes to the Consolidated Financial Statements

Jump to table of contents

Consolidated Statement of Comprehensive Income (Loss)

For the year ended December 31

$ thousands		2023		2022
Net income (loss)	$	**25,487**	$	(69,610)
Other comprehensive income (loss), net of tax				
Items that may be reclassified subsequently to net income (loss)				
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		**13,882**		(39,173)
Reclassification of realized loss to net income (loss)		**2,164**		3,918
Share of other comprehensive income of affiliates accounted for using the equity method		**2,469**		807
		18,515		(34,448)
Items that will not be reclassified subsequently to net income (loss)				
Net change in fair value due to change in own credit risk on financial liabilities designated under the fair value option		**(8,865)**		13,864
Net actuarial gain (loss) on employee benefits plans		**(77)**		1,779
Total other comprehensive income (loss), net of tax		**9,573**		(18,805)
Total comprehensive income (loss), net of tax	$	**35,060**	$	(88,415)

Income Taxes – Other Comprehensive Income (Loss)

The following table shows income tax expense (recovery) for each component of other comprehensive income (loss):

$ thousands		2023		2022
Income tax expense (recovery) on items that may be reclassified subsequently to net income (loss)				
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	$	**5,125**	$	(14,444)
Reclassification of realized loss to net income (loss)		**797**		1,443
Share of other comprehensive income of affiliates accounted for using the equity method		**384**		126
Income tax expense (recovery) on items that will not be reclassified subsequently to net income (loss)				
Net change in fair value due to change in own credit risk on financial liabilities designated under the fair value option		**(3,266)**		5,107
Net actuarial gain (loss) on employee benefits plans		**(28)**		655
	$	**3,012**	$	(7,113)

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statement of Changes in Equity

For the year ended December 31

$ thousands	Share Capital	Retained Earnings	Fair Value & Affiliates Reserves	Liability Credit Reserve	Employee Benefits Reserve	Total Equity
Balance as at December 31, 2022	$ 43,401	$ 656,814	$ (27,100)	$ 12,901	$ 4,908	$ **690,924**
Total comprehensive income (loss), net of tax						
Net income		25,487				**25,487**
Other comprehensive income (loss), net of tax						
Fair value reserve (securities at fair value through other comprehensive income)			16,046			**16,046**
Share of other comprehensive income of affiliates accounted for using the equity method			2,469			**2,469**
Liability credit reserve				(8,865)		**(8,865)**
Net actuarial loss on employee benefits plans					(77)	**(77)**
Total comprehensive income (loss)	-	25,487	18,515	(8,865)	(77)	**35,060**
Reclassification of liability credit reserve on derecognition[1]		225		(225)		-
Balance as at December 31, 2023	**$ 43,401**	**$ 682,526**	**$ (8,585)**	**$ 3,811**	**$ 4,831**	**$ 725,984**

[1] Transfer of accumulated own credit risk adjustments on derecognition of financial liabilities at FVTPL.

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statement of Changes in Equity

For the year ended December 31

$ thousands	Share Capital	Retained Earnings	Fair Value & Affiliates Reserves	Liability Credit Reserve	Employee Benefits Reserve	Other Reserves	Equity Attributable to Members	Non-Controlling Interest[2]	Total Equity
	Attributable to Equity Members								
Balance as at December 31, 2021	$ 43,396	$ 727,213	$ 7,348	$ (1,777)	$ 3,129	$ 2	$ 779,311	$ 7,141	$ 786,452
Total comprehensive income (loss), net of tax									
Net loss		(69,610)					(69,610)		(69,610)
Other comprehensive income (loss), net of tax									
Fair value reserve (securities at fair value through other comprehensive income)			(35,255)				(35,255)		(35,255)
Share of other comprehensive income of affiliates accounted for using the equity method			807				807		807
Liability credit reserve				13,864			13,864		13,864
Net actuarial gain on employee benefits plans					1,779		1,779		1,779
Total comprehensive income (loss)	-	(69,610)	(34,448)	13,864	1,779	-	(88,415)	-	(88,415)
Transactions with owners, recorded directly in equity									
Class "A" shares issued (Note 22)	5						5		5
Subsidiary's distribution to its shareholders		25				(2)	23	(7,141)	(7,118)
Total contribution from (distribution to) owners	5	25	-	-	-	(2)	28	(7,141)	(7,113)
Reclassification of liability credit reserve on derecognition[1]		(814)		814					-
Balance as at December 31, 2022	$ 43,401	$ 656,814	$ (27,100)	$ 12,901	$ 4,908	$ -	$ 690,924	$ -	$ 690,924

[1] Transfer of accumulated own credit risk adjustments on derecognition of financial liabilities at FVTPL

[2] Non-controlling interest was related to CUPP Services Ltd., a subsidiary of Central 1 which was dissolved on July 5, 2022.

See accompanying Notes to the Consolidated Financial Statements

Jump to table of contents

Consolidated Statement of Cash Flows

For the year ended December 31

$ thousands		2023		2022
Cash flows from (used in) operating activities				
Net income (loss)	$	**25,487**	$	(69,610)
Adjustments for:				
Depreciation and amortization		**5,733**		6,723
Net interest income		**(54,317)**		(75,854)
Gain on disposal of financial instruments		**(21,648)**		(6,044)
Change in fair value of financial instruments		**(6,738)**		149,024
Provision for credit losses		**222**		361
Dividend income		**(3,686)**		-
Equity interest in affiliates		**12**		945
Income tax expense (recovery)		**4,606**		(43,531)
		(50,329)		(37,986)
Change in settlements in-transit assets		**(101,271)**		143,769
Change in securities		**965,327**		1,266,205
Change in loans		**296,294**		(281,312)
Change in derivative assets and liabilities		**43,119**		(13,897)
Change in settlements in-transit liabilities		**61,473**		92,564
Change in deposits		**500,251**		(1,846,193)
Change in securities under repurchase agreements		**(872,630)**		354,531
Change in obligations related to securities sold short		**104**		(33,999)
Change in other assets and liabilities		**(88,184)**		72,197
Interest received		**429,849**		257,127
Interest paid		**(370,658)**		(200,384)
Income tax received		**3,393**		826
Net cash from (used in) operating activities		**816,738**		(226,552)

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

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statement of Cash Flows *(continued)*

For the year ended December 31

$ thousands		2023		2022
Cash flows from (used in) investing activities				
Purchase of reinvestment assets under the CMB Program - NHA MBS Securities		**(66,665)**		(357,237)
Maturity of reinvestment assets under the CMB Program - NHA MBS Securities		**180,887**		520,165
Change in reinvestment assets under the CMB Program - Reverse repos		**287,297**		(227,874)
Property and equipment - purchases		**(693)**		(383)
Intangible assets - purchases		**(2,313)**		(8,069)
Dividend received		**3,686**		-
Investments in affiliates - net		**(1,327)**		(3,827)
Net cash from (used in) investing activities		**400,872**		(77,225)
Cash flows from (used in) financing activities				
Change in debt securities issued - Commercial paper		**(126,509)**		108,344
Proceeds from debt securities issued - Medium term notes		**700,000**		350,000
Redemption of debt securities issued - Medium term notes		**(450,000)**		(500,000)
Repayment of lease liabilities		**(313)**		(421)
Change in securitization liabilities		**(442,026)**		52,540
Redemption of subordinated liabilities		**(21,000)**		-
Subsidiaries distribution to its shareholders		**-**		(7,141)
Issuance of Class A shares		**-**		5
Net cash from (used in) financing activities		**(339,848)**		3,327
Effect of exchange rate changes on cash and cash equivalents		**17,509**		6,162
Increase (decrease) in cash and cash equivalents		**895,271**		(294,288)
Cash and cash equivalents - beginning of period		**957,228**		1,251,516
Cash and cash equivalents - end of period	**$**	**1,852,499**	$	957,228

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

See accompanying Notes to the Consolidated Financial Statements

Table of Contents

Notes to the Consolidated Financial Statements

As at and for the years ended December 31, 2023 and 2022

1. Reporting Entity

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

Central 1 provides financial, digital banking and payment products and services for over 300 financial institutions across Canada, including its member credit unions in British Columbia (B.C.) and Ontario.

2. Basis of Presentation

These Consolidated Financial Statements have been prepared in accordance with IFRS Accounting Standards. They were authorized for issue by the Board of Directors on March 21, 2024.

Basis of Measurement

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

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

Financial Statements Presentation Changes

During the third quarter of 2023, Central 1 reviewed the presentation of its Consolidated Statement of Income (Loss) and concluded that certain line items should be renamed and/or regrouped in order to provide reliable and more relevant information to its users. The comparative figures have been reclassified to conform with the current year's presentation. Changes include the separate presentation of depreciation and amortization and management information systems expense, previously presented within premises and equipment and other administrative expense.

3. Functional and Presentation Currency

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

4. Use of Estimates and Judgements

In preparing these Consolidated Financial Statements, management has exercised judgements and made estimates and assumptions that affect the application of Central 1's accounting policies and the carrying amounts of assets, liabilities, income and related disclosures. The most significant areas for which management must make subjective or complex estimates and judgements include provision for credit losses (ECL).

Judgement, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. While management makes its best estimates and assumptions, actual results may differ from those estimates and assumptions. Estimates and underlying assumptions are reviewed on an ongoing basis with revisions to estimates being recognized prospectively.

Provision for Credit Losses (ECL)

In determining whether there has been a significant increase in credit risk (SICR) and in calculating the amount of ECL, Central 1 exercises experienced credit judgements to incorporate multiple probability-weighted economic scenarios including a base case scenario and optimistic and pessimistic scenarios, all of which are developed by Central 1's Economic group. 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.

Additional information regarding the ECL allowance is included in Note 10.

5. Material Accounting Policies

Central 1 has consistently applied the following material accounting policies to all periods presented in these Consolidated Financial Statements, except for the changes in material accounting policies disclosed in Note 5(r).

(a) Basis of Consolidation

Subsidiaries

The Consolidated Financial Statements include the assets, liabilities, results of operations and cash flows of Central 1 and its subsidiaries.

These subsidiaries are entities where Central 1 exercises control through its ownership of the majority of the voting shares, is exposed to or has rights to variable returns from its involvement with the entities, and has the ability to affect those returns through its power over the entities.

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

Affiliates

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

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

Further information regarding Central 1's subsidiaries and affiliates is contained in Notes 13 and 36.

(b) Foreign Currency

Transactions in foreign currencies are translated into Canadian dollars at the spot exchange rate at the date of the transaction. Subsequently, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the spot exchange rate at the reporting date. Non-monetary assets and liabilities measured at fair value that are denominated in foreign currencies are translated into Canadian dollars using the exchange rate in effect when the fair value is determined. Non-monetary assets and liabilities that are not measured at fair value are translated into Canadian dollars at historical rates.

Foreign currency translation gains and losses on financial instruments, including those classified as FVOCI, are recognized in non-interest income.

(c) Financial Instruments

Recognition and Initial Measurement

Central 1 initially recognizes financial assets and financial liabilities on the trade date when Central 1 becomes a party to the contractual provisions of the instruments. A financial asset or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issuance. For a financial asset or financial liability measured at FVTPL, transaction costs are recognized immediately in income or loss.

Classification and Subsequent Measurement

a. Business Model Assessment

Central 1 makes an assessment of the objective of a business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. Central 1's business models are as follows:

Managed on A Fair Value Basis

Central 1 manages certain financial assets and financial liabilities as a group on a fair value basis and these instruments are measured at FVTPL.

Held to Collect

Central 1 provides loans to its members and participates in loan syndications with its members. The objective of the business model for these loans is to hold and collect contractual cash flows with sales being incidental to the objective of the model. Financial assets that are managed under this business model are classified and subsequently measured at amortized cost if the contractual cash flows are solely payments of principal and interest (SPPI).

Held to Collect and Sell
Held to collect and sell is a business model whose objective is to hold and collect contractual cash flows with sales being integral to achieve such objective. Financial assets, that are managed within this business model and whose contractual cash flows are SPPI, are classified and subsequently measured at FVOCI, which include:

- All debt securities at floating rate and those at fixed rate but considered as higher-yielding acquired prior to March 15, 2021, and
- Bankers' Acceptances, Asset-Backed Commercial Papers, and Commercial Papers acquired after March 15, 2021.

b. Contractual Cash Flows Characteristics Assessment
In assessing whether the contractual cash flows are SPPI, Central 1 considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

If the contractual terms of a financial asset give rise to contractual cash flows that are not SPPI, it is classified as at FVTPL. In making this assessment, Central 1 considers any terms and features that would change the amount or timing of cash flows, including, but not limited to, non-recourse, prepayment, and environmental, social and governance (ESG) features.

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

Financial Assets at Amortized Cost
The financial assets that are held within a business model that is Held to Collect and whose contractual cash flows are SPPI are classified and subsequently measured at amortized cost under the effective interest rate method. The gross carrying amounts of these financial assets are reduced by any impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in income or loss. Any gain or loss on derecognition is recognized in income or loss. Transaction costs relating to the acquisition of these financial assets are amortized over the expected life using the effective interest rate method.

Financial Assets at FVOCI
The financial assets that are held within a business model that is Held to Collect and Sell and whose contractual cash flows are SPPI are classified and subsequently measured at FVOCI.

Gains and losses on these financial assets are recognized in OCI, unless the instrument is designated in a fair value hedge relationship, in which case any changes in fair value due to changes in the hedged risk is recognized in income or loss. Cumulative gains and losses recognized in OCI are recycled to income or loss upon derecognition of the financial assets. Foreign exchange gains and losses related to these assets are recognized in income or loss. Transaction costs relating to the acquisition of these financial assets are amortized over the expected life using the effective interest rate method.

Allowance for credit loss on debt instruments measured at FVOCI is recognized under IFRS 9. The expected credit loss (ECL) does not reduce the carrying amount of these assets, which remains at its fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI with a corresponding charge to income or loss.

Financial Assets Mandatorily at FVTPL
Financial assets that are held for trading purposes, held as part of a portfolio managed on a fair value basis, and whose cash flows do not represent payments that are SPPI held for trading and managed on a fair value basis, are classified and subsequently measured at FVTPL.

Gains and losses and any interest income are recognized in income or loss. Transaction costs relating to the acquisition are recognized immediately in income or loss.

Financial Assets Designated at FVTPL
On initial recognition, Central 1 may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. For financial assets designated at FVTPL, changes in fair value are recognized in income or loss.

Equity Instruments at FVTPL
These instruments are initially and subsequently measured at FVTPL. Gains and losses are recognized in income or loss. Central 1 did not make the election to present subsequent changes in the fair value of the equity instrument in OCI.

Jump to table of contents

Reclassification
Financial assets are not reclassified subsequent to their initial recognition, except in the period after Central 1 changes its business model for managing those financial assets.

d. Financial Liabilities

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

Financial liabilities are classified and measured at FVTPL if they are Held for Trading, managed on a fair value basis, derivatives or designated as such on initial recognition. Financial liabilities are designated at FVTPL if such designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.

For financial liabilities at FVTPL, all changes in fair value are recognized in income or loss, except for gains or losses arising from changes in Central 1's own credit risk. These gains or losses are recognized in OCI and are subsequently reclassified from AOCI to retained earnings upon derecognition/extinguishment of the financial liabilities.

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

Derecognition
When Central 1 enters into a transaction whereby it transfers financial assets to third parties to obtain alternate sources of funding. Central 1 assesses whether substantially all the risks and rewards of, or control over, the assets are transferred to determine if qualified for derecognition. In transactions where Central 1 continued to be exposed to substantially all of the risks and rewards associated with the assets transferred, Central 1 continues to recognize the asset on its Consolidated Statement of Financial Position.

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

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

Securities purchased or sold under repurchase agreements represent short-term funding transactions in which Central 1 sell the securities it owns and simultaneously commit to repurchase the same securities at a specified price on a specified date in the future. Central 1 retains substantially all the risks and rewards associated with the securities and therefore continues to recognize them on the Consolidated Statement of Financial Position, with the obligation to repurchase the securities recorded as Securities under repurchase agreements at the amount owing.

Offsetting
Financial assets and liabilities are offset and the net amount is presented in the Consolidated Statement of Financial Position when, and only when, Central 1 has a legally enforceable right to set off the recognized amounts and it intends to either settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS Accounting Standards, or for gains and losses arising from a group of similar transactions.

Impairment

Financial assets at amortized cost or FVOCI are assessed for impairment using the ECL model. Central 1 considers a debt instrument to have a low credit risk if it has a low risk of default and when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

a. Determining the Stage

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

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

Jump to table of contents

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

b. Assessment of Significant Increase in Credit Risk

The assessment of SICR is performed quarterly and considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. Central 1's methodology for determining a SICR for its commercial lending portfolio is based on an internal credit risk rating model and other credit impairment criteria such as 30-day past due and watchlist status to assess the changes in credit risk between origination and reporting dates.

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

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

c. Measurement of ECL

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

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

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

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

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

d. Expected Life

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

e. Definition of Default

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

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

f. Incorporation of Forward-Looking Information

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

Central 1 determines ECL using multiple probability-weighted forward-looking scenarios. Central 1 considers both internal and external sources of information in order to achieve an unbiased, probability-weighted measure of the scenarios used. Central 1 prepares the scenarios using forecasts generated by its Allowance Working Group (AWG) Committee for:

- Real GDP (GDP),
- Unemployment rates (UR),
- 3-month Bankers' Acceptance rate (BA),
- 3-month Government of Canada Bond rate (GOC),
- Debt to income ratio (Debt/Income), and
- Housing price index (HPI).

The forecasts are created using internal and external models/data which are then modified by the AWG Committee as necessary to formulate a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The process involves developing two additional economic scenarios and considering the relative probabilities of each outcome.

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

g. Credit-Impaired Financial Assets

At each reporting date, Central 1 assesses whether financial assets carried at amortised cost, debt financial instruments carried at FVOCI are credit-impaired (referred to as 'Stage 3 financial assets').

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial assets have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default;
- The restructuring of a loan or advance by Central 1 on terms that Central 1 would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy; or
- The disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

h. Presentation of Allowance for ECL

ECL for debt instruments measured at amortized cost is deducted from the gross carrying amount of the instruments. ECL for debt instruments measured at FVOCI is charged to income or loss and is recognized in OCI.

i. Write-off

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

(d) Cash and Cash Equivalents

Cash and cash equivalents include unrestricted and restricted cash balances held with financial institutions. Cash and cash equivalents are carried at amortized cost in the Consolidated Statement of Financial Position.

(e) Securitizations

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

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

Jump to table of contents

Central 1 participates in direct securitization activities by acquiring an interest in third-party MBS or insured mortgage pools from its member credit unions and subsequently transferring the associated MBS securities to CHT under the Canada Mortgage Bond (CMB) Program. Mortgages transferred to CHT continue to be recognized in Central 1's Consolidated Statement of Financial Position as, in the opinion of Central 1's management, these transactions do not result in the transfer of substantially all the risks and rewards of ownership of the underlying assets.

In applying its policies on securitized financial assets, Central 1 has considered both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by Central 1 over the other entity:

- When Central 1 transfers financial assets to an unconsolidated entity and it retains substantially all the risk and rewards relating to the transferred assets, the transferred assets continue to be recognized in Central 1's Consolidated Statement of Financial Position.
- When Central 1 transfers substantially all the risks and rewards relating to the transferred financial assets to an unconsolidated entity, the assets are derecognized from Central 1's Consolidated Statement of Financial Position.
- When Central 1 neither transfers nor retains substantially all the risks and rewards relating to a transferred financial asset and it retains control of the transferred asset, Central 1 continues to recognize the transferred financial asset to the extent of its continuing involvement in that transferred financial asset.

Details of Central 1's securitization activities are disclosed in Notes 7 and 17.

(f) Derivative Instruments

Central 1 enters into derivative contracts to manage its exposures to interest rate risk, foreign currency risk and other risks. All derivative instruments are measured at FVTPL with changes in fair value recognized in income or loss.

Hedge Accounting Policy

For risk management purposes, Central 1 designates certain derivatives as hedging instruments to hedge its exposure to change in the fair value of selected securities at FVOCI and medium-term notes in qualifying hedging relationships. Central 1 has not entered into any cash flow hedges at this time.

On transition to IFRS 9, Central 1 elected the accounting policy choice to continue applying hedge accounting under the IAS 39 framework and IFRS 7, *Financial Instruments: Disclosures* requirements for hedge accounting disclosure. Detailed disclosures about the fair value hedges are included in Note 9.

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

- At the inception of the hedge, there is formal designation and documentation of the hedging relationship and Central 1's risk management objective and strategy for undertaking the hedge;
- The hedge is expected to be highly effective in achieving offsetting changes in fair value attributable to the interest rate risk; and
- The effectiveness of the hedge can be reliably measured.

Interest rate benchmark (IBOR) reform

On May 16, 2022, Refinitiv Benchmark Services UK Limited, the benchmark administrator of the Canadian Dollar Offered Rate (CDOR), announced that the calculation and publication of all tenors of CDOR will permanently cease immediately following a final publication on June 28, 2024, using a two-stage transition approach. The first stage will run until June 30, 2023 with all new derivative contracts and securities being transitioned to using the Canadian Overnight Repo Rate Average (CORRA). No new CDOR exposure will be booked after June 30, 2023 with limited exceptions which include derivatives that hedge or reduce CDOR exposures of derivatives or securities transacted before June 30, 2023 or in loan agreements transacted through until June 28, 2024. The second stage will end on June 30, 2024 with all remaining CDOR exposures being transitioned to CORRA. On July 27, 2023, the Canadian Alternative Reference Rate (CARR) working group announced that lenders may not offer new CDOR and bankers' acceptance (BA) loans after November 1, 2023. This announcement does not impact Central 1's transition plans.

Central 1's CORRA Focus Group (the Group), which was formed to oversee the transition, monitors the progress of the transition from IBOR to the new benchmark rate. On July 1, 2023, Central 1 completed the first phase of transition to the new benchmark rate and all new treasury products are priced and benchmarked to CORRA. Central 1 is ready for the implementation of the second phase to transition the existing products benchmarked to the CDOR over to CORRA on June 28, 2024.

The transition from CDOR to CORRA presents a number of risks to Central 1, including operational risk due to the changes of process and pricing models, liquidity risk and legal risk associated with contractual obligations. The Group is monitoring all risks associated with the transition and has mitigation strategies in place to ensure a smooth transition to the alternative benchmark rates and provides regular updates to the senior management and stakeholders.

As at December 31, 2023, Central 1's total exposure to unreformed one-month and three-month CDOR non-derivative financial assets (securities) and non-derivative financial liabilities (deposits and debt securities issued) that mature after June 28, 2024 was $542.8 million (December 31, 2022 - $559.1 million) and $16.5 million (December 31, 2022 - $42.5 million), respectively. The notional balance of Central 1's total exposure to one-month and three-month CDOR derivatives that mature after June 28, 2024 was $2.15 billion (December 31, 2022 - $18.5 billion), of which $585.2 million (December 31, 2022 - $589.9 million) is the exposure for the interest rate swaps that are designated into fair value hedge and benchmarked to three-month CDOR. These swaps are used to hedge Central 1's exposure to interest rate risk which may be affected by the alternative benchmark rate.

A hedge relationship is directly affected by IBOR reform only if the reform gives rise to uncertainties about:

- The interest rate benchmark designated as a hedged risk, regardless of whether the rate is contractually specified; and/or
- The timing or amount of interest rate benchmark-based cash flows of the hedged items or of the hedging instrument.

Central 1 applies certain reliefs in the Phase 1 amendments to the general hedge accounting policy during the period of uncertainty:

- When assessing whether a hedge is expected to be highly effective, it is assumed that the interest rate benchmark on which the hedged cash flows and/or the hedged risk are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of IBOR reform.
- A hedge is not required to be discontinued if the actual results of the hedge are outside the effectiveness range of 80% to 125% as a result of IBOR reform.

As at December 31, 2023, there is no uncertainty in relation to IBOR reform for Central 1's hedge relationships.

(g) Loans

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

With the exception of a single commercial loan, which is measured as at designated FVTPL, all loans are classified as amortized cost and initially measured at fair value plus incremental direct transaction costs on the trade date in the Consolidated Statement of Financial Position.

They are subsequently measured at amortized cost using the effective interest method, net of allowances for ECL and any unearned interest. Interest income is recognized using the effective interest method, and loan origination fees and other fees received and paid are recorded in other income over the term of the loans.

(h) Securities Purchased under Reverse Repurchase Agreements and Sold under Repurchase Agreements

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

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

(i) Property and Equipment

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

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

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. The gain or loss on disposal of an item of property and equipment is recognized in income or loss.

Depreciation is recognized on a straight-line basis over the estimated useful life of each part of an item of property and equipment. The estimated useful lives

Jump to table of contents

for the current and comparative periods of significant items of property and equipment are as follows:

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

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

(j) Intangible Assets

Central 1's intangible assets are mainly comprised of externally acquired and internally generated assets. Intangible assets acquired externally are classified as intangible assets and are measured at cost less accumulated amortization and impairment losses.

Internally developed intangible assets are recognized when Central 1 is able to demonstrate its intention and ability to complete the development and use the asset in a manner that will generate future economic benefits, and reliably measure the costs to complete the development. The capitalized costs of internally developed intangible assets include all costs directly attributable to prepare the assets to be capable of operating in the manner intended by Central 1. Internally developed intangible assets are measured at capitalized cost less accumulated amortization and impairment losses.

Central 1 enters into Software as a Service (SaaS) arrangements with external suppliers which give Central 1 the right to receive access to the suppliers' applications over the contract term. Central 1 incurs upfront costs of configuring the suppliers' applications as well as its own system in order to integrate with the suppliers' applications.

Central 1 does not recognize the costs incurred on configuring the suppliers' applications as an intangible asset because it does not control the applications being configured. Central 1 recognizes certain costs incurred on configuring its own system as an intangible asset, when it is able to demonstrate that it has the power to obtain the future economic benefits flowing from the underlying resources and to restrict the access of others to those benefits.

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

Amortization is recognized on a straight-line basis over the estimated useful life of the asset. The estimated useful lives for the current and comparative periods are 3 to 10 years. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(k) Impairment of Non-Financial Assets

The carrying amounts of Central 1's non-financial assets with finite useful lives, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, an impairment test is performed by comparing the carrying amount of the asset to its recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing the recoverable amount, the estimated future cash flows associated with the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate the recoverable amount on an individual asset, the recoverable amount of the cash-generating unit (CGU) to which the asset belongs is estimated to determine if there is an impairment loss.

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

(l) Leases

When Central 1 enters into lease agreements for its office space and property and equipment, it recognizes ROU assets and lease liabilities for these leases, and subsequently, a depreciation charge for these ROU assets and an interest expense on lease liabilities are recognized.

Central 1 initially measures the ROU assets at cost on the lease commencement date and subsequently amortizes the assets using the straight-line method from the commencement date to the earlier of the end of the useful lives of the ROU assets or the end of the lease term. Central 1 assesses impairment losses and adjusted for any remeasurement of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid on the commencement date, discounted using Central 1's weighted average incremental borrowing rate (IBR) on that date. Subsequent to the initial measurement, the lease liability is measured at amortized cost by using the effective interest method. It is remeasured when there is a lease modification or if Central 1 changes its assessment of whether it will exercise an extension or a termination option.

Central 1 has elected to apply recognition exemptions to short-term leases and leases of low-value items which allow Central 1 to continue recognize these leases as operating leases and the related lease payments as an expense on a straight-line basis over the lease term.

Central 1 leases out its investment property and classifies the leases of investment property as operating leases because they do not transfer substantially all of the risks and rewards incidental to the ownership of the property.

(m) Financial Guarantee Contracts

Financial guarantees are contracts that require Central 1 to make specified payments to reimburse the beneficiary for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Central 1 only offers financial guarantees with terms that are less than one year. Fees are collected upfront and recognized as revenue without amortization due to short-term nature. Therefore there are no liabilities arising from financial guarantees recognized on Central 1's Consolidated Statement of Financial Position.

(n) Income Taxes

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

Deferred tax assets are only recognized to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. In determining the amount of current and deferred tax, Central 1 takes into account the impact of uncertain tax positions and makes judgements, estimates and assumptions to assess whether additional taxes and interest may be due.

Deferred and current tax assets and liabilities are offset only if:

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

(o) Post-Employment Benefits

Defined Contribution Plans

Obligations for contributions to defined contribution plans are expensed as the related service is rendered.

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

Defined Benefit Plans

Central 1's net obligation in respect of its defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. It is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for service in the current and prior periods and discounting that benefit to determine its present value using market yields at the end of the reporting period on high-quality corporate bonds.

Jump to table of contents

Central 1 recognizes all actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments and all expenses related to defined benefit plans in OCI.

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

Short-Term Employee Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term incentive plans if Central 1 has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(p) Net Interest income

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

(q) Non-Interest income

Central 1 generates revenue primarily from providing products and services to its members and clients including credit union lending, access to securitization vehicles, digital banking technologies and payments processing solutions. The consideration received does not include any significant financing components that are not included in the transaction price. Central 1's principal activities, separated by operating segments, from which Central 1 generates its revenue, are described below.

Lending Fees

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

Securitization Fees

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

Digital Banking Fees

Central 1 delivers digital banking services to customers on their desktop or on mobile devices. There are two main components:

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

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

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

Payment Processing and Other Fees

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

Jump to table of contents

Revenue under the Cost Share Arrangement

In order to comply with Payments Canada and Bank of Canada requirements, Central 1 is required to modernize its payment processing systems to facilitate real-time payment processing. As part of this initiative, Central 1's credit union customers contributed funds for a portion of the overall cost as an advance payment for future modernized payment services (cost share arrangement).

Under this arrangement, Central 1 is building the modernized payment functionalities and will be providing ongoing payment processing once the build is complete. The building of the functionalities is highly interdependent and interrelated with the ongoing payment services as these payment services cannot be provided without the modernized payment functionalities being built and credit union customers cannot benefit from the payment functionalities without the provision of ongoing payment services.

Therefore, the funds received under the cost share arrangement are initially recognized as deferred revenue, and as payment functionalities become available, are recognized as revenue over the commitment period as performance obligations are satisfied over time.

(r) Changes in Material Accounting Policies

A number of amendments in IFRS Accounting Standards became effective on January 1, 2023. Except for the amendments to IAS 1 and IFRS Practice Statement 2 relating to disclosure of material accounting policies, the other amendments are applicable to Central 1 but do not have a material impact on Central 1's Consolidated Financial Statements.

Material Accounting Policy Information

Central 1 adopted *Disclosure of Accounting Policies* (Amendments to IAS 1 and IFRS Practice Statement 2) from January 1, 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements.

The amendments require the disclosure of 'material', rather than 'significant', accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements.

Management reviewed the accounting policies and made updates to the information disclosed in Note 5 Material Accounting Policies (2022: Accounting Policies) in certain instances in line with the amendments.

Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12 Income Taxes)

Central 1 adopted *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* (Amendments to IAS 12, *Income Tax*) on January 1, 2023. The main change in these amendments is an exemption from the initial recognition exemption provided in IAS 12. Accordingly, the initial recognition exemption provided in IAS 12 does not apply to transactions in which both deductible and taxable temporary differences arise on initial recognition that result in the recognition of equal deferred tax assets and liabilities. The adoption of this amendment did not have any impact on Central 1's Consolidated Financial Statements.

Definition of Accounting Estimates (Amendments to IAS 8)

Central 1 adopted *Definition of Accounting Estimates* (Amendments to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*) on January 1, 2023.

The amendments introduce a new definition for accounting estimates by clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. The adoption of this amendment did not have any impact on Central 1's consolidated financial statements.

Jump to table of contents

6. Cash and Cash Equivalents

$ thousands, as at December 31		2023		2022
With Bank of Canada	$	**1,781,578**	$	889,211
With other regulated financial institutions		**70,921**		68,017
	$	**1,852,499**	$	957,228

Central 1 is required to maintain reserves with certain financial institutions, totalling to $1.9 million as at December 31, 2023 (December 31, 2022 - $1.6 million).

7. Securities

$ thousands, as at December 31		2023		2022
Mandatorily at FVTPL				
Government and government guaranteed securities	$	**2,191,425**	$	2,925,283
Corporate and major financial institutions				
AA low or greater		**1,369,361**		1,417,712
A (high) to A (low)		**395,618**		382,487
BBB (high) to BB		**1,087,147**		888,114
Equity instruments		**40,903**		40,259
Fair value	$	**5,084,454**	$	5,653,855
Securities FVOCI				
Government and government guaranteed securities	$	**678,728**	$	735,425
Corporate and major financial institutions				
AA low or greater		**199,099**		192,767
A (high) to A (low)		**91,419**		92,075
BBB (high) to BBB (low)		**386,561**		566,119
Fair value	$	**1,355,807**	$	1,586,386
Reinvestment assets under the CMB Program				
FVTPL				
Government and government guaranteed securities	$	**339,712**	$	445,666
Fair value	$	**339,712**	$	445,666
Amortized cost				
Assets acquired under reverse repurchase agreements	$	**220,278**	$	507,575
Total reinvestment assets under the CMB Program	$	**559,990**	$	953,241
Total	$	**7,000,251**	$	8,193,482

8. Loans

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

$ thousands, as at December 31	2023	2022
Amortized cost		
Due on demand		
Credit unions	$ 197,120	$ 489,646
Commercial and others	8,758	4,725
	205,878	494,371
Term		
Credit unions	155,000	175,000
Commercial and others	1,333,977	1,327,361
Reverse repurchase agreements	73,894	68,170
	1,562,871	1,570,531
	1,768,749	2,064,902
Accrued interest	8,469	6,461
Premium	-	41
	1,777,218	2,071,404
Provision for credit losses (Note 10)	(3,819)	(3,543)
Amortized cost	1,773,399	2,067,861
Fair value hedge adjustment[1]	-	(140)
Carrying value	1,773,399	2,067,721
FVTPL		
Term - Commercial and others		
Fair value	10,309	10,435
Total loans	$ 1,783,708	$ 2,078,156

[1] Central 1 enters into fair value hedges to hedge the risks caused by changes in interest rates. The hedge accounting of this relationship was discontinued as at February 28, 2023, when it was last determined to be effective.

9. Derivative Instruments

The following tables summarize the fair value and the notional amounts by term to maturity of derivative assets and liabilities as at December 31, 2023 and December 31, 2022:

As at December 31, 2023	Notional amount by term to maturity				Fair Value	
$ thousands	1 year or less	1 to 5 years	Over 5 years	Total	Assets	Liabilities
Interest rate contracts						
Swap contracts	$ 10,769,306	$ 19,516,422	$ 1,432,568	$ 31,718,296	$ 553,502	$ 406,006
Futures contracts	991,000	200,000	-	1,191,000	136	1,435
	11,760,306	19,716,422	1,432,568	32,909,296	553,638	407,441
Foreign exchange contracts						
Forward contracts	535,757	-	-	535,757	4,983	4,733
Other						
Equity index-linked options	52,333	130,718	-	183,051	8,889	8,889
Total fair value before adjustment					567,510	421,063
Adjustment for offsetting					(340,252)	(340,252)
Fair value					**$ 227,258**	**$ 80,811**

The amounts that have been pledged and received as collateral for derivatives transactions are $11.2 million and $112.4 million, respectively as at December 31, 2023 (December 31, 2022 - $18.2 million and $177.5 million), amounts pledged as collateral comprises of securities and amount received as collateral comprises of securities and cash (Note 31).

As at December 31, 2022	Notional amount by term to maturity				Fair Value	
$ thousands	1 year or less	1 to 5 years	Over 5 years	Total	Assets	Liabilities
Interest rate contracts						
Swap contracts	$ 8,187,574	$ 22,058,363	$ 1,598,056	$ 31,843,993	$ 825,611	$ 573,237
Futures contracts	502,000	102,000	-	604,000	438	-
	8,689,574	22,160,363	1,598,056	32,447,993	826,049	573,237
Foreign exchange contracts						
Forward contracts	543,458	-	-	543,458	2,023	2,303
Other						
Equity index-linked options	43,607	177,482	-	221,089	10,706	10,706
Total fair value before adjustment					838,778	586,246
Adjustment for offsetting					(460,104)	(460,104)
Fair value					$ 378,674	$ 126,142

All derivatives are traded over-the-counter except for futures which are exchange traded.

Hedge Accounting

Central 1 uses interest rate swaps to hedge its exposure to changes in the fair value of selected securities at fair value through other comprehensive income (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 that are designated as hedging.

Hedging instruments are recorded at fair value, and the commercial loans and medium-term notes that are part of a hedging relationship are adjusted for the changes in fair value attributable to the risk being hedged (fair value hedge adjustment). To the extent that the change in the fair value of the hedging instruments does not offset changes in the fair value of the hedged item (hedge ineffectiveness), the net amount is recorded directly in the Consolidated Statement of Income (Loss).

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

$ thousands, for the year ended December 31	2023			2022		
	Fair value hedge adjustment - gains (losses)	Change in the fair value on hedging instruments - gains (losses)	Hedge ineffectiveness recorded in net income (loss)	Fair value hedge adjustment - gains (losses)	Change in the fair value on hedging instruments - gains (losses)	Hedge ineffectiveness recorded in net income (loss)
Securities at FVOCI[1]	$ 7,346	$ (7,375)	$ (29)	$ (21,912)	$ 22,737	$ 825
Loans	140	(833)	(693)	1,281	110	1,391
Debt securities issued	821	(1,095)	(274)	3,496	(3,905)	(409)
	$ 8,307	**$ (9,303)**	**$ (996)**	$ (17,135)	$ 18,942	$ 1,807

[1] The designation of securities at FVOCI in a hedging relationship moves the changes in fair value due to interest rate risk from other comprehensive income (loss) to net income (loss)

$ thousands, as at	December 31, 2023				December 31, 2022			
	Notional value of hedged items	Carrying value of hedged items[2]	Carrying value of hedging instruments	Accumulated fair value hedge adjustment	Notional value of hedged items	Carrying value of hedged items[2]	Carrying value of hedging instruments	Accumulated fair value hedge adjustment
Securities at FVOCI[1]	$ 235,156	$ 207,748	$ 25,355	$ (24,217)	$ 235,156	$ 199,815	$ 32,730	$ (31,563)
Loans[3]	-	-	-	-	4,146	4,296	833	(140)
Debt securities issued	(650,000)	(658,279)	(2,657)	2,476	(350,000)	(353,609)	(1,562)	1,655

[1] The designation of securities at FVOCI in a hedging relationship moves the changes in fair value due to interest rate risk from other comprehensive income (loss) to net income (loss)
[2] Represents the carrying value in the Consolidated Statement of Financial Position and includes amortized cost, before allowance for credit losses, plus fair value hedge adjustments, except for FVOCI securities that are carried at fair value.
[3] Central 1 enters into fair value hedges to hedge the risks caused by changes in interest rates. The hedge accounting of this relationship was discontinued as at February 28, 2023, when it was last determined to be effective.

Jump to table of contents

10. Provision for Credit Losses

$ thousands, as at December 31, 2023	Stage 1	Stage 2	Stage 3[1]	Total
Financial assets at amortized cost				
Balance as at December 31, 2022	$ 3,386	$ -	$ 157	**$ 3,543**
Provision for (recovery of) credit losses:				
Transfers in (out)	(49)	48	1	**-**
Purchases and originations	368	-	-	**368**
Derecognitions and maturities	(950)	-	(157)	**(1,107)**
Remeasurements	534	274	207	**1,015**
Total provision for (recovery of) credit losses	(97)	322	51	**276**
Balance as at December 31, 2023	**$ 3,289**	**$ 322**	**$ 208**	**$ 3,819**
Financial assets at FVOCI				
Balance as at December 31, 2022	$ 284	$ -	$ -	**$ 284**
Recovery of credit losses:				
Derecognitions and maturities	(26)	-	-	**(26)**
Remeasurements	(28)	-	-	**(28)**
Total recovery of credit losses	(54)	-	-	**(54)**
Balance as at December 31, 2023	**$ 230**	**$ -**	**$ -**	**$ 230**
Total				
Balance as at December 31, 2022	$ 3,670	$ -	$ 157	**$ 3,827**
Provision for (recovery of) credit losses:				
Transfers in (out)	(49)	48	1	**-**
Purchases and originations	368	-	-	**368**
Derecognitions and maturities	(976)	-	(157)	**(1,133)**
Remeasurements	506	274	207	**987**
Total provision for (recovery of) credit losses	(151)	322	51	**222**
Balance as at December 31, 2023	**$ 3,519**	**$ 322**	**$ 208**	**$ 4,049**

[1] Stage 3 loan is secured by a first priority security interest over real estate assets.

$ thousands, as at December 31, 2022	Stage 1	Stage 2	Stage 3[1]	Total
Financial assets at amortized cost				
Balance as at December 31, 2021	$ 2,632	$ 729	$ -	$ 3,361
Provision for (recovery of) credit losses:				
Transfers in (out)	(4)	-	4	-
Purchases and originations	1,139	-	-	1,139
Derecognitions and maturities	(640)	(729)	-	(1,369)
Remeasurements	259	-	153	412
Total provision for (recovery of) credit losses	754	(729)	157	182
Balance as at December 31, 2022	$ 3,386	$ -	$ 157	$ 3,543
Financial assets at FVOCI				
Balance as at December 31, 2021	$ 105	$ -	$ -	$ 105
Provision for (recovery of) credit losses:				
Derecognitions and maturities	(68)	-	-	(68)
Remeasurements	247	-	-	247
Total provision for credit losses	179	-	-	179
Balance as at December 31, 2022	$ 284	$ -	$ -	$ 284
Total				
Balance as at December 31, 2021	$ 2,737	$ 729	$ -	$ 3,466
Provision for (recovery of) credit losses:				
Transfers in (out) to (from)	(4)	-	4	-
Purchases and originations	1,139	-	-	1,139
Derecognitions and maturities	(708)	(729)	-	(1,437)
Remeasurements	506	-	153	659
Total provision for (recovery of) credit losses	933	(729)	157	361
Balance as at December 31, 2022	$ 3,670	$ -	$ 157	$ 3,827

[1] Stage 3 loan is secured by a first priority security interest over real estate assets.

Jump to table of contents

The following tables present the gross carrying amounts of the commercial loans as at December 31, 2023 and December 31, 2022, according to credit quality:

$ thousands, as at December 31, 2023	Stage 1	Stage 2	Stage 3	Total
Low Risk	$ 462,775	$ -	$ -	**$ 462,775**
Medium Risk	1,300,936	-	-	**1,300,936**
High Risk	-	11,254	-	**11,254**
Not Rated	356	-	-	**356**
Impaired	-	-	1,897	**1,897**
Total	**$ 1,764,067**	**$ 11,254**	**$ 1,897**	**$ 1,777,218**

$ thousands, as at December 31, 2022	Stage 1	Stage 2	Stage 3	Total
Low Risk	$ 759,938	$ -	$ -	$ 759,938
Medium Risk	1,309,593	-	-	1,309,593
Not Rated	391	-	-	391
Impaired	-	-	1,482	1,482
Total	$ 2,069,922	$ -	$ 1,482	$ 2,071,404

Forward Looking Macroeconomic Variables

The inputs that are used to estimate the Stage 1 and 2 allowances for credit loss for each stage are modelled based on macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses. 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.

	As at December 31, 2023						As at December 31, 2022					
	Optimistic Scenario		Base Scenario		Pessimistic Scenario		Optimistic Scenario		Base Scenario		Pessimistic Scenario	
All figures are average annual values	First 12 Months	Remaining Horizon[1]	First 12 Months	Remaining Horizon[1]	First 12 Months	Remaining Horizon[1]	First 12 Months	Remaining Horizon[1]	First 12 Months	Remaining Horizon[1]	First 12 Months	Remaining Horizon[1]
GDP	3.4 %	2.1 %	0.8 %	1.9 %	(4.3) %	1.3 %	3.4 %	2.1 %	0.8 %	1.9 %	(3.2) %	1.7 %
UR	5.5	4.9	6.3	5.3	7.3	6.6	5.1	4.6	6.2	5.3	7.4	6.7
BA	5.8	4.2	4.4	2.8	3.2	1.7	5.5	4.8	4.5	3.0	1.6	1.8
GOC	5.4	4.0	4.0	2.5	2.8	1.3	5.1	4.5	4.1	2.6	1.0	1.2
Debt/Income	182.7	185.3	181.6	183.1	178.6	181.0	187.1	194.1	183.3	185.8	177.6	180.7
HPI	5.4 %	2.9 %	(1.3) %	0.9 %	(9.8) %	0.5 %	1.0 %	2.9 %	(8.2) %	1.1 %	(16.6) %	0.5 %

[1] The remaining horizon represents a forecast period of four years.

Jump to table of contents

11. Property and Equipment

$ thousands, as at or for the year ended December 31		Land and Building		IT Equipment		Fixtures		Total
Cost								
Balance as at December 31, 2022	**$**	**23,772**	**$**	**9,380**	**$**	**17,895**	**$**	**51,047**
Acquisitions		**-**		**693**		**-**		**693**
Disposals		**-**		**(101)**		**(8)**		**(109)**
Remeasurement of ROU asset		**(3,000)**		**-**		**-**		**(3,000)**
Balance as at December 31, 2023	**$**	**20,772**	**$**	**9,972**	**$**	**17,887**	**$**	**48,631**
Balance as at December 31, 2021	$	23,772	$	9,683	$	18,003	$	51,458
Acquisitions		-		491		-		491
Disposals		-		(794)		(108)		(902)
Balance as at December 31, 2022	$	23,772	$	9,380	$	17,895	$	51,047
Depreciation								
Balance as at December 31, 2022	**$**	**14,544**	**$**	**7,779**	**$**	**12,033**	**$**	**34,356**
Depreciation		**972**		**789**		**1,316**		**3,077**
Disposals		**-**		**(101)**		**(8)**		**(109)**
Balance as at December 31, 2023	**$**	**15,516**	**$**	**8,467**	**$**	**13,341**	**$**	**37,324**
Balance as at December 31, 2021	$	13,587	$	7,712	$	10,709	$	32,008
Depreciation		957		861		1,324		3,142
Disposals		-		(794)		-		(794)
Balance as at December 31, 2022	$	14,544	$	7,779	$	12,033	$	34,356
Carrying value								
Balance as at December 31, 2023	**$**	**5,256**	**$**	**1,505**	**$**	**4,546**	**$**	**11,307**
Balance as at December 31, 2022	$	9,228	$	1,601	$	5,862	$	16,691

The carrying value of property and equipment is reviewed at the end of each reporting period for any events or changes in circumstances which indicate that the carrying value may not be recoverable. Impairment testing is performed at the individual asset or CGU level for which identifiable cash flows are largely independent cash flows and by comparing the recoverable amount with the carrying value of the individual asset or CGU.

Jump to table of contents

12. Intangible Assets

$ thousands, as at or for the year ended December 31		Externally Acquired		Internally Developed		Total
Cost						
Balance as at December 31, 2022	**$**	**21,723**	**$**	**55,153**	**$**	**76,876**
Acquisitions		**-**		**2,313**		**2,313**
Disposals		**-**		**-**		**-**
Balance as at December 31, 2023	**$**	**21,723**	**$**	**57,466**	**$**	**79,189**
Balance as at December 31, 2021	$	31,161	$	47,146	$	78,307
Acquisitions		62		8,007		8,069
Disposals		(9,500)		-		(9,500)
Balance as at December 31, 2022	$	21,723	$	55,153	$	76,876
Amortization and impairment						
Balance as at December 31, 2022	**$**	**21,560**	**$**	**35,368**	**$**	**56,928**
Amortization		**111**		**2,456**		**2,567**
Disposals		**-**		**-**		**-**
Balance as at December 31, 2023	**$**	**21,671**	**$**	**37,824**	**$**	**59,495**
Balance as at December 31, 2021	$	28,841	$	34,095	$	62,936
Amortization		2,219		1,273		3,492
Disposals		(9,500)		-		(9,500)
Balance as at December 31, 2022	$	21,560	$	35,368	$	56,928
Carrying value						
Balance as at December 31, 2023	**$**	**52**	**$**	**19,642**	**$**	**19,694**
Balance as at December 31, 2022	$	163	$	19,785	$	19,948

The carrying value of intangible assets is reviewed at the end of each reporting period for any events or changes in circumstances which indicate that the carrying value may not be recoverable. Impairment testing is performed at the individual asset or CGU level for which identifiable cash flows are largely independent cash flows and by comparing the recoverable amount with the carrying value of the individual asset or CGU.

Jump to table of contents

13. Investments in Affiliates

The ownership interest and carrying values of Central 1's investments in affiliates are as follows:

	% of direct ownership outstanding			
$ thousands, except as indicated, as at December 31	**2023**	**2022**	**2023**	**2022**
The CUMIS Group Limited	**27 %**	27 %	**$ 14,769**	$ 14,849
CU CUMIS Wealth Holdings LP	**35 %**	35 %	**40,518**	40,835
189286 Canada Inc.	**52 %**	52 %	**36,854**	32,024
Agility Forex Ltd.	**27 %**	27 %	**962**	1,227
			$ 93,103	$ 88,935

In January 2023, Central 1 contributed $1.4 million (2022 – $nil) to support the operational and initiative spend of 189286 Canada Inc.

14. Deferred Tax Assets

$ thousands, as at and for the year ended December 31	2022	Recognized in income (loss)	Recognized in OCI	2023
Deferred tax assets				
Financial instruments	$ 23,055	$ 15,427	$ -	**$ 38,482**
Employee future benefits	6,600	28	212	**6,840**
Equity interest in affiliates	1,519	57	-	**1,576**
Unused tax losses and tax credits	91,143	(20,886)	(2,643)	**67,614**
Other	4,774	9	-	**4,783**
Total deferred tax assets	127,091	(5,365)	(2,431)	**119,295**
Deferred tax liabilities				
Financial instruments	(47,248)	-	-	**(47,248)**
Property and equipment	(1,024)	541	-	**(483)**
Employee future benefits	(4,917)	(102)	(181)	**(5,200)**
Equity interest in affiliates	(6,339)	(127)	(383)	**(6,849)**
Other	(3,444)	(356)	-	**(3,800)**
Total deferred tax liabilities	(62,972)	(44)	(564)	**(63,580)**
Net deferred tax assets[1]	$ 64,119	$ (5,409)	$ (2,995)	**$ 55,715**

[1] Deferred tax assets and liabilities are assessed by each legal entity and presented on a net basis on the Consolidated Statement of Financial Position.

$ thousands, as at and for the year ended December 31	2021	Recognized in income (loss)	Recognized in OCI	2022
Deferred tax assets				
Financial instruments	$ 23,006	$ 49	$ -	$ 23,055
Employee future benefits	6,481	13	106	6,600
Equity interest in affiliates	1,378	128	13	1,519
Unused tax losses	18,738	64,530	7,875	91,143
Other	4,672	102	-	4,774
Total deferred tax assets	54,275	64,822	7,994	127,091
Deferred tax liabilities				
Financial instruments	(23,874)	(23,374)	-	(47,248)
Property and equipment	(1,092)	68	-	(1,024)
Employee future benefits	(4,072)	(85)	(760)	(4,917)
Equity interest in affiliates	(6,093)	(107)	(139)	(6,339)
Other	(2,545)	(899)	-	(3,444)
Total deferred tax liabilities	(37,676)	(24,397)	(899)	(62,972)
Net deferred tax assets[1]	$ 16,599	$ 40,425	$ 7,095	$ 64,119

[1] Deferred tax assets and liabilities are assessed by each legal entity and presented on a net basis on the Consolidated Statement of Financial Position.

Jump to table of contents

15. Other Assets

$ thousands, as at December 31		2023		2022
Prepaid expenses	$	**7,822**	$	8,456
Accounts receivable and other		**9,306**		8,298
Post-employment benefits		**6,775**		5,952
Investment property		**508**		597
	$	**24,411**	$	23,303

Contract Balances

$ thousands, as at December 31		2023		2022
Receivables arising from contracts with customers				
Trade receivables	$	**7,235**	$	6,784
Contract assets		**879**		1,354
Total contract assets[1]	$	**8,114**	$	8,138
Total contract liabilities[2]	$	**3,928**	$	5,290

[1] Contract assets are included within the "accounts receivable and other" under Other Assets.
[2] Contract liabilities exclude the deferred revenue related to the amount received from credit union clients under the Payments Modernization Cost Share Arrangement which was recorded under other liabilities.

16. Deposits

$ thousands, as at December 31		2023		2022
Deposits designated as FVTPL				
Due within three months	$	**1,570,372**	$	1,546,972
Due after three months and within one year		**614,193**		902,014
Due after one year and within five years		**647,766**		646,526
		2,832,331		3,095,512
Accrued interest		**22,327**		16,143
Amortized cost	$	**2,854,658**	$	3,111,655
Fair value	$	**2,844,471**	$	3,070,737
Deposits held at amortized cost				
Due on demand	$	**2,999,013**	$	2,208,422
Due within three months		**10,175**		10,043
Due after three months and within one year		**2,000**		20,000
Due after one year and within five years		**-**		10,225
		3,011,188		2,248,690
Accrued interest		**45**		201
Amortized cost	$	**3,011,233**	$	2,248,891
Total carrying value	$	**5,855,704**	$	5,319,628

Jump to table of contents

17. Securitization Liabilities

Central 1 has recognized its obligations under both direct and indirect securitization activities at fair value in the Consolidated Statement of Financial Position. The maturities of these obligations are indicated below:

$ thousands, as at December 31	2023	2022
Amounts		
Due within three months	$ **232,088**	$ 506,000
Due after three months and within one year	**160,562**	165,742
Due after one year and within five years	**177,210**	340,142
	569,860	1,011,884
Accrued interest	**-**	531
Amortized cost	$ **569,860**	$ 1,012,415
Fair value	$ **559,990**	$ 992,140

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

$ thousands, as at December 31	2023	2022
FVTPL		
Total reinvestment assets under the CMB Program (Note 7)	$ **339,712**	$ 445,666
Assets recognized as securities	**-**	41,292
Fair value	$ **339,712**	$ 486,958
Amortized cost		
Total reinvestment assets under the CMB Program (Note 7)	$ **220,278**	$ 507,575
Total underlying assets designated	$ **559,990**	$ 994,533

Jump to table of contents

18. Debt Securities Issued

$ thousands, as at December 31	2023	2022
Amortized cost		
Due within three months	$ **695,183**	$ 850,179
Due after three months and within one year	**151,242**	571,855
Due after one year and within five years	**647,826**	348,726
	1,494,251	1,770,760
Accrued interest	**10,453**	5,711
Amortized cost	**1,504,704**	1,776,471
Fair value hedge adjustment[1]	**(2,476)**	(1,655)
Carrying value	$ **1,502,228**	$ 1,774,816
Designated as FVTPL		
Due after one year and within five years	$ **650,000**	$ 250,000
Accrued interest	**4,792**	1,414
Amortized cost	**654,792**	251,414
Fair value	**648,904**	222,753
Total carrying value	$ **2,151,132**	$ 1,997,569

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

At December 31, 2023, the short-term commercial paper facility had a total par value of $853.4 million (December 31, 2022 - $979.5 million) and the medium-term note facility had a total par value of $1.3 billion (December 31, 2022 - $1.1 billion).

$ millions, as at December 31, 2023		Face Value	Maturity	Interest Rate (fixed rate)		Redeemable at our option	Payable
Medium Term Fixed Rate Note							
Designated at FVTPL							
Series 18	$	250.0	Jan 29 2026	1.323	%	non-redeemable	semi-annually
Series 21	$	200.0	Nov 10 2026	5.877	%	redeemable	semi-annually
Series 22	$	200.0	Nov 10 2028	5.981	%	redeemable	semi-annually
Designated into Hedging Relationship							
Series 19	$	350.0	Sep 29 2025	5.417	%	redeemable	semi-annually
Series 20	$	300.0	Feb 7 2028	4.648	%	redeemable	semi-annually

$ millions, as at December 31, 2022		Face Value	Maturity	Interest Rate (fixed rate)		Redeemable at our option	Payable
Medium Term Fixed Rate Note							
Amortized Cost							
Series 15	$	500.0	Nov 7 2022	2.600	%	non-redeemable	semi-annually
Series 17	$	450.0	Dec 6 2023	2.584	%	non-redeemable	semi-annually
Designated at FVTPL							
Series 18	$	250.0	Jan 29 2026	1.323	%	non-redeemable	semi-annually
Designated into Hedging Relationship							
Series 19	$	350.0	Sep 29 2025	5.417	%	redeemable	semi-annually

Central 1 has secured $200.0 million of unsecured letter of credit facilities with various financial institutions. The unsecured facilities rank equally with the outstanding notes and deposits. At December 31, 2023 and December 31, 2022, the amounts outstanding were $83.4 million and $106.9 million respectively.

Jump to table of contents

19. Subordinated Liabilities

$ thousands, as at December 31		2023		2022
Amortized cost				
Series 5	$	-	$	21,000
Accrued interest		-		74
Amortized cost	$	-	$	21,074
Designated as FVTPL				
Series 7	$	**200,000**	$	200,000
Accrued interest		**26**		26
Amortized cost	$	**200,026**	$	200,026
Fair value	$	**182,111**	$	177,813
Total carrying value	$	**182,111**	$	198,887

On June 30, 2021, Central 1 issued $200.0 million principal of Series 7 subordinated fixed rate notes due June 30, 2031. The notes bear interest at a fixed rate of 2.391%, payable semi-annually, until, but excluding June 30, 2026, and thereafter at a floating rate based on the 3-month CDOR plus 96 basis points, payable quarterly. Central 1 has the option to redeem the outstanding notes in whole or in part on or after June 30, 2026. The Series 7 notes are designated at FVTPL at inception to be managed as a group on a fair value basis with securities portfolio.

On August 16, 2023, Central 1 redeemed $21.0 million principal amount of Series 5 subordinated notes. The notes bore interest at a floating rate based on the 90-day Bankers' Acceptance rate plus 10 basis points.

20. Change in Liabilities Arising from Financing Activities

$ thousands, as at or for the year ended December 31	2022	Cash Flow	Non-cash changes: Fair Value	Non-cash changes: Other	2023
Securitization liabilities	$ 992,140	$ (442,026)	$ 10,406	$ (530)	**$ 559,990**
Debt securities issued	1,997,569	123,491	15,926	14,146	**2,151,132**
Subordinated liabilities	198,887	(21,000)	5,164	(940)	**182,111**
Finance lease	5,622	(313)	-	(3,000)	**2,309**
	$ 3,194,218	$ (339,848)	$ 31,496	$ 9,676	**$ 2,895,542**

$ thousands, as at or for the year ended December 31	2021	Cash Flow	Non-cash changes: Fair Value	Non-cash changes: Other	2022
Securitization liabilities	$ 960,765	$ 52,539	$ (21,164)	$ -	$ 992,140
Debt securities issued	2,062,175	(41,656)	(15,865)	(7,085)	1,997,569
Subordinated liabilities	220,321	-	(12,746)	(8,688)	198,887
Finance lease	6,043	(421)	-	-	5,622
	$ 3,249,304	$ 10,462	$ (49,775)	$ (15,773)	$ 3,194,218

21. Other Liabilities

$ thousands, as at December 31	2023	2022
Deferred revenue[1]	**$ 30,544**	$ 31,326
Accounts payable	**18,936**	21,764
Short-term employee benefits	**17,450**	14,425
Post-employment benefits	**12,885**	12,211
Cash collateral payable[2]	**7,860**	77,445
Finance lease	**2,309**	5,622
	$ 89,984	$ 162,793

[1] Deferred revenue includes the amount received from credit union clients under the Payments Modernization Cost Share Arrangement.
[2] Received as collateral for derivatives transactions.

Jump to table of contents

22. 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.

thousands of shares, as at or for the year ended December 31	2023	2022
Number of shares issued		
Balance at beginning of period	**43,364**	43,359
Issued during the period	**-**	5
Class A - credit unions: balance at the end of period	**43,364**	43,364
Class B - co-operatives: balance at the beginning and end of period	**11**	11
Class C - other: balance at the beginning and end of period	**7**	7
Class E - credit unions: balance at the beginning and end of period	**2,154**	2,154
Number of treasury shares		
Treasury shares - Class E: balance at the beginning and end of period	**(264)**	(264)

thousands of dollars, as at December 31	2023	2022
Amount of share capital outstanding		
Outstanding $1 par value shares		
Class A – credit unions	**$ 43,364**	$ 43,364
Class B – cooperatives	**11**	11
Class C – other	**7**	7
Outstanding $0.01 par value shares		
Class E – credit unions	**21**	21
	43,403	43,403
Amount of treasury shares		
Treasury shares - Class E	**(2)**	(2)
Balance at the end of period	**$ 43,401**	$ 43,401

Jump to table of contents

23. Net Interest Income

$ thousands, for the year ended December 31	2023	2022
Interest Income		
FVTPL	$ **244,919**	$ 146,089
FVOCI	**52,069**	36,264
Amortized cost	**134,593**	81,727
	431,581	264,080
Interest Expense		
FVTPL	**113,868**	65,316
Amortized cost	**263,396**	122,910
	377,264	188,226
Net Interest Income	$ **54,317**	$ 75,854

24. Gain on Disposal of Financial Instruments

$ thousands, for the year ended December 31	2023	2022
Realized loss on securities at FVTPL	$ **(13,082)**	$ (2,692)
Realized loss on securities at FVOCI	**(2,961)**	(5,368)
Realized gain on derivative instruments	**36,651**	6,789
Realized gain on deposits designated at FVTPL	**936**	1,043
Realized gain on obligations related to securities sold short	**104**	6,272
	$ **21,648**	$ 6,044

25. Change in Fair Value of Financial Instruments

$ thousands, for the year ended December 31	2023	2022
Change in unrealized gains (losses)		
Securities at FVTPL	$ **159,575**	$ (380,728)
Loans at FVTPL	**116**	(676)
Activities under the CMB Program		
Reinvestment assets	**8,338**	(20,361)
Securitization liabilities	**(10,406)**	21,164
Derivative instruments	**(40,682)**	54,621
Derivative instruments	**(64,532)**	110,556
Financial liabilities at FVTPL		
Deposits designated at FVTPL	**(24,581)**	37,601
Obligations related to securities sold short	**-**	188
Debt securities issued designated at FVTPL	**(15,926)**	15,865
Subordinated liabilities designated at FVTPL	**(5,164)**	12,746
	$ **6,738**	$ (149,024)

Jump to table of contents

26. Non-Interest Income

For the year ended December 31			2023			2022
$ thousands	Revenue arising from contracts with customers	Revenue arising from other sources	Total	Revenue arising from contracts with customers	Revenue arising from other sources	Total
Treasury						
Lending fees	$ 14,619	$ -	**$ 14,619**	$ 13,565	$ -	$ 13,565
Securitization fees	5,987	-	**5,987**	5,470	-	5,470
Foreign exchange income	-	4,865	**4,865**	-	2,668	2,668
Asset management services	3,580	-	**3,580**	3,417	-	3,417
Other	5,057	(182)	**4,875**	4,453	71	4,524
Payments & Digital Banking Platforms and Experiences						
Payment processing and other fees	79,800	-	**79,800**	75,795	-	75,795
Direct banking fees	40,701	-	**40,701**	36,324	-	36,324
System Affiliates & Other						
Equity interest in affiliates	-	170	**170**	-	(945)	(945)
Dividend Income	-	3,686	**3,686**	-	-	-
Income from investees	-	(24)	**(24)**	-	2,664	2,664
Other	3,388	-	**3,388**	6,526	-	6,526
	$ 153,132	**$ 8,515**	**$ 161,647**	$ 145,550	$ 4,458	$ 150,008

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

27. Other Administrative Expense

$ thousands, for the year ended December 31	2023	2022
Professional fees	**$ 28,535**	$ 33,312
Cost of digital and payments processing	**24,970**	25,804
Cost of sales and services	**8,239**	7,987
Occupancy	**2,728**	2,393
Business development projects	**865**	303
Other	**2,761**	2,003
	$ 68,098	$ 71,802

28. Provision for Income Tax

Income tax reported in the Consolidated Financial Statements are as follows:

$ thousands, for the year ended December 31	2023	2022
Current income tax recovery	$ (803)	$ (3,106)
Deferred income tax expense (recovery)	5,409	(40,425)
Income tax expense (recovery) in income (loss)	4,606	(43,531)
Current income tax expense (recovery) in OCI	17	(18)
Deferred income tax expense (recovery) in OCI	2,995	(7,095)
Income tax expense (recovery) in OCI	3,012	(7,113)
Total income tax expense (recovery)	$ 7,618	$ (50,644)

Central 1's effective tax rate differs from the amount that would be computed by applying the federal and provincial statutory rates of 26.9% (December 31, 2022 – 26.9%).

The following table presents the effective tax rate:

December 31	2023	2022
Combined federal and provincial statutory income tax rates	26.9 %	26.9 %
Non-capital loss in subsidiary recognized in the year	0.0 %	3.7 %
Sale of investment in Concentra	0.0 %	3.7 %
Investment tax credits from prior years	(11.3) %	5.2 %
Other	(0.3) %	(1.0) %
Effective income tax rate	15.3 %	38.5 %

Jump to table of contents

29. Post-Employment Benefits

Central 1 provides various registered retirement plans for employees including defined benefit plans and defined contribution plans. A non-registered supplemental pension plan is also provided to eligible employees whose registered pension plan benefits are limited by the Income Tax Act. In addition to providing retirement plans, Central 1 also funds a non-pension retiree benefits plan for eligible employees.

(a) Defined Benefit Plans

Subject to eligibility requirements, employees of Central 1 may be eligible to participate in one of the following defined benefit plans which are no longer available for new employees.

- The defined benefit plan under the B.C. Credit Union Employees' Pension Plan, which is a multi-employer plan governed by a Board of Trustees; and
- The single-employer defined benefit plan administered by Central 1 for certain Ontario-based employees.

Central 1 Credit Union is one of several employers participating in the 1.75% Defined Benefit Division of the B.C. Credit Union Employees' Pension Plan. The B.C. Credit Union Employees' Pension Plan is a contributory, multi-employer, multidivisional registered plan governed by a Board of Trustees which is responsible for overseeing the management of the Plan, including investment of the assets and administration of the benefits.

At least once every three years, an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of the funding levels. The most recent actuarial valuation of the 1.75% Division of the Plan was conducted as at December 31, 2021. The latest actuarial valuation indicated a going concern surplus of $112.5 million and a solvency deficiency of $10.4 million. The next formally scheduled actuarial valuation date will performed as at December 31, 2024.

The B.C. Credit Union Employees' Pension Plan is subject to the provisions under *Pension Benefits Standards Act* (the Act) regulated by the BCFSA. The Act prescribes that, with respect to a solvency deficiency, amortization payments must be made over a period not exceeding five years from the review date that established the solvency deficiency.

The single-employer plan is registered under the Ontario Pension Benefits Act and administered by Central 1 which is responsible over matters affecting the benefit entitlements earned by plan members and beneficiaries. As at December 31, 2022, the actuary reported that the single-employer plan had an excess of plan assets over actuarial liabilities for accrued pension benefits of $4.9 million. The solvency valuation indicated that the value of assets exceeds the actuarial liabilities by $5.6 million. Since both the going-concern excess surplus and the solvency surplus exceed the estimated employer normal cost contributions payable, Central 1 is prohibited from making contributions under the defined benefit component until the date of the next valuation. The next actuarial valuation is expected to be performed no later than December 31, 2025, with the results available in 2026.

Details of the single-employer defined benefit plan, as determined by the plan actuary as at year-end are as follows:

$ thousands, as at or for the year ended December 31		2023		2022
Defined benefit obligation	$	**(11,537)**	$	(11,280)
Fair value of plan assets		**18,311**		17,232
Net defined benefit asset	$	**6,774**	$	5,952
Defined benefit obligation				
Defined benefit obligation, beginning of year	$	**(11,280)**	$	(13,985)
Current service costs		**(82)**		(161)
Employee contributions		**(37)**		(38)
Interest cost on accrued benefit obligation		**(571)**		(430)
Benefit payments		**621**		602
Actuarial gain (loss)		**(188)**		2,732
Defined benefit obligation, end of year	$	**(11,537)**	$	(11,280)
Fair value of plan assets				
Plan assets, beginning of year	$	**17,232**	$	20,348
Employer contributions		**-**		-
Employee contributions		**37**		38
Interest income on plan assets		**872**		622
Return on plan assets, excluding interest income (actuarial gain (loss))		**865**		(3,126)
Benefit payments		**(621)**		(602)
Administration costs (other than costs from managing plan assets)		**(74)**		(48)
Plan assets, end of year	$	**18,311**	$	17,232

$ thousands, for the year ended December 31		2023		2022
Expense recognized in income (loss)				
Current service costs	$	**82**	$	161
Administration costs (other than costs from managing plan assets)		**74**		48
Interest cost on the accrued benefit obligation		**571**		430
Interest income on plan assets		**(872)**		(622)
	$	**(145)**	$	17

$ thousands, for the year ended December 31		2023		2022
Amounts recognized in OCI				
Actuarial gain (loss) on defined benefit obligation	$	**(188)**	$	2,732
Actuarial gain (loss) on plan assets, excluding interest income		**865**		(3,126)
	$	**677**	$	(394)

December 31	2023	2022
Actuarial assumptions used to determine defined benefit expense:		
Weighted average discount rate on benefit obligation	**5.15 %**	3.10 %
Weighted average salary escalation	**3.00 %**	3.00 %
Expected return on plan assets	**4.65 %**	5.15 %
Actuarial assumptions used to determine accumulated benefit obligation:		
Weighted average discount rate on benefit obligation	**5.15 %**	2.85 %
Weighted average salary escalation	**3.00 %**	3.00 %
Expected return on plan assets	**4.65 %**	5.15 %

(b) Defined Contribution Plans

Subject to eligibility requirements, employees of Central 1 may be eligible to participate in one of the following defined contribution plans.

- The money purchase option under the B.C. Credit Union Employees' Pension Plan, which is a multi-employer plan governed by a Board of Trustees;
- The single-employer money purchase option administered by Central 1 operated for Ontario employees; and
- The group registered retirement savings plan under the B.C. Central 1 Retirement Savings Plan (group RRSP).

Contributions for defined contribution plans and expense for group RRSP included in salaries and employee benefits were $3.7 million (December 31, 2022 - $3.0 million).

(c) Retiree Non-Pension Benefits

In addition to the base retirement plans, Central 1 provides post-retirement benefits consisting of extended health, Medical Services Plan, dental and life insurance premiums to employees that qualify.

Details of the unfunded non-pension retirement benefit program, as determined by the program actuary as at year-end, are as follows:

$ thousands, as at or for the year ended December 31	2023	2022
Defined benefit obligation	**$ (9,851)**	$ (9,155)
Defined benefit obligation		
Defined benefit obligation, beginning of year	**$ (9,155)**	$ (11,402)
Current service costs	**(59)**	(93)
Interest cost of accrued benefit obligation	**(450)**	(316)
Benefits payments	**448**	451
Actuarial liability experience loss	**(283)**	(43)
Valuation gain	**-**	-
Actuarial liability financial assumptions income (loss)	**(352)**	2,248
Defined benefit obligation, end of year	**$ (9,851)**	$ (9,155)

Jump to table of contents

$ thousands, for the year ended December 31	2023	2022
Expense recognized in income (loss)		
Current service costs	$ **59**	$ 93
Interest cost on accrued benefit obligation	**450**	316
	$ **509**	$ 409

$ thousands, for the year ended December 31	2023	2022
Amounts recognized in OCI		
Actuarial gain (loss) on obligation	$ **(635)**	$ 2,205

December 31	2023	2022
Actuarial assumptions used to determine retiree non-pension benefits expense:		
Weighted average discount rate on benefit obligation	**4.60 %**	5.00 %
Actuarial assumptions used to determine accumulated benefit obligation:		
Weighted average discount rate on benefit obligation	**4.60 %**	5.00 %
Health care cost trend assumptions:		
Health care cost trend rate on benefit obligation	**6.50 %**	6.75 %
Ultimate trend rate on benefit obligation	**2.00 %**	2.00 %
Year that the rate reaches the ultimate trend rate	**2041**	2041

(d) Non-Registered Supplemental Pension Plan

Central 1 also offers supplemental pension retirement benefits to employees who meet the requirements. Details of the unfunded supplemental pension plan, as determined by the plan actuary as at year-end, are as follows:

$ thousands, as at or for the year ended December 31	2023	2022
Defined benefit obligation	$ (3,415)	$ (3,430)
Fair value of plan assets	381	374
Net defined benefit liability	$ (3,034)	$ (3,056)

$ thousands, as at or for the year ended December 31	2023	2022
Defined benefit obligation		
Defined benefit obligation, beginning of year	$ (3,430)	$ (4,266)
Current service costs	(63)	(69)
Interest cost on accrued benefit obligation	(167)	(126)
Benefits paid	394	410
Actuarial gain (loss)	(149)	621
Defined benefit obligation, end of year	$ (3,415)	$ (3,430)
Fair value of plan assets		
Plan assets, beginning of year	$ 374	$ 342
Employer contributions	401	385
Benefit payments	(394)	(353)
Plan assets, end of year	$ 381	$ 374
Expense recognized in income or loss		
Current service costs	$ 63	$ 69
Interest cost on accrued benefit obligation	167	126
	$ 230	$ 195

$ thousands, for the year ended December 31	2023	2022
Amounts recognized in OCI		
Actuarial gain (loss) on defined benefit obligation	$ (149)	$ 621

December 31	2023	2022
Actuarial assumptions used to determine retiree non-pension benefit expense:		
Weighted average salary escalation	3.00 %	3.00 %
Weighted average discount rate on benefit obligation	4.60 %	5.00 %
Actuarial assumptions used to determine accumulated benefit obligation:		
Weighted average salary escalation	3.00 %	3.00 %
Weighted average discount rate on benefit obligation	4.60 %	5.00 %

Jump to table of contents

(e) Risks

The defined benefit plans and other post-employment plans expose Central 1 to a number of risks. The pension obligation is mainly impacted by the changes to the discount rate, longevity of plan members and future inflation levels. The pension plan assets are subject to market risk resulting from changes in interest rate, foreign exchange rates and credit and swap spreads.

30. Segment Information

For management reporting purposes, Central 1's operations and activities are organized around two key business segments: Treasury and Payments & Digital Banking Platforms and Experiences (DBPX). 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 "System Affiliates & Other". A description of each business segment is as follows:

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 members' deposits augmented by capital market funding.

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 Payments & DBPX segment. Central 1 provides foreign exchange services, derivative capabilities, and other ancillary treasury services.

The Treasury segment also operates the Group Clearer settlement function. As a Group Clearer under the rules of Payments Canada, Central 1 is a Lynx participant and acts as the credit union systems' financial institution connection to the Canadian payments system and the Bank of Canada.

Payments & DBPX

Payments & DBPX 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 and 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. Certain strategic initiatives relating to digital banking and payments solutions are included in this segment such as Forge 2.0.

Payments operations encompass processing paper and electronic transactions such as automated funds transfer, bill payments and wire transfers on behalf of member credit unions. The payment processing solutions are secure and reliable tools that allow financial and corporate-sector clients to complete a variety of digital, paper and remittance transactions.

Central 1 is implementing the Payments Modernization Processing initiative to enable clients to be compliant with new Payments Canada and Bank of Canada requirements. External vendors are engaged to provide Central 1 with certain payment processing and cloud hosting services, including, without limitation, automated funds transfers, bill payment, cheque, wires and e-transfer, and clearing and settlement services for its clients.

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. It also includes the costs of implementing certain strategic initiatives other than ones included in the key segments of business above.

Management Reporting Framework

The results of these segments are regularly reviewed by Central 1's executive leadership team for the purpose of making decisions about resource allocation and performance assessment. The expenses in each business segment may include costs of services incurred directly and those that are allocated. The management reporting framework assists in the attribution of capital and the transfer pricing of funds to the business segments in a manner that fairly and consistently measures and aligns the economic costs with the underlying benefits and risks of that specific business segment. Central 1's capital plan allows for tactical capital allocations within all segments.

Central 1 does not have any inter-segment revenue between business segments. Income tax provision or recovery is generally applied to each segment based on a statutory tax rate and may be adjusted for items and activities unique to each segment.

The accounting policies used to prepare these segments are consistent with those followed in the preparation of Central 1's Consolidated Financial Statements as described in Note 5.

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 year ended December 31, 2023:

$ thousands, for the year ended December 31, 2023	Treasury	Payments & DBPX	System Affiliates & Other	Total
Net interest income (expense)	$ 56,876	$ (2,559)	$ -	**$ 54,317**
Gain on disposal of financial instruments	21,648	-	-	**21,648**
Change in fair value of financial instruments	6,070	-	668	**6,738**
Non-interest income	33,926	120,501	7,220	**161,647**
Total revenue	118,520	117,942	7,888	**244,350**
Provision for credit losses	222	-	-	**222**
Non-interest expense	41,747	151,864	20,424	**214,035**
Income (loss) before income taxes	76,551	(33,922)	(12,536)	**30,093**
Income tax expense (recovery)	20,429	(12,785)	(3,038)	**4,606**
Net income (loss)	**$ 56,122**	**$ (21,137)**	**$ (9,498)**	**$ 25,487**
Total assets as at December 31, 2023	**$ 10,979,363**	**$ 17,349**	**$ 230,502**	**$ 11,227,214**
Total liabilities as at December 31, 2023	**$ 10,273,545**	**$ 16,116**	**$ 211,569**	**$ 10,501,230**

The following table summarizes the segment results for the year ended December 31, 2022:

$ thousands, for the year ended December 31, 2022	Treasury	Payments & DBPX	System Affiliates & Other	Total
Net interest income (expense)	$ 76,334	$ (480)	$ -	$ 75,854
Gain (loss) on disposal of financial instruments	(12,652)	-	18,696	6,044
Change in fair value of financial instruments	(133,410)	-	(15,614)	(149,024)
Non-interest income	29,644	112,119	8,245	150,008
Total revenue	(40,084)	111,639	11,327	82,882
Provision for credit losses	361	-	-	361
Non-interest expense	37,339	139,279	19,044	195,662
Loss before income taxes	(77,784)	(27,640)	(7,717)	(113,141)
Income tax recovery	(28,613)	(14,504)	(414)	(43,531)
Net loss	$ (49,171)	$ (13,136)	$ (7,303)	$ (69,610)
Total assets as at December 31, 2022	$ 11,622,405	$ 17,103	$ 241,751	$ 11,881,259
Total liabilities as at December 31, 2022	$ 11,161,097	$ 7,447	$ 21,791	$ 11,190,335

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

31. 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 system's 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, as at December 31		2023		2022
Commitments to extend credit	**$**	**5,093,356**	$	4,976,567
Guarantees				
Financial guarantees	**$**	**793,600**	$	717,600
Performance guarantees	**$**	**500,000**	$	130,000
Standby letters of credit	**$**	**228,982**	$	236,901
Future prepayment reinvestment commitment	**$**	**883,881**	$	797,936

Amounts utilized under these agreements representing off-balance sheet amounts for commitments to extend credit, guarantees, and standby letters of credit, respectively, on December 31, 2023 are $66.3 million, $596.6 million and $104.3 million (December 31, 2022 - $121.2 million, $458.6 million and $120.8 million).

All the financial guarantees mature within a year with fees charged at inception of the contract. 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. The un-committed performance guarantee approved limits for December 31, 2023 were $1.0 billion (December 31, 2022 - $nil).

Future prepayment reinvestment commitment represents Central 1's commitment for reinvestment under the indirect securitization activities.

Central 1 evaluates contingencies on an ongoing basis and establishes provisions for matters in which the outflow of economic resources is probable and the amount of obligation can be reliably estimated. Central 1 is involved in legal actions in the ordinary course of business, in which the likelihood of a loss and amount of loss, if any, cannot be reliably estimated at December 31, 2023.

Jump to table of contents

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, as at December 31		2023		2022
Assets pledged to Bank of Canada & Direct Clearing Organizations[1, 2]	$	**52,911**	$	72,272
Assets pledged in relation to:				
Derivative financial instrument transactions		**11,266**		18,189
Securities lending		**40,192**		65,066
Securitization liabilities		**-**		41,292
Reinvestment assets under the CMB Program		**559,990**		953,241
Securities under repurchase agreements		**1,036,557**		1,909,708
	$	**1,700,916**	$	3,059,768

[1] Includes assets pledged as collateral for Payments Canada High Value Payment System (Lynx) activities.
[2] Central 1 acts as Group Clearer on behalf of other central credit unions. Securities pledged by other centrals as collateral for settlements are not included in pledged assets.

Jump to table of contents

32. Financial Instruments – Fair Value

Certain financial instruments are recognized in the Consolidated Statement of Financial Position at fair value. These include derivative instruments, commercial loans designated at FVTPL, securities, deposits and debt securities issued and a subordinated note that are designated at FVTPL, reinvestment assets and securitization liabilities. 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 determination of fair value requires judgement and is based on market information, where available and appropriate. 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.

Fair value measurements are categorized into three levels within the following hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included in Level 1 that are observable, either directly or indirectly.
- 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.

Securities, deposits and debt securities issued and a subordinated note that are designated at FVTPL, derivatives (except for futures which are Level 1) are classified as Level 2 in the hierarchy with observable prices or rate inputs as compared to transaction prices, dealer quotes or vendor prices. Equity instruments, where inputs are unobservable, are classified as Level 3 in the hierarchy. As at December 31, 2023, Level 3 financial assets includes $32.1 million of equity instrument that is measured at cost which is an appropriate estimate of fair value 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.

Transfers between the levels in the fair value hierarchy 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. During the current year, due to changes in market conditions for certain investment securities, quoted prices in active markets became available for these securities. Therefore, these securities with a fair value totaling $194.7 million were transferred from Level 2 to Level 1 of the fair value hierarchy. During the year ended December 31, 2022, there were no transfers between levels in the fair value hierarchy.

Financial Instruments with Fair Value Approximating Carrying Value

Fair value is assumed to be equal to the carrying value for financial instruments that are not carried at fair value as the carrying value is considered to be a reasonable approximation of fair value due to their short-term nature. These instruments are cash and cash equivalents, settlements in-transit assets, loans and deposits due on demand classified as amortized cost, settlements in-transit liabilities, securities purchased under reverse repurchase agreements and sold under repurchase agreements, and certain other financial assets and liabilities.

Financial Instruments with Fair Value Determined Using Valuation Techniques

The most significant assets and liabilities for which fair values are determined using valuation techniques include: securities at FVTPL and FVOCI, derivative instruments (except for futures which are Level 1), deposits and debt securities issued and a subordinated liability designated at FVTPL, reinvestment assets and securitization liabilities. To determine fair value, Central 1 uses broker quotes or third party prices observed in the market. When observable quoted prices are not available, fair value is determined based on discounting the expected cash flows using interest rates currently being offered on instruments with similar terms or for the instruments.

For Central 1's equity instruments, quoted market prices are not available, in which case Central 1 uses valuation techniques such as discounted cash flows, comparison with instruments where observable inputs exist, and other valuation techniques. Assumptions and inputs used in these valuation techniques include cash flows, risk-free rate, benchmark interest rate, and spreads. The estimated fair value would increase (decrease) if:

- the expected cash flows were higher (lower);
- the risk-free rates and benchmark interest rates were lower (higher); or
- the spreads were higher (lower).

Jump to table of contents

The following table presents the carrying values and fair values of Central 1's financial assets and financial liabilities as at December 31, 2023 and their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying value is a reasonable approximation of fair value.

$ millions, as at December 31, 2023	Level 1	Level 2	Level 3	Amounts at Fair Value	Amounts at Amortized Cost[1]	Total Carrying Value
Financial assets						
Cash and cash equivalents	$ -	$ -	$ -	$ -	$ 1,852.5	**$ 1,852.5**
Settlements in-transit assets	-	-	-	-	158.5	**158.5**
Securities	451.6	6,287.5	40.9	6,780.0	220.3	**7,000.3**
Loans	-	-	10.3	10.3	1,773.4	**1,783.7**
Derivative assets	0.1	227.2	-	227.3	-	**227.3**
Other assets	-	-	-	-	9.3	**9.3**
Total financial assets	$ 451.7	$ 6,514.7	$ 51.2	$ 7,017.6	$ 4,014.0	**$ 11,031.6**
Financial liabilities						
Settlements in-transit liabilities	$ -	$ -	$ -	$ -	$ 544.9	**$ 544.9**
Deposits	-	2,844.5	-	2,844.5	3,011.2	**5,855.7**
Securities under repurchase agreements	-	-	-	-	1,036.6	**1,036.6**
Securitization liabilities	-	560.0	-	560.0	-	**560.0**
Derivative liabilities	1.4	79.4	-	80.8	-	**80.8**
Debt securities issued	-	648.9	-	648.9	1,502.2	**2,151.1**
Subordinated liabilities	-	182.1	-	182.1	-	**182.1**
Other liabilities	-	-	-	-	29.1	**29.1**
Total financial liabilities	$ 1.4	$ 4,314.9	$ -	$ 4,316.3	$ 6,124.0	**$ 10,440.3**

[1] Amounts carried at amortized cost include financial instruments classified as amortized cost or other financial liabilities.

$ millions, as at December 31, 2022	Level 1	Level 2	Level 3	Amounts at Fair Value	Amounts at Amortized Cost[1]	Total Carrying Value
Financial assets	$ 0.4	$ 8,531.5	$ 50.7	$ 8,582.6	$ 3,024.9	$ 11,607.5
Financial liabilities	$ -	$ 4,589.5	$ -	$ 4,589.5	$ 5,954.5	$ 10,544.0

[1] Amounts carried at amortized cost include financial instruments classified as amortized cost or other financial liabilities.

Jump to table of contents

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

$ millions	Fair value at Dec 31 2022	Purchases	Repayments	Transfer	Changes in fair value of assets in net income or loss	Fair value at Dec 31 2023
Equity shares	$ 40.3	$ -	$ -	$ -	$ 0.6	**$ 40.9**
Loans	10.4	-	(0.2)	-	0.1	**10.3**
Total financial assets	$ 50.7	$ -	$ (0.2)	$ -	$ 0.7	**$ 51.2**

$ millions	Fair value at Dec 31 2021	Purchases	Disposals	Transfer out and into level 2	Changes in fair value of assets in net income or loss	Fair value at Dec 31 2022
Equity shares	$ 60.4	$ -	$ -	$ (23.3)	$ 3.2	$ 40.3
Loans	14.3	-	(3.2)	-	(0.7)	10.4
Total financial assets	$ 74.7	$ -	$ (3.2)	$ (23.3)	$ 2.5	$ 50.7

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 table sets out the fair value of on-balance sheet financial instruments of Central 1 using the valuation methods and assumptions described above. The fair values disclosed do not include assets and liabilities that are not considered financial instruments, such as property and equipment, intangible assets, and investments in affiliates.

$ millions, as at December 31	Fair Value		Carrying Value	
	2023	2022	2023	2022
Assets				
Cash and cash equivalents	**$ 1,852.5**	$ 957.2	**$ 1,852.5**	$ 957.2
Settlements in-transit assets	**$ 158.5**	$ 57.3	**$ 158.5**	$ 57.3
Securities	**$ 7,000.3**	$ 8,193.5	**$ 7,000.3**	$ 8,193.5
Loans[2]	**$ 1,774.7**	$ 2,060.5	**$ 1,783.7**	$ 2,078.2
Derivative assets	**$ 227.3**	$ 378.7	**$ 227.3**	$ 378.7
Other assets	**$ 9.3**	$ 8.3	**$ 9.3**	$ 8.3
Liabilities				
Settlements in-transit liabilities	**$ 544.9**	$ 483.5	**$ 544.9**	$ 483.5
Deposits[1,3]	**$ 5,855.7**	$ 5,319.7	**$ 5,855.7**	$ 5,319.6
Securities under repurchase agreements	**$ 1,036.6**	$ 1,909.7	**$ 1,036.6**	$ 1,909.7
Securitization liabilities	**$ 560.0**	$ 992.1	**$ 560.0**	$ 992.1
Derivative liabilities	**$ 80.8**	$ 126.1	**$ 80.8**	$ 126.1
Debt securities issued[1,4]	**$ 2,151.1**	$ 1,988.0	**$ 2,151.1**	$ 1,997.6
Subordinated liabilities[1,5]	**$ 182.1**	$ 198.9	**$ 182.1**	$ 198.9
Other liabilities	**$ 29.1**	$ 117.0	**$ 29.1**	$ 117.0

[1] Where the carrying values are at amortized cost, the fair value calculations for these instruments are based on Level 2 inputs.
[2] Where the carrying values are at cost, the fair value calculations for these instruments are based on Level 3 inputs
[3] A portion of deposits is designated at FVTPL. See Note 16 for the carrying amount.
[4] A portion of debt securities issued is designated at FVTPL. See Note 18 for the carrying amount.
[5] A portion of subordinated liabilities is designated at FVTPL. See Note 19 for the carrying amount.

33. Financial Instruments – Risk Management

The nature of Central 1's holdings of financial instruments exposes Central 1 to credit, counterparty, liquidity and market risk.

(a) Credit Risk

Credit risk is the potential for financial loss or opportunity cost resulting from the default or failure of a borrower, endorser, guarantor, counterparty or issuer to repay their financial obligation as they come due. Central 1 is exposed to credit risk through investments and lending activities as well as through its role as Group Clearer and other settlement business.

Central 1's risk management practices and key measures of credit risk are disclosed in the Risk Review section of the Management's Discussion and Analysis for the year ended December 31, 2023. Additional information regarding Central 1's key exposure to credit risk is provided in Notes 6, 7, 8, 9 and 10.

(b) Counterparty Risk

Central 1 is exposed to counterparty risk through entering into contracts with counterparties in return for bilateral value-exchange of services, such as interest rate swap and foreign exchange deals.

Central 1's risk management practices and key measures of counterparty risk are disclosed in the Risk Review section of the Management's Discussion and Analysis for the year ended December 31, 2023. Additional information regarding Central 1's key exposure to counterparty risk is provided in Notes 6, 7, 8, 9 and 10.

(c) Liquidity Risk

Liquidity risk arises from 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. Central 1 provides liquidity support to the credit union system in B.C. and Ontario and considers the liquidity and funding risks for each of its member credit unions as part of Central 1's risk. Our sound liquidity management framework ensures ongoing liquidity support of the credit union system in both normal and stressed market conditions.

Central 1's liquidity management framework is designed to ensure that reliable and cost-effective funding sources are available to satisfy Central 1's current and prospective financial commitments, and those of our member credit unions. Diversification of funding sources provides flexibility and minimizes concentration risk. It is a crucial component of our overall liquidity management strategy.

Central 1's risk management practices and key measures of liquidity and funding risk are disclosed in the Risk Review section of the Management's Discussion and Analysis for the year ended December 31, 2023. Additional information regarding Central 1's key exposure to liquidity risk is provided in Notes 7, 9, 16, 17, 18, 19, and 31.

(d) Market Risk

Market risk is the potential for financial loss resulting from unfavourable movements in interest rates, credit spreads, and foreign exchange rates. The level of market risk Central 1 is exposed to varies according to market conditions and the composition of our investment, securitization, and derivative portfolios. We manage our exposure to market risk through a range of governance and management processes. Central 1's overall appetite for market risk and aggregate market risk exposure limits are established in the Risk Appetite Statement while Central 1's Market Risk Policy sets out the key principles governing our management of market risk.

Central 1's risk management practices and key measures of market risk are disclosed in the Risk Review section of the Management's Discussion and Analysis for the year ended December 31, 2023. Additional information regarding Central 1's key exposure to market risk is provided in Notes 6, 7, 8, 9 and 10.

The following table summarizes the balance sheet items by the earlier of the contractual repricing or maturity dates as on December 31, 2023:

$ millions	Floating	Within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Not rate sensitive	Total
Assets							
Cash and cash equivalents	$ 1,746.4	$ -	$ -	$ -	$ -	$ 106.1	$ 1,852.5
Securities	1,192.9	554.0	762.2	3,679.9	1,087.1	(275.8)	7,000.3
Loans	760.5	404.3	288.1	325.8	-	5.0	1,783.7
Derivative assets	-	-	-	-	-	227.3	227.3
Other assets	-	-	-	-	-	363.4	363.4
	$ 3,699.8	$ 958.3	$ 1,050.3	$ 4,005.7	$ 1,087.1	$ 426.0	$ 11,227.2
Liabilities							
Deposits	$ 3,030.7	$ 1,567.4	$ 609.2	$ 636.3	$ -	$ 12.1	$ 5,855.7
Securities under repurchase agreements	-	1,036.6	-	-	-	-	1,036.6
Securitization liabilities	-	232.1	160.6	177.2	-	(9.9)	560.0
Derivative liabilities	-	-	-	-	-	80.8	80.8
Debt securities issued	-	698.9	154.5	1,300.0	-	(2.3)	2,151.1
Subordinated liabilities	-	-	-	-	200.0	(17.9)	182.1
Other liabilities	7.9	-	-	-	-	627.0	634.9
Equity	-	-	-	-	-	726.0	726.0
	$ 3,038.6	$ 3,535.0	$ 924.3	$ 2,113.5	$ 200.0	$ 1,415.8	$ 11,227.2
On-balance sheet gap	$ 661.2	$ (2,576.7)	$ 126.0	$ 1,892.2	$ 887.1	$ (989.8)	$ -
Off-balance sheet gap	$ (2,181.6)	$ 150.5	$ 1,133.1	$ 669.4	$ 228.6	$ -	$ -
Total Gap December 31, 2023	**$ (1,520.4)**	**$ (2,426.2)**	**$ 1,259.1**	**$ 2,561.6**	**$ 1,115.7**	**$ (989.8)**	**$ -**
Total Gap December 31, 2022	$ (2,688.0)	$ (2,895.3)	$ (22.7)	$ 4,931.4	$ 1,554.5	$ (879.9)	$ -

Additional information regarding the monitoring of maturity gap is provided in the Liquidity Risk section of the MD&A.

34. Financial Instruments – Foreign Currency Exposure

Central 1 has various financial instruments denominated in foreign currencies. The details of Central 1's financial instruments, which are denominated in U.S. dollars, are as follows:

$ thousands, as at December 31	2023	2022
Assets		
Cash and cash equivalents	$ **41,696**	$ 38,053
Securities	**418,487**	552,732
Loans	**51**	256
Derivative assets	**4,856**	5,856
Other	**1,576**	1,202
	466,666	598,099
Liabilities		
Deposits	**467,461**	581,989
Derivative liabilities	**2,429**	2,928
Other	**6,972**	(2,553)
	476,862	582,364
On-balance sheet exposure	**(10,196)**	15,735
Off-balance sheet exposure	**(21,165)**	(31,358)
	$ **(31,361)**	$ (15,623)

Central 1 does not have a significant exposure to other foreign currencies.

Jump to table of contents

35. 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
- sufficient capital is maintained to support the risk taking activities of the organization.

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, except for those which are attributed to business segments, is held in the System Affiliates & Other segment.

Regulatory Capital

Central 1's capital levels are regulated under provincial regulations administered by the B.C. Financial Services Authority (BCFSA). BCFSA has also adopted the previous federal regulations administered by the Office of the Superintendent of Financial Institutions (OSFI). This regulation requires Central 1 to maintain a consolidated borrowing multiple, specifically the ratio of deposit liabilities and other loans payable to total regulatory capital, of 18.0:1 or less.

Provincial regulations in British Columbia, which apply to B.C. credit unions as well as to Central 1, use a risk-weighted approach for capital adequacy that is based on standards issued by the Bank for International Settlements. The provincial risk weightings generally parallel the methodology used by OSFI to regulate Canadian chartered banks. Provincial legislation requires Central 1's total capital ratio, calculated by dividing regulatory capital by risk-weighted assets, to be no less than 8.0%. BCFSA guidance requires Central 1's total capital ratio to be no less than 10.0%. Additionally, Central 1 must maintain a total capital ratio of at least 10.0% to enable member credit unions to risk-weight their deposits with Central 1 at 0.0%. Central 1's capital base includes Tier 1 capital in the form of share capital, contributed surplus and retained earnings. Subject to certain conditions, Central 1 may include its subordinated debt in Tier 2 capital. In calculating Central 1's capital base, certain deductions are required for certain assets.

Central 1 was in compliance with all regulatory capital requirements as at December 31, 2023 and December 31, 2022.

36. 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 as described in Note 13; and
- Central 1's post-employment benefits as described in Note 29.

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 and their close family members. There was no outstanding balance against key management personnel as on December 31, 2023 and December 31, 2022.

The following table presents the compensation to key management personnel:

$ thousands, for the year ended December 31	2023	2022
Salaries and short-term employee benefits	$ 5,910	$ 5,407
Incentive	1,976	1,654
Post-employment benefits	313	227
Termination and other long-term employee benefits	330	1,051
	$ 8,529	$ 8,339

In addition to their salaries, Central 1 also provides non-cash benefits to key management personnel and contributes to post-employment benefits plan on their behalf. Termination benefits represent amounts paid or payable, pursuant to contractual arrangements, to members of key management personnel who left Central 1 during the period.

Transactions with Board of Directors

$ thousands, for the year ended December 31	2023	2022
Total remuneration	$ 810	$ 651

Significant Subsidiaries

% of direct ownership outstanding, as at December 31	2023	2022
Central 1 Trust Company	100%	100%
C1 Ventures (VCC) Ltd.	100%	100%
0789376 B.C. Ltd.	100%	100%

Substantial Investments

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

% of direct ownership outstanding, as at December 31	2023	2022
The Co-operators Group Limited	**21%**	21%
Canadian Credit Union Association	**59%**	59%

Credit Unions in British Columbia and Ontario

Central Credit Unions

Central 1 Credit Union
Stabilization Central Credit Union of British Columbia

Credit Unions By Province

B.C. Region

Beem Credit Union
BlueShore Financial Credit Union
Bulkley Valley Credit Union
Coastal Community Credit Union
Columbia Valley Credit Union
Community Savings Credit Union
Compensation Employees Credit Union
Creston & District Credit Union
First Credit Union
First West Credit Union
Greater Vancouver Community Credit Union
Integris Credit Union
Khalsa Credit Union
Kootenay Savings Credit Union
Ladysmith & District Credit Union
Lake View Credit Union
Nelson & District Credit Union
Northern Savings Credit Union
Osoyoos Credit Union
Prospera Credit Union
Revelstoke Credit Union
Salmon Arm Savings and Credit Union
Sharons Credit Union
StellerVista Credit Union
Summerland & District Credit Union
Sunshine Coast Credit Union
Vancouver City Savings Credit Union
Vancouver Firefighters Credit Union
VantageOne Credit Union
Williams Lake and District Credit Union

Ontario Region

Adjala Credit Union Limited
Alterna Savings and Credit Union Limited
Bay Credit Union Limited
Buduchnist Credit Union Limited
Copperfin Credit Union Limited
Comtech Fire Credit Union Limited
DUCA Financial Services Credit Union Ltd.
Dundalk District Credit Union Limited
Equity Credit Union Inc.
Finnish Credit Union Limited
FirstOntario Credit Union Limited
Fort York Community Credit Union Limited
Frontline Financial Credit Union Limited
Ganaraska Credit Union Limited
Golden Horseshoe Credit Union Limited
Healthcare and Municipal Employees' Credit Union Limited
Italian Canadian Savings & Credit Union Limited
Kawartha Credit Union Limited
Kindred Credit Union Limited
Kingston Community Credit Union Limited
Korean (Toronto) Credit Union Limited
Korean Catholic Church Credit Union Limited
Lighthouse Credit Union Limited
L.I.U.N.A. Local 183 Credit Union Limited
Libro Credit Union Limited
Luminus Financial Services & Credit Union Limited
Mainstreet Credit Union Limited
Meridian Credit Union Limited
Momentum Credit Union Limited
Motor City Community Credit Union Limited
Moya Financial Credit Union Limited
Northern Birch Credit Union Limited
Northern Credit Union Limited
Ontario Educational Credit Union Limited
Ontario Provincial Police Association Credit Union Limited
Oshawa Community Credit Union Limited
Parama Credit Union Limited
Pathwise Credit Union Limited
PenFinancial Credit Union Limited
Rapport Credit Union Limited
Resurrection Credit Union Limited
Smiths Falls Community Credit Union Limited
Southwest Regional Credit Union Ltd.
St. Stanislaus - St. Casimir's Polish Parishes Credit Union Limited
Sudbury Credit Union Limited
Taiwanese-Canadian Toronto Credit Union Limited
Talka Credit Union Limited
Tandia Financial Credit Union Limited
The Energy Credit Union Limited
The Police Credit Union Limited
Thorold Community Credit Union Limited
Ukrainian Credit Union Limited
Windsor Family Credit Union Limited
Your Credit Union Limited
Your Neighbourhood Credit Union Limited

Contact Information

1.800.661.6813
www.central1.com

B.C. Regional Office
Central 1 Credit Union
1441 Creekside Drive
Vancouver, B.C.
Canada V6J 4S8

Ontario Regional Offices

Central 1 Credit Union
600-2810 Matheson Boulevard East
Mississauga, Ontario
Canada L4W 4X7

Central 1 Credit Union
908-120 Adelaide Street West
Toronto, Ontario
Canada M5H ITI

Corporate Secretary Contact

Wendy Kennish
Corporate Secretary

Central 1 Credit Union
T 1.800.661.6813 ext. 2410
E corporatesecretary@central1.com

Investor Contact

Brent Clode
Chief Investment Officer

Central 1 Credit Union
T 905.282.8588 or 1.800.661.6813 ext. 8588
E bclode@central1.com

Debtholder Contact

Main Agent
Computershare Trust Company of Canada

510 Burrard Street, 3rd Floor
Vancouver, B.C.
Canada V6C 3B9
T 604.661.9400
F 604.661.9549

www.computershare.com

Media Contact

Amanda LeNeve
AVP Communications and Marketing

Central 1 Credit Union
E communications@central1.com