

Annual Report 2022

Central 1's Class A member credit unions are situated on the traditional territory of First Nation, Inuit and Métis peoples from coast to coast to coast.

Our head office is situated on the traditional, ancestral, and unceded territory of the xʷməθkʷəy̓ əm (Musqueam), Sk̓wx̓ wú7mesh (Squamish), and Sel'íl'witulh (Tsleil-Waututh) Nations.

The practice of embedding land acknowledgements is one small step in a long term commitment towards educating ourselves and our stakeholders to advance Truth and Reconciliation in alignment with Call to Action #92 made to all businesses in Canada. We begin this annual report documenting and signaling our openness to learning and improving how our everyday practices and business can positively support Indigenous communities.

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Rob Paterson

Chair of the Board, Central 1

Message from the Board Chair

2022 was a year with a number of global challenges. Canadians faced mounting inflation and rising interest rates, the lingering impact of the COVID-19 pandemic, global supply chain issues, natural disasters, and the ripple effects of the Russian invasion of Ukraine.

Central 1 was not immune to these factors, including the associated fluctuating market conditions, which impacted the value of the organization's fixed income investment portfolio. Our strong balance sheet, liquidity, capital and risk management practices ensured Central 1 was well positioned to weather the financial market stresses.

Despite these challenging market conditions, Central 1 continued to fulfill its purpose by ensuring essential treasury, payment and digital services for its clients and members. Core earnings remained strong throughout the turbulence of 2022, allowing the organization to continue to make strategic investments in enhancing the reliability and performance of its products and services.

Executive Leadership

Last year was Sheila Vokey's first year as our permanent President and CEO. She led the organization through a demanding year filled with complex challenges, both internal and external. Sheila has filled her executive leadership team with bright minds that will help drive the organization forward while staying true to our cooperative principles.

Strategic Focus

Management developed a new three-year strategy in partnership with the board. The 2023-2025 Corporate Strategy addresses the challenges we face today and it also lays a strong foundation for future success.

I believe the strategy focuses Central 1's efforts in the right areas – strengthening our offerings to meet the credit union system's evolving needs, transforming together with our stakeholders, and operating reliably and effectively.

There's a lot of work needed to make it happen, but I am confident the Central 1 team has what it takes to successfully implement this strategy and continue to enable a thriving credit union system.

Acknowledgements

First and foremost, I want to thank our members and clients for their support and for providing valuable input on what we need to do to best serve them. Your insights have helped to shape our strategy and will guide our work in the coming months and years.

I would like to recognize all Central 1 employees for their continued dedication to serving our members and clients and for living our values. You play a vital role in Canada's credit union system.

I also want to thank the Central 1 executive leadership team for their ability to balance meeting today's business needs while planning for the future success of the organization in its pursuit of best serving our members.

Finally, I would like to acknowledge my board colleagues for their contributions to the governance of Central 1. It's been an honour to serve with you over the past year.

Sincerely,



Rob Paterson

Chair of the Board
Central 1 Credit Union

Message from the President & CEO

Looking back, 2022 was another distinctive year. While it was a year that brought significant change and uncertainty, it also created opportunities for Central 1 to reset, enhance and expand our offerings to better serve our members and clients, and continue our work towards our purpose of enabling a thriving credit union system.

Across the broader financial services sector, we worked diligently to keep up with an unpredictable economy and respond to changing tactics from cyber criminals. All while working hard to stay relevant to our members and clients and, ultimately, the Canadian consumer, offering services and tools that help them navigate the rapidly changing world.

Like many similar financial organizations, part of our 2022 financial story reflects the challenging market conditions which resulted in unrealized losses on our fixed income investments. As we responded to these external factors, we kept focused on our core operations of serving our clients and members. This led to stable performance in our core operations and revenue sources like interest margin, which remained strong.

Reflecting on the year, I am most proud of how the Central 1 team rose to the occasion to support our members and clients throughout the year. There's no question – our strength as an organization is rooted in how we show up to support our clients and members whether times are good or bad.

I'm also proud that we achieved full compliance, deployed technology and met all testing requirements to support Lynx and the organization's readiness to meet the start of the global ISO 20022 migration for cross-border payments. Another highlight was the launch of the **Treasury Knowledge Centre**, the first-of-its-kind for Canadian credit unions, an online hub full of timely and helpful analysis, commentary, information and educational training resources for our members and clients. And it was wonderful to deliver our first in-person **Momentum Conference** since 2019 to provide an opportunity for our members and clients to connect, learn and access knowledge to collectively help us navigate the future of the financial services industry.



Sheila Vokey

President & Chief Executive Officer

Fortifying our foundation & building for tomorrow

A significant focus for us in 2022, was to ensure the foundations of our business and the products and services we provide for our members are solid. This involved listening deeply to what our clients and members were telling us, reflecting on what we are striving to do as an organization and asking ourselves some tough questions around how we're set up to do that.

At the core of it all is providing stable support and products our clients and members can rely on. These are the foundations that give us the ability to enhance our offerings, innovate and capitalize on opportunities in the future. And we need to be able to do both of those things in order to enable our clients to thrive.

We can't ignore the challenges we faced when it comes to the reliability of our technology services for our members and clients. Delivering products and services they can count on is table stakes for Central 1 and we're committed to making sure that shines through in everything we do. You can expect our continued focus on improving in these areas in 2023.

To ensure our organization is well-equipped to best serve our members and clients and anticipate their needs, we looked internally and made some key changes.

- We established a program to drive improvements to our product and service reliability and took steps to deliver a better client experience.
- We refined our organizational structure to provide focus and accountability for our teams, enabling them to prioritize our clients' and members' needs.
- We further strengthened our executive leadership team with the addition of deeply experienced leaders whose diverse perspectives will help us make thoughtful decisions.
- We refreshed our **values** as an organization to better align our work to our purpose and the future needs of our members, clients and the credit union system as a whole.

These changes set us up to listen to our members and clients and to anticipate and prepare for their future needs.

Rooting our strategy in client & member needs

While setting foundations was a priority for us throughout 2022, so too was looking ahead and planning for our future. We revisited our corporate strategy and established a plan to focus our efforts and strive for purpose-driven outcomes over the next three years.

Through three main areas, this strategy prioritizes the projects and issues most important for Central 1 members and clients.

Strengthening our offerings

We are focused on how our products, services and solutions are meeting the system's evolving needs and ensuring our solutions enable the functions essential to a thriving financial institution today and in the future.

Transforming together

We are intentional, taking a system-first approach to engage stakeholders, deliver value and foster resilience of the credit union system.

Operating reliably & effectively

We provide secure and dependable services to our clients, deploying resources appropriately and ensuring our efforts drive performance to make Central 1 an inspiring and inclusive place to work.

Looking to 2023

As we move into 2023, we are excited to further build upon the foundational work done last year and deliver enhanced value to our client businesses who serve their customers. Aligned with the vision set in our strategy, we are focused on delivering the next stages of multi-year priority initiatives including digital banking innovation, improved system reliability and performance, payments modernization and treasury advisory services.

By doing so, we will deliver value grounded in long-term resilience and achieve sustained improvements in our performance through a culture focused on being forward-looking, delivering performance excellence, collaborating with our members and partners, and living our values as part of the credit union community.

That requires strength, stability and discipline – and I am confident we have the talent, expertise and technology to do just that.

No matter what the year brings, Central 1 remains committed to our purpose of supporting and enabling our members and clients to thrive, and we will be there for them every step of the way.

Sincerely,

A handwritten signature in black ink, appearing to read 'Vokey', with a stylized flourish at the end.

Sheila Vokey

President & CEO

Central 1 Credit Union

For more information please visit central1.com

2022

A year in review

2022 was a year of change and growth for Central 1. We looked for ways to enhance the product and service offerings available to our customers and members. We spent time refreshing our values and developing a three-year strategy to set the organization up for continued growth and success. And we found more ways to connect with our members.

Read more about the year's highlights:



Central 1's 2022: By the numbers



A workplace culture rooted in purpose



Collaboration elevates digital experiences



In-person connections make Momentum a highlight of 2022



Payments modernization in action



The Treasury Knowledge Centre: A guide for navigating uncharted territory

To learn more about our milestones in 2022, visit annualreport.central1.com

Management's Discussion & Analysis

December 31, 2022

Our Performance in 2022

Total
(\$69.6 M)

LOSS AFTER TAX



Treasury

(\$49.4 M) LOSS AFTER TAX

↓ **\$100.2 M**

\$50.8M profit after tax | 2021

- Continued strong interest margin across all Treasury's lines of business
- Credit spreads have widened reflective of rising interest rates, persistent inflationary pressure and geopolitical tensions which reduced the fair value of the Treasury fixed income portfolio

Payments & Digital Banking Platforms and Experiences

(\$13.7 M) LOSS AFTER TAX

↓ **\$4.0 M**

\$9.7M loss after tax | 2021

- Consistent transaction volumes with prior year
- Increased spending in strategic initiatives which is consistent with Central 1's strategic priorities

System Affiliates & Other

(\$6.5 M) LOSS AFTER TAX

↓ **\$10.8 M**

\$4.3M profit after tax | 2021

- Investments in strategic initiatives aimed to expand corporate efficiency continued in 2022
- Equitable Bank closed its acquisition of Concentra Bank in November which led to Central 1 recognizing a \$2.9 million gain in 2022, compared to a \$11.5 million fair value gain in 2021 when Equitable Bank announced its acquisition plan

Borrowing Multiple¹

14.7:1

Tier 1 Capital Ratio¹

12.4%

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

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In this Management's Discussion and Analysis (MD&A), unless the context otherwise requires, references to "Central 1", "we", "us" and "our" refer to Central 1 Credit Union and its subsidiaries. This MD&A is dated March 3, 2023. The financial information included in this MD&A should be read in conjunction with our Consolidated Financial Statements for the years ended December 31, 2022 and 2021 (Consolidated Financial Statements), which were authorized for issue by the Board of Directors (the Board) on March 3, 2023. The results presented in this MD&A and in the Consolidated Financial Statements are reported in Canadian dollars. Except as otherwise indicated, financial information included in this MD&A has been prepared in accordance with International Financial Reporting Standards (IFRS) as described in Note 1 of the Consolidated Financial Statements. Additional information may be found on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

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

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 to be forward-looking statements under applicable Canadian securities legislation.

Within this document, forward-looking statements include, but are not limited to, statements relating to our financial 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 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.

As at March 3, 2023

Management's Discussion and Analysis

Who We Are

As a cooperative, the cooperative principles and values are expressed through the way we work at Central 1. We hold a unique place in the cooperative banking ecosystem because we are owned by B.C. and Ontario credit unions who collectively form a member-oriented, full-service retail financial system that holds billions in financial assets and provide banking choice to Canadians. This credit union system has been and will always be our core.

We've been driven to enable the success of credit unions and other financial institutions for over 80 years through uniquely combining cooperative and business leadership in how we govern, develop and deliver services. Collaboration, scale and expertise are our competitive advantages. We leverage this expertise to provide critical building blocks for financial services, aggregating volume to provide access to critical services at scale.

Coast to coast, we are a preferred partner for providing exceptional financial products, innovative end-to-end payments solutions and intuitive online banking and mobile experiences that millions count on.

We enable a strong and stable credit union system as the primary liquidity provider to credit unions in B.C. and Ontario. This includes delivering a robust array of funding programs and investment products and our Asset Management Services (AMS) enables credit unions to rely on the specialized investment expertise of Central 1.

Payments and Digital Services is an integral part of Canada's banking system. We have 152 financial institutions committed to the Forge Digital Banking Platform, and we process more than 645 million payments annually on behalf of over 295 financial institutions and government organizations in Canada. We are one of the largest payments processors for Canadians, and we've been doing it for over 25 years.

Central 1 is committed to building environmental sustainability, social responsibility and effective corporate governance into all aspects of our business. Environmental, Social and Governance (ESG) is integrated throughout our Corporate Strategy as a tool that can help deliver on our strategic priorities. Our approach is to target where Central 1's core business functions and in-house expertise overlap with critical ESG issues. Central 1 integrates ESG factors into our practices to grow and support responsible investing, and we strive to embed ESG as a way we do business, continuing to take steps and further our commitment to developing a sustainable financial system.

As at March 3, 2023

Progress Against Our Strategy

Rooted in our purpose of enabling a thriving credit union system and cooperatively empowering those who deliver banking choice to Canadians, Central 1's corporate strategy comes to life through the work our organization undertakes and the results we collaboratively deliver as a Central 1 team and with our partners and clients.

2022 was an important year in Central 1's evolution in which we were focused on the foundations needed to enable future growth.

Highlights from the year include:

- Central 1 launched the Treasury Knowledge Centre, a first of its kind one-stop resource available to all Central 1 treasury members and clients. The Treasury Knowledge Centre provides access to the latest market insights and trends, treasury product knowledge and training, education resources and news updates.
- Transitioned digital banking clients to Forge — an omnichannel digital banking platform managed by Central 1 — and decommissioned Backbase. The latest versions of the Forge digital banking channels rely on Central 1's intellectual property and digital banking technologies, ensuring greater efficiency, innovation and new functionality. Forge 2.0 provides essential technology integrations, universal platform updates, 24/7/365 cyber security and open feature development.
- The Central 1 Treasury team worked actively throughout 2022 to expand the service offerings of their treasury products and services to credit unions outside of B.C. and Ontario.
- Central 1 established the Digital Experience Council to provide guidance and advisory help in setting Central 1's digital direction. This group of clients ensures that Central 1's digital products and services are serving the needs of clients and provides insight into ensuring that products stay relevant and innovative.
- To meet the changing demands of members, clients and the credit union system, Central 1 introduced a refreshed set of organizational values. These values reflect Central 1's evolved culture and organization, and intentionally drives Central 1 to serve our clients with foresight, reliable performance, effective cooperation and collaboration, and with deep connection to the broader communities we are part of.
- The Payments team continued to deliver and adapt against milestones in Canada's payments modernization journey. In November, Central 1 successfully completed all Lynx Release 2 preparation and testing in compliance with Payments Canada's requirements.
- Our work to meet milestones on Payments Canada's payments modernization initiative progressed including deploying required technology, achieving compliance and meeting all testing requirements in support of Lynx.
- Central 1 plays a key role in supporting many Canadian financial institutions to deliver safe and reliable payments. In 2022, we processed more than 645 million payments on behalf of over 295 financial institutions.
- Central 1 actively collaborated with the Prairie Payments Joint Venture (PPJV) to advocate for regulatory requirements that recognize the realities and needs of the credit union system.
- Central 1 engaged closely with members in the lead up to our Annual General Meeting (AGM) in May regarding three special resolutions proposing amendments to Central 1's Constitution and Rules. At the AGM, our members voted to change the capital provisions and retain double-majority voting provisions.
- Central 1 welcomed a new Class "A" member and brand-new credit union to the system, Lighthouse Credit Union.
- For the first time in three years, Central 1 held the highly-anticipated Momentum Summit which aims to enable clients and members to connect and together learn and prepare for the future of banking and the cooperative system. With record-breaking attendance, 400 leaders gained insight from experts across the industry who shared experiences and expertise equipping audiences for the future of financial services.
- Central 1 developed and approved the 2023-2025 enterprise strategy, addressing the challenges of today and laying a strong foundation for future success. The new strategy provides the roadmap for Central 1's direction through three strategic priorities: strengthen offerings, transform together and operate reliably and effectively. It considers the industry-wide push for efficiency, regulatory changes, system consolidation and the increased competition that Central 1 faces within the industry.

As at March 3, 2023

- Central 1 strengthened the Executive Leadership Team (ELT) by hiring Erick Wong as Chief Product Officer and Dave Thomas as Chief Technology Officer. The organizational separation of product and technology under these new roles will allow Central 1 to better meet the needs of clients and members and provide experienced direction to these two functional groups. Julie Breuer joined the ELT on an interim basis as the new Chief Client Experience Officer and Emma Hider joined Central 1 as Incoming Chief Financial Officer (CFO) on February 6, 2023 (she will transition into the full CFO role on March 15, 2023). .
- The Central 1 Client Experience function proactively educated and informed clients on existing products and market changes via webinars, roundtables and new communication channels. Topics such as open banking and payments provided critical information for clients to help inform their business plans.
- The Operational Excellence program was launched. The Central 1 team activated a strategic list of actions to ensure system availability and increase reliability for clients. This included: making improvements to products based on root-cause analysis of past incidents; increasing resources and rigour in the change management process; allocating at least 20 per cent of all development to address bug fixes and technology hygiene; prioritizing preventative technology and process improvements across all product lines.
- The Risk Group finalized Central 1's first Resolution Framework in 2022, completing the risk management/crisis response planning continuum from contingency to recovery to resolution. With the Resolution Framework in place, Central 1 is ahead of regulatory requirements and has a full suite of plans to address liquidity and capital stresses that may occur in Central 1, the Canadian credit union system or the broader financial industry.

As at March 3, 2023

Our Plans for 2023

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.

Led by Central 1's President and CEO, Sheila Vokey, Central 1's Executive Leadership Team is deeply focused on the needs of our members and clients — both now and long into the future. In 2023, we will continue to evolve our organization and what we deliver to enable the long-term success of our clients, members and the credit union system overall. This work includes delivering on the next phases of multi-year priority initiatives and realizing the results of our continued focus on operational excellence.

2023 is the first year of a new three-year enterprise strategy, which lays the foundation for future success while strengthening our core line of business offerings. Within this strategy, we are focused on three priority areas:

- **Strengthen offerings:** meet the system's evolving needs centered around client experience.
- **Transform together:** adopt a system-first approach to engaging stakeholders to deliver value.
- **Operate reliably and effectively:** achieve sustained improvements in performance.

In support of these priority areas and in the face of increased interest rates, Central 1's Treasury group will continue to support clients through education, resources and strategies for resilience. We will focus on driving business growth, acquiring new Treasury clients, increasing share of wallet with existing clients and partnering with our Payments group to bring on new clients.

Central 1's Digital teams will continue prioritizing operational reliability while we pursue innovation within our products and services to further enhance and strengthen our digital product offerings. Our digital strategy upholds our commitments to Forge clients while aligning with a Central 1-owned Intellectual Property business model. This work will preserve Central 1's strategic flexibility to explore innovation while meeting our clients' evolving needs over time.

With a firm foundation built on efficient compliance with industry mandates, Central 1's Payments group's work will continue to be rooted in delivering payments modernization and meeting regulatory requirements. These foundations will allow us to transition to value-added services and innovation in the payments space while we also seek opportunities to monetize our services through competitive service offerings for commercial clients.

Underpinning our plans and work for 2023, Central 1 will be keenly focused on removing technical obstacles and building a healthy internal performance culture grounded in fiscal and operational discipline and robust risk management. Our concentration and commitment to driving meaningful outcomes in 2023 will advance our three-year strategy, ultimately delivering on our purpose of enabling a thriving credit union system, cooperatively empowering those who deliver banking choice to Canadians.

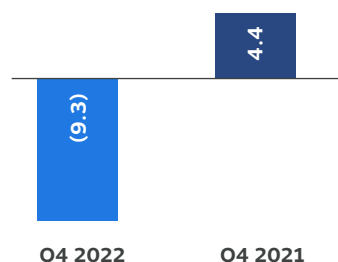
As at March 3, 2023

2022 Financial Results

Overall Performance

Q4 2022 vs Q4 2021

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



\$ millions, except as indicated	Q4 2022		Q4 2021	Change
Net financial income (expense)	\$	(0.7)	\$ 17.7	\$ (18.4)
Non-financial income		36.3	36.5	(0.2)
Net financial and non-financial income ¹		35.6	54.2	(18.6)
Non-financial expense, excluding strategic initiatives ²		44.7	38.2	6.5
		(9.1)	16.0	(25.1)
Strategic initiatives ²		9.3	7.6	1.7
Income tax expense (recovery)		(9.1)	4.0	(13.1)
Profit (loss) after tax	\$	(9.3)	\$ 4.4	\$ (13.7)
Return on average assets ³		(0.3%)	0.1%	(0.4%)
Return on average equity ³		(5.4%)	2.2%	\$ (7.6%)
Average assets ²	\$	12,222.2	\$ 13,176.7	\$ (954.5)
Average equity ²	\$	683.1	\$ 777.4	\$ (94.3)
Weighted average shares outstanding (<i>number of shares in millions</i>)		43.4	43.4	-

¹ Includes interest expense on financial instruments. Excluding interest expense, total revenue for Q4 2022 was \$112.2 million (Q4 2021: \$74.3 million)

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.

Central 1 reported a loss of \$9.3 million in the fourth quarter, down \$13.7 million from the \$4.4 million profit reported in the same quarter last year. Floating rate assets and interest rate hedges were repriced higher in the rising rate environment, leading to a strong interest margin which was up by \$4.2 million from the fourth quarter last year. Offsetting this was a \$50.2 million decrease in the fair value of Central 1's financial instruments during the quarter as the deteriorating macroeconomic outlook driven by persistent inflationary pressure and ongoing geopolitical tensions continued to increase market yields.

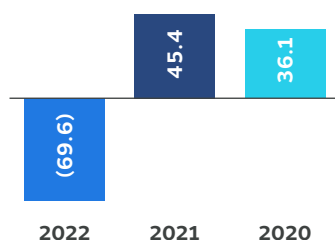
Non-financial income during the quarter remained stable compared to the fourth quarter of 2021, driven by consistent transaction volumes in Payments and Digital Banking Platforms and Experiences (DPBX) products. Non-financial expense, excluding strategic initiatives, was up \$6.5 million from the same period in 2021 driven by higher salaries and professional fees. Investments in strategic initiatives continued at planned levels with a \$1.7 million higher spend in the current quarter which was consistent with Central 1's strategic priorities. The combined impact of these movements was partially offset by a \$9.1 million tax recovery in the fourth quarter of 2022 due to the loss in the quarter and the sale of investment in Concentra Bank in 2022. Further discussion of the tax movements is provided in the Income Tax section of this MD&A.

As at March 3, 2023

YTD 2022 vs YTD 2021

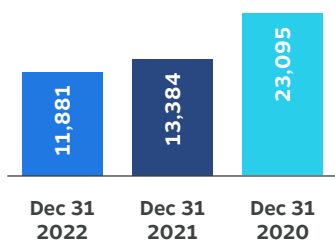
Annual Profit (Loss) After Tax

(Millions of dollars)



Total Assets

(Millions of dollars)



\$ millions, except as indicated	For the year ended December 31		
	2022	2021	2020
Net financial income (expense)	\$ (67.5)	\$ 84.8	\$ 91.1
Non-financial income	150.0	151.6	139.5
Net financial and non-financial income ¹	82.5	236.4	230.6
Non-financial expense, excluding strategic initiatives ²	156.1	144.8	157.7
Strategic initiatives ²	(73.6)	91.6	72.9
Income tax expense (recovery)	(43.5)	16.9	(7.0)
Profit (loss) after tax from continuing operations	(69.6)	45.4	26.3
Profit from discontinued operations	-	-	9.8
Profit (loss) after tax	\$ (69.6)	\$ 45.4	\$ 36.1
Return on average assets ³	(0.5%)	0.3%	0.2%
Return on average equity ³	(9.8%)	5.9%	3.3%
Average assets ²	\$ 12,938.1	\$ 13,718.2	\$ 21,125.3
Average equity ²	\$ 711.5	\$ 767.9	\$ 1,105.7
Weighted average shares outstanding (<i>number of shares in millions</i>)	43.4	51.0	440.9
Dividends per share (<i>cents</i>)			
Class B & C - cooperatives & other	-	-	0.6
Class F - credit unions	-	-	3.2

¹ Includes interest expense on financial instruments. Excluding interest expense, total revenue for 2022 was \$270.7 million (2021: \$314.9 million and 2020: \$344.3 million)

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.

Central 1's loss after tax for 2022 was \$69.6 million, \$115.0 million lower than 2021. Credit spreads widened in 2022 reflecting the expected economic slowdown as a result of rapid increases of the Bank of Canada's (BoC) overnight rate, persistent inflationary pressure and geopolitical tensions. Market yields have trended upwards, leading to a decrease of \$149.0 million in the fair value of financial instruments in 2022. Higher interest rates had a favorable impact in interest margin within the investment portfolios, which was up \$14.4 million from 2021.

As at March 3, 2023

Non-financial income decreased \$1.6 million from 2021. Central 1 ceased collecting membership dues effective January 2022 which resulted in a \$2.4 million decrease in non-financial income. During 2022, Central 1 continued to receive liquidation distributions totaling \$4.2 million (US \$3.2 million) related to its prior investment in U.S. Central Federal Credit Union (U.S. Central), after receiving a total of \$5.5 million (US \$4.4 million) in 2021. Partially offsetting these decreases was a \$1.6 million increase in loyalty dividends from one of Central 1's affiliates. Excluding these movements, non-financial income remained relatively stable year-over-year reflective of consistent transaction volumes in Payments and DBPX products.

Non-financial expense, excluding strategic initiatives, was up \$11.3 million from 2021 driven by higher salaries and employee benefits as a result of inflationary adjustments in 2022 in combination of higher professional fees. Investments in strategic initiatives continued at planned levels in 2022 with a \$10.2 million higher spend than prior year in Payments Modernization and Forge 2.0 initiatives, consistent with Central 1's strategic priorities. Offsetting these higher expenses was the \$43.5 million income tax recovery resulting from the loss during the year together with a higher effective tax rate.

Income Tax

Central 1's combined federal and provincial statutory tax rate is 26.9 per cent. The effective income tax rate in 2022 was 38.5 per cent. Equitable Bank's acquisition of Concentra closed in November 2022. Concentra increased the stated capital of its common shares prior to the close and resulted in a 3.7 per cent increase in the effective tax rate. 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, also contributed to an additional a 5.2 per cent increase in the effective tax rate. The remainder of the increase was primarily driven by the transfer of non-capital loss from one of Central 1's wholly owned subsidiaries that was dissolved in 2020.

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 13 and 26 of Central 1's Consolidated Financial Statements.

Other Comprehensive Loss

Other comprehensive loss for the year ended December 31, 2022 totaled \$18.8 million, compared to other comprehensive loss of \$22.6 million in 2021. Other comprehensive 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 \$690.9 million on December 31, 2022, down \$95.5 million from December 31, 2021. The decrease in equity was led by the current year's loss of \$69.6 million, followed by \$18.8 million of other comprehensive loss and a \$7.1 million reduction in non-controlling interest as a result of the dissolution of CUPP Services Ltd., a subsidiary of Central 1, in July 2022.

As at March 3, 2023

Selected Financial Information

	2022	2021	As at December 31 2020
Balance sheet (millions of dollars)			
Total assets	\$ 11,881.3	\$ 13,383.6	\$ 23,094.7
Long-term liabilities	\$ 1,816.6	\$ 2,316.6	\$ 2,037.6
Regulatory ratios			
Total capital ratio ¹	17.8 %	20.6 %	25.9 %
Tier 1 capital ratio ¹	12.4 %	15.3 %	20.9 %
Borrowing multiple ¹	14.7:1	14.3:1	17.8:1
Share Information ² (thousands of dollars, unless otherwise indicated)			
Outstanding shares (\$) - \$1 par value			
Class A – credit unions	\$ 43,364	\$ 43,359	\$ 43,359
Class B – cooperatives	\$ 11	\$ 11	\$ 5
Class C – other	\$ 7	\$ 7	\$ 7
Class F – credit unions	\$ -	\$ -	\$ 397,737
Outstanding number of shares (thousands of shares)			
Class A – credit unions	43,364	43,359	43,359
Class B – cooperatives	11	11	5
Class C – other	7	7	7
Class F – credit unions	-	-	397,737
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)

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

² 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.

As at March 3, 2023

The decrease in retained earnings in 2022 resulted in a higher borrowing multiple and lower capital ratios. Central 1 was in compliance with all regulatory capital requirements as at December 31, 2022 and December 31, 2021.

On May 4, 2022, at Central 1's annual general and special meeting, the Class A members passed two of three special resolutions approving amendments to Central 1's Constitution and Rules (the "Rules"), including with respect to (i) the elimination of certain provisions of the Rules providing for a mandatory capital call by way of required subscriptions for shares, (ii) the addition of provisions for a voluntary capital call by way of subscriptions for shares, (iii) amendments providing for redemptions of Class E shares to occur over an extended period after a member leaves the membership of Central 1, (iv) provisions permitting a member to transfer to a different class of membership, subject to certain terms and conditions, and (v) the elimination of further annual determinations of the Class A shares subscribed by Class A members (share rebalancing), effective following a voluntary capital call. The Rules, which have received the requisite regulatory approvals, and the material change report regarding such amendments dated May 12, 2022 have been filed on Central 1's SEDAR profile www.sedar.com.

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 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 interest margin as well as the fair value of our financial instruments would be impacted.

Industry Regulation

The most significant shift in industry regulation took place in February 2022, when the Province of British Columbia brought into force regulations supporting section 139.1 of the *Financial Institutions Act*, regarding prescribed transactions for which credit unions require advance consent of the BCFSa Superintendent.

These regulations apply to all B.C. credit unions, but for Central 1 specifically, the following actions now require the consent of the Superintendent:

- any transaction where Central 1 assumes the functions of a Central credit union for all credit unions in another jurisdiction (for example, a merger with another province's Central);
- any transaction where Central 1 assumes the functions of a Central credit union for one or more credit unions in another jurisdiction, whose assets are equivalent to 50 per cent or more of Central 1's assets; and
- an acquisition of a subsidiary whose fair market value is equivalent to 10.0 per cent or more of our assets, as reported in Central 1's most recent consolidated financial statements.

The regulations also indicate the criteria for the Superintendent's consent would be an assessment of whether the transaction poses an undue risk to Central 1 or the broader B.C. credit union system.

Additionally, in September 2022, BCFSa's Outsourcing and Information Security regulatory guidelines came into effect (they had been issued in October 2021). These guidelines establish BCFSa's expectations for B.C. incorporated financial institutions to manage key risks. Accordingly, such guidelines apply to Central 1's outsourced services and management of information security.

As at March 3, 2023

System-Specific Factors

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

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

Corporate-Specific Factors

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

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.

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

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

As at March 3, 2023

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. The tables below present reconciliations of these measures to their respective most directly comparable financial measures disclosed in Central 1's Consolidated Financial Statements.

Non-Financial Expense, excluding Strategic Initiatives

Non-financial expense, excluding strategic initiatives presented in the overall performance section 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.

\$ millions			For the year ended December 31		
	Q4 2022	Q4 2021	2022	2021	2020
Non-financial expense as reported	\$ 54.0	\$ 45.8	\$ 195.6	\$ 174.1	\$ 211.3
Less: strategic initiatives spend	9.3	7.6	39.5	29.3	54.6
Non-financial expense, excluding strategic initiatives	\$ 44.7	\$ 38.2	\$ 156.1	\$ 144.8	\$ 157.7

As at March 3, 2023

Average Assets and Average Equity

Average assets and average equity are non-GAAP financial measures, calculated from averaging month end 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			For the year ended December 31		
	Q4 2022	Q4 2021	2022	2021	2020
Reported profit (loss)	\$ (9.3)	\$ 4.4	\$ (69.6)	\$ 45.4	\$ 36.1
Total assets as reported, as at December 31	\$ 11,881.3	\$ 13,383.6	\$ 11,881.3	\$ 13,383.6	\$ 23,094.7
Impact of averaging month-end balances	340.9	(206.9)	1,056.8	334.6	(1,969.4)
Average assets, as at December 31	\$ 12,222.2	\$ 13,176.7	\$ 12,938.1	\$ 13,718.2	\$ 21,125.3
Return on average assets	(5.4%)	2.2%	(0.5%)	0.3%	0.2%
Total equity as reported, as at December 31	\$ 690.9	\$ 786.5	\$ 690.9	\$ 786.5	\$ 1,161.3
Impact of averaging month-end balances	(7.8)	(9.1)	20.6	(18.6)	(55.6)
Average equity, as at December 31	\$ 683.1	\$ 777.4	\$ 711.5	\$ 767.9	\$ 1,105.47
Return on average equity	(5.4%)	2.2%	(9.8%)	5.9%	3.3%

Liquid Assets

Liquid Assets are maintained by Central 1 to ensure that credit unions have access to reliable and cost-effective sources of liquidity and included in the Cash and Liquid Assets section of this MD&A. The major component of liquid assets is securities reported on the Consolidated Statement of Financial Position, excluding equity investments.

\$ millions			As at December 31	
	2022	2021	2020	
Federal and provincial government issued and guaranteed securities	\$ 4,578.2	\$ 5,360.0	\$ 4,958.8	
Corporate and financial institutions securities	3,333.9	4,029.7	4,410.4	
Asset backed securities	205.4	339.2	1,540.5	
Insured mortgages	35.7	64.9	111.1	
Total liquid assets	\$ 8,153.2	\$ 9,793.8	\$ 11,020.58	
Add: equity instruments	40.3	60.5	47.7	
Less: securities as reported under held for distribution	-	(5.7)	(1.9)	
Securities as reported	\$ 8,193.5	\$ 9,848.6	\$ 11,066.6	

As at March 3, 2023

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. 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 Tier 2 capital ratio which is used to monitor if Central 1's capital position is within regulatory limits. It is the difference between 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. 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 is used to calculate borrowing multiples. Central 1 is required by regulators 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, obligations under the Canada Mortgage Bond (CMB) Program, securities under the repurchase agreements, derivative liabilities and settlement-in-transit liabilities. In addition, the subsidiaries deposits held by Central 1 which are eliminated through consolidation are also included in total borrowings.

\$ millions	2022	2021	As at December 31 2020
Total liabilities as reported	\$ 11,190.3	\$ 12,597.1	\$ 21,933.3
Less: other liabilities as reported	(162.8)	(93.6)	(97.5)
Less: subordinated liabilities	(198.9)	(220.3)	(221.7)
Less: settlements in-transit not related to Group Clearer	(33.8)	(2.0)	-
Add: subsidiary deposits	0.2	0.9	5.6
Total borrowings	\$ 10,795.0	\$ 12,282.1	\$ 21,619.7

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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.

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 trustee and administered by Central 1 or one of its wholly owned subsidiaries. Central 1 provides trust and administrative services on AUA for the beneficial owners and members of the B.C. credit union system and Class C members.

Liquidity Coverage Ratio (LCR)

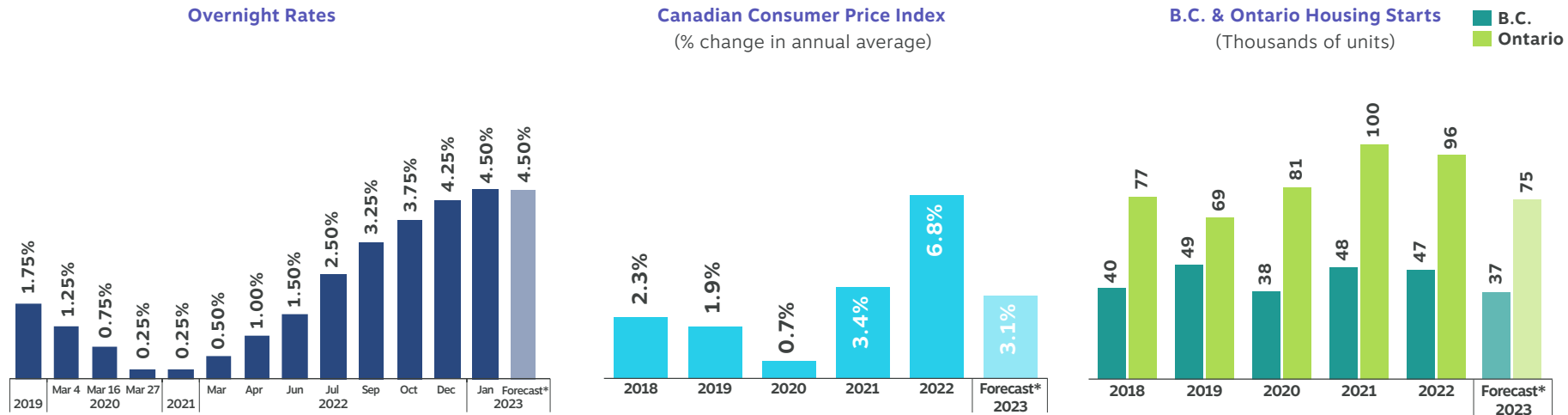
LCR demonstrates whether Central 1 has a sufficient stock of liquid assets to meet 30-day cashflow requirements under a severe stress scenario. It is calculated using the stock of liquid assets, calculated based on Office of the Superintendent of Financial Institutions (OSFI) regulatory requirements,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

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Economic Developments and Outlook

The following summaries of the economic environment, the state of financial markets and performance by both provincial systems in 2022 offer context for interpreting our year-over-year results and insight into our future.

Economic Environment



*Forecast source: Central 1 Economics

Economic activity throughout the globe is experiencing a broad-based slowdown although economies have shown resilience. Inflation has peaked and is in decline, but levels are excessively high cross the globe. Average inflation among G20 nations was 9.0 per cent in November, marking an increase in the cost-of-living unseen in decades. Financial conditions have tightened in most regions with most central banks engineering economic slowdowns through interest rate hikes in order to reduce inflation back to target rates. However, if interest rates are raised too high too fast, it could lead to overtightening and as a result lead to a more severe recession. The ongoing war between Ukraine and Russia as well as lingering effects of the COVID-19 pandemic still weigh heavily upon the world economy. Weak economic growth in China, which has only recently abandoned its zero COVID policy, also has broad implications because of its importance for global supply chains and trade. While these challenges will likely hamper economies, many are still experiencing tight labour markets with historically low unemployment rates and high vacancies. That said, economic growth for 2022 and 2023 is still expected to slow significantly from 2021. The most recent estimate from the International Monetary Fund (IMF) has global economic growth slow from 6.0 per cent in 2021 to 3.2 per cent in 2022 and 2.7 per cent in 2023. Global inflation, which was around 4.7 per cent in 2021 is expected to come in at 8.8 per cent in 2022 but then slow to 6.5 per cent in 2023 and 4.1 per cent in 2024. The risk though continues to be tilted towards the downside with inflation remaining entrenched and economic growth slowing further.

Canada’s economy has shown surprising strength. The economy grew rapidly through the first three quarters of 2022, buoyed by strong household consumption and robust business investment. Unemployment rate fell to a low 4.9 per cent in July and finished off the year at 5.0 per cent. Combined that with higher-than-normal job vacancies rates and the result was a tight labour market. However, economic activity is expected to slow in 2023 and as a result, the unemployment rate is expected to increase as tightening monetary policy curbs economic activity. Inflation is still relatively high and well above the target rate of 1.0 to 3.0 per cent but has eased. Underlying trends are pointing to an annualized growth rate of closer to 3.0 per cent and signaling moderation. Peak inflation is likely behind us. Home sales, which declined significantly in 2022 after having a record breaking

As at March 3, 2023

2021, are expected to decline even more, although not by the same margin. Home prices are also expected to continue to fall from the peaks seen in mid-2022. Overall Central 1 Economics Department expects GDP growth to be 3.4 per cent in 2022, but then decline to grow at only 0.8 per cent for 2023. The average unemployment rate is expected to increase to 6.2 per cent in 2023 from 5.3 per cent in 2022.

Growth in the U.S. economy is expected to come in much lower in 2022 than previously forecasted. Financial conditions began tightening in March 2022 as the Federal Reserve started to reduce its balance sheet and increase their policy rates with the goal of reducing inflation back to the target rate of 2.0 percent. Current Federal Reserve projections have rates remaining at current levels throughout 2023 with tilt towards being increased further. Real GDP is projected by the IMF to come in at only 1.6 per cent in 2022 and slow even further to 1.0 per cent in 2023. Private consumption growth has slowed considerably over the past year and will likely fall to almost zero per cent in 2023. The unemployment rate, which was at historic lows in 2022, is also expected to increase and is projected to rise to five per cent by 2024. This will likely reduce wage pressure and price pressures and help further slow inflation, which seems to have peaked in mid-2022. However, if inflation instead remains strong, further tightening of monetary policy may be needed and that could result in worsening growth prospects.

British Columbia

British Columbia's economy is expected to have grown by 3.2 per cent in 2022 according to Central 1 Economics. 2022 started off solid as B.C. economy has been buoyed by moderate COVID-19 restrictions and strong interprovincial migration. Solid domestic tourism numbers and increasing capital expenditures also led to a reinvigorated labour market. Consumer spending was also steady, despite pressure from inflation which has eroded consumer purchasing power. However, home sales have declined dramatically from their peak and home prices have also declined as mortgage rates have moved up as the BoC has increased interest rates. Overall, the economy in B.C., like the nation, is expected to slow down with GDP growth forecast to only grow 1.3 per cent for 2023. And as a result, the unemployment rate is also expected to increase, moving from an average of 4.7 per cent in 2022 to 5.9 per cent in 2023.

Ontario

Ontario's economy is expected to have grown by 3.0 per cent in 2022 according to Central 1 Economics. Household expenditure growth had driven GDP through the year, especially as service industries continues to recover from the pandemic. Strong corporate profits have also lifted business investment in the year as the strong economic conditions spurred expansions. Manufacturing sales climbed along with export growth while the auto sector continued its recover from supply chain related issues. The labour market had also improved dramatically, with the annual unemployment rate coming in at 5.6 per cent, matching pre-pandemic levels. However, as with the rest of the nation, the economy is expected to slow in 2023, with headline GDP forecast to only grow at 0.4 per cent. Home sales and home prices, both which have already begun to slip will continue to trend downward and the unemployment rate is forecast to increase to 6.4 per cent for 2023.

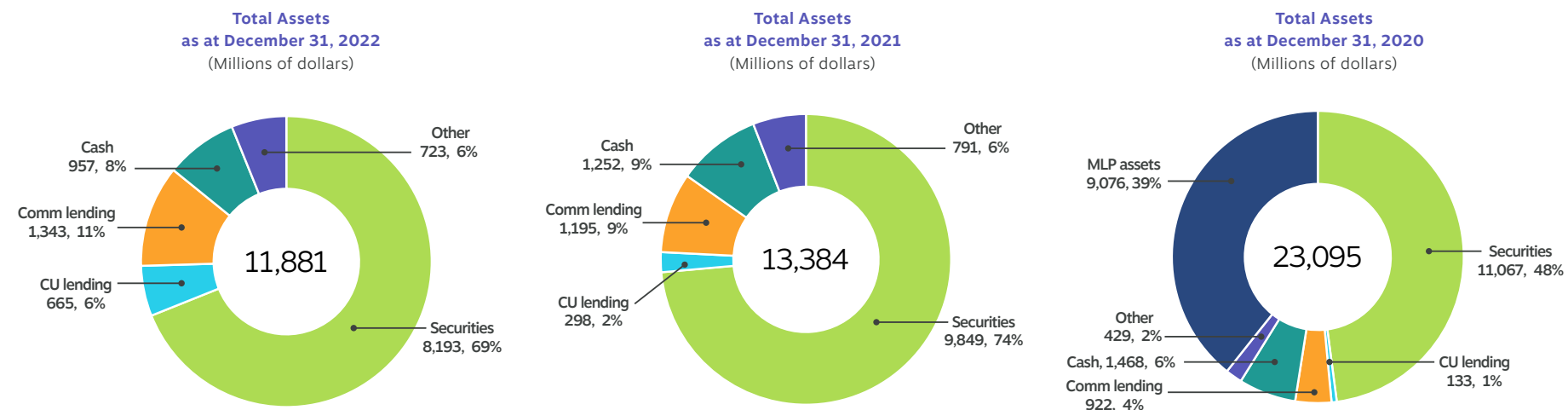
Financial Markets

Financial market conditions have deteriorated and tightened in 2022. High inflation has hit various economies in the world and markets have been extremely volatile. The BoC and the Federal Reserve began increasing rates aggressively earlier in 2022 to combat inflation, taking them from near zero per cent to around 4.5 to 4.75 per cent as of the end of January 2023 and have been firmly committed to raising them further in 2023 should inflation become entrenched. As a result, risk has increased in the market and the yield curve in Canada and the U.S. had inverted late in 2022 and remains so going into 2023. Market liquidity has deteriorated with bid-ask spreads widening, market depth sharply declining, and liquidity premiums increasing. Corporate and emerging market bond spreads have increased dramatically, and equity risk premiums have risen along with default risk. Equity markets have also fallen from the beginning of the year. Financial stability risk has increased, and they remain tilted to the downside.

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Consolidated Statement of Financial Position

Total Assets



Total assets as at December 31, 2022 decreased by \$1.5 billion from December 31, 2021 and \$2.1 billion from December 31, 2020, excluding the MLP assets which were segregated on January 1, 2021. Strong loan growth by our members resulted in their continued withdrawal of their deposits at Central 1 which contributed to the lower assets balance in 2022.

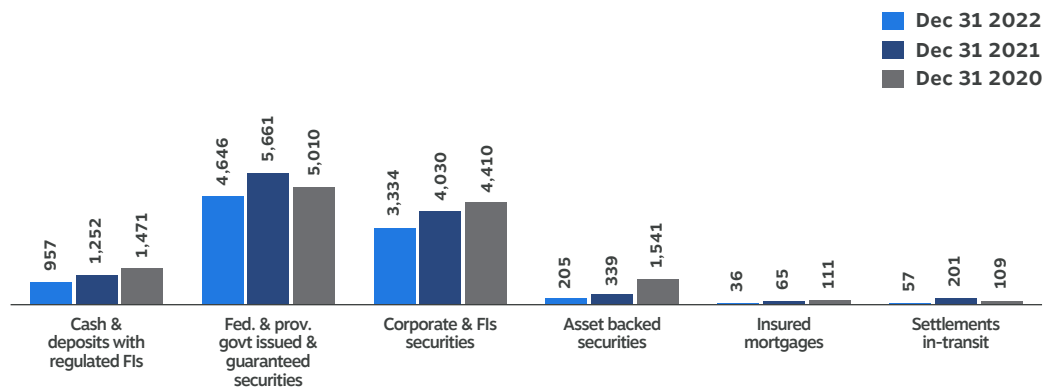
As at March 3, 2023

Cash and Liquid Assets

Treasury Liquid Assets

Dec 31, 2022: \$9,236

(Millions of dollars)



As at December 31, 2022	Treasury				
	Liquid Assets	Securities Received as Collateral	Total Liquid Assets	Encumbered Assets	Unencumbered Assets ¹
\$ millions					
Cash	\$ 957.2	\$ -	\$ 957.2	\$ -	\$ 957.2
Federal and provincial government issued and guaranteed	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

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.

As at March 3, 2023

As at December 31, 2021		Treasury				
\$ millions		Liquid Assets	Securities Received as Collateral	Total Liquid Assets	Encumbered Assets	Unencumbered Assets ¹
	Cash and deposits with regulated financial institutions	\$ 1,251.5	\$ -	\$ 1,251.5	\$ -	\$ 1,251.5
	Federal and provincial government issued and guaranteed	5,360.0	301.3	5,661.3	2,569.3	3,092.0
	Corporate and financial institutions securities	4,029.7	-	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

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.

As at December 31, 2020	MLP ²	Treasury				
	Total Liquid Assets	Liquid Assets	Securities Received as Collateral	Total Liquid Assets	Encumbered Assets	Unencumbered Assets ¹
\$ millions						
Cash and deposits with regulated financial institutions	\$ 943.0	\$ 1,471.0	\$ -	\$ 1,471.0	\$ -	\$ 1,471.0
Federal and provincial government issued and guaranteed	6,009.6	4,958.8	51.6	5,010.4	1,425.7	3,584.7
Corporate and financial institutions securities	2,101.1	4,410.4	-	4,410.4	14.7	4,395.7
Asset backed securities	21.9	1,540.5	-	1,540.5	90.0	1,450.5
Insured mortgages	-	111.1	-	111.1	13.3	97.8
Settlements in-transit	-	108.8	-	108.8	-	108.8
Total	\$ 9,075.6	\$ 12,600.6	\$ 51.6	\$ 12,652.2	\$ 1,543.7	\$ 11,108.5

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.

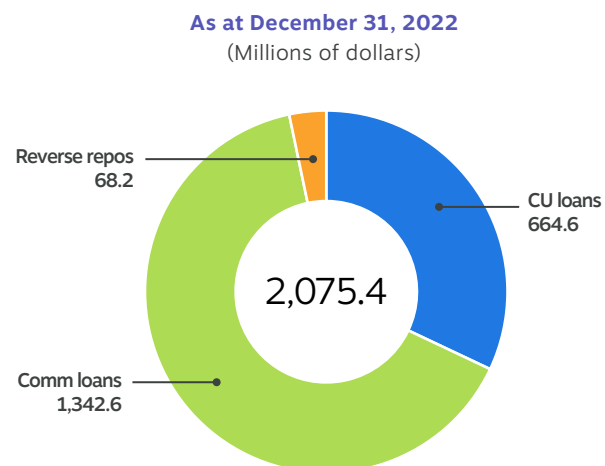
2 Assets of the Mandatory Liquidity Pool (MLP) segment only include MLP assets held for segregation

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.

Credit unions have been redeploying their excess liquidity built during the pandemic to fund loan growth, reflective of Central 1 seeing deposits runoff in the past few quarters which has translated into a decreased Treasury portfolio held by Central 1. This is evident in Treasury's cash and liquid assets as at December 31, 2022 which decreased by \$2.3 billion and \$3.4 billion from December 31, 2021 and December 31, 2020, respectively.

As at March 3, 2023

Loans



\$ millions	2022	2021	As at December 31 2020
Loans to credit unions	\$ 664.6	\$ 297.5	\$ 133.0
Commercial loans	1,342.6	1,195.1	922.4
Other loans	-	1.4	4.0
	1,342.6	1,196.5	926.4
Reverse repurchase agreements	68.2	301.3	51.6
	\$ 2,075.4	\$ 1,795.3	\$ 1,111.0

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

Central 1 provides clearing lines of credit and short- and medium-term loans to its members. All lending activities are closely integrated and coordinated within their liquidity management framework. Clearing lines of credit are available in two currencies (Canadian and U.S. dollars) and used to cover cash requirements arising from the settlement of payment transactions. Short-term loans are used by credit unions primarily for cash management purposes for short-term liquidity needs. Central 1 also participates in loan syndications with its members which comprises a significant portion of commercial loans on the Consolidated Statement of Financial Position.

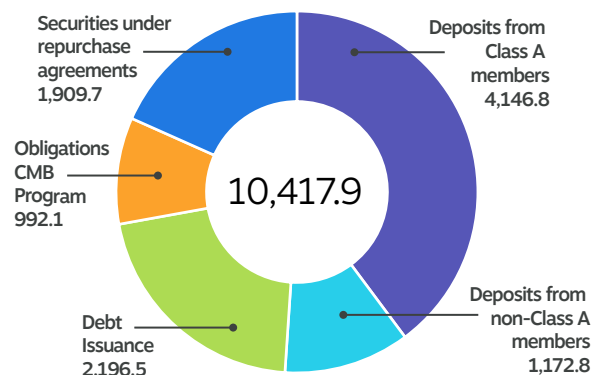
As at December 31, 2022, loans to credit unions increased by \$367.1 million from December 31, 2021 and \$531.6 million from December 31, 2020, as credit unions have deployed excess liquidity built during the pandemic and started borrowing more from Central 1 to fund their loan growth. Additionally, commercial loans as at December 31, 2022 increased by \$147.5 million from December 31, 2021 and \$420.2 million from December 31, 2020. As at December 31, 2022, reverse repurchase agreements decreased by \$233.1 million from December 31, 2021 and increased \$16.6 million from December 31, 2020.

As at March 3, 2023

Funding

As at December 31, 2022

(Millions of dollars)



\$ millions	2022	2021	As at December 31 2020
Deposits			
Mandatory deposits held for segregation	\$ -	\$ -	\$ 8,676.5
Non-mandatory deposits	4,146.8	5,541.1	7,754.6
Deposits from Class A members	4,146.8	5,541.1	16,431.1
Deposits from non-Class A members	1,172.8	1,659.1	1,610.9
	5,319.6	7,200.2	18,042.0
Debt Issuance			
Commercial paper	979.5	866.7	250.2
Medium-term notes	1,018.1	1,195.5	1,304.4
Subordinated liabilities	198.9	220.3	221.7
	2,196.5	2,282.5	1,776.3
Obligations under the Canada Mortgage Bond (CMB) Program	992.1	960.8	909.7
Securities under repurchase agreements	1,909.7	1,553.3	513.5
	\$ 10,417.9	\$ 11,996.8	\$ 21,241.5

Central 1's primary funding source is credit unions' non-mandatory deposits and debt issuance, through the issuance of commercial paper, medium-term notes, subordinated debt, repurchase agreements and participation in securitization programs.

As at December 31, 2022, total deposits on December 31, 2022 were down by \$1.9 billion from December 31, 2021 as credit union redeployed excess liquidity into lending. Total deposits as at December 31, 2020 included \$8.7 billion mandatory deposits held for segregation, which were discharged on January 1, 2021. Excluding these mandatory deposits, total deposits as at December 31, 2022 were down by \$4.0 billion from December 31, 2020 when credit union liquidity was at more historically normalized pre-pandemic levels.

Total debt issuance decreased \$86.0 million from December 31, 2021 and increased \$420.2 million from December 31, 2020. The issuance of \$350.0 million medium-term notes (MTN) on September 29, 2022 was to prepare for the maturity of a \$500.0 million MTN on November 7, 2022. The decrease in MTN issuance was funded by a \$112.8 million increase in commercial paper due to more favourable funding costs in the rising rate environment.

Results by Segment

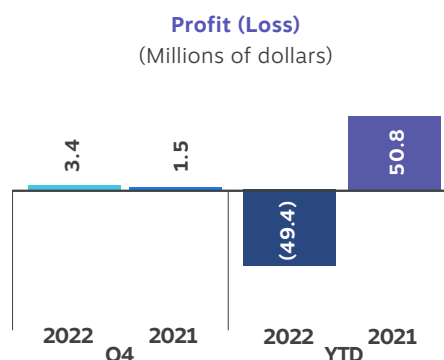
Central 1’s operations and activities are reported around two key business segments: Treasury, and Payments & Digital Banking Platforms and Experiences (DBPX). All other activities or transactions are reported in System Affiliates & Other including Central 1’s investments in equity shares of system-related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

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 Bank of Canada requirements
	- 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	
System Affiliates & Other		

As at March 3, 2023

Treasury



\$ millions	Q4 2022	Q4 2021	Change	For the year ended December 31		
	2022	2021		2022	2021	Change
Interest margin	\$ 18.2	\$ 13.8	\$ 4.4	\$ 76.8	\$ 61.6	\$ 14.7
Gain (loss) on disposal of financial instruments	12.8	(5.3)	18.1	(12.6)	15.0	(27.6)
Change in fair value of financial instruments	(31.7)	(2.6)	(29.1)	(133.4)	(5.4)	(128.0)
Impairment recovery (loss) on financial assets	-	(0.4)	0.4	(0.4)	1.5	(1.9)
Net financial income (expense)	(0.7)	5.5	(6.2)	(70.1)	72.7	(142.8)
Non-financial income	7.1	8.3	(1.2)	31.3	33.2	(1.9)
Net financial and non-financial income (expense)	6.4	13.8	(7.4)	(38.8)	105.9	(144.7)
Non-financial expense	9.6	8.5	1.1	39.3	35.4	3.9
Profit (loss) before income taxes	(3.2)	5.3	(8.5)	(78.1)	70.5	(148.6)
Income tax expense (recovery)	(6.6)	3.8	(10.4)	(28.7)	19.7	(48.4)
Profit (loss)	\$ 3.4	\$ 1.5	\$ 1.9	\$ (49.4)	\$ 50.8	\$ (100.2)

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

Q4 2022 vs Q4 2021

For the fourth quarter of 2022, Treasury reported a profit of \$3.4 million, up \$1.9 million from the same quarter last year. The BoC's aggressive rate hikes in 2022 allowed floating rate assets to be repriced higher which contributed to a \$4.4 million higher interest margin from the same period in 2021.

The rate increases together with persistent inflationary pressure, ongoing geopolitical tensions and lingering impact from the COVID-19 pandemic have driven significant increases in the market yields across all tenors, leading to a reduction in the fair value of Central 1's treasury portfolio by \$29.1 million from the same quarter in 2021.

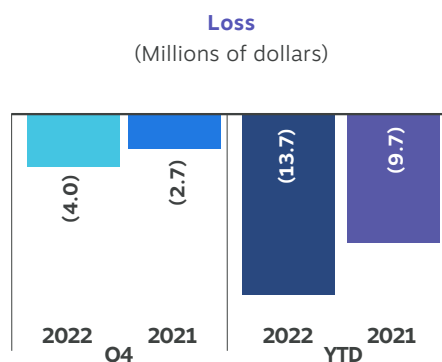
Non-financial income in the fourth quarter was relatively stable year-over-year, and non-financial expense was \$1.1 million higher than the prior year as a result of an overall inflationary increase in operating expenses.

YTD 2022 vs YTD 2021

For the year ended December 31, 2022, Treasury reported a loss of \$49.4 million, compared to a profit of \$50.8 million from last year. The mark-to-market value of the treasury portfolios decreased by \$133.4 million in 2022 due to the continuous increase in market yields. Treasury saw a \$14.7 million increase in interest margin as floating rate assets and interest rate hedges were repriced higher in the rising rate environment. Non-financial income remained relatively stable and non-financial expense increased \$3.9 million from 2021 reflective of high inflation in 2022.

As at March 3, 2023

Payments & DBPX



\$ millions	Q4 2022	Q4 2021	Change	For the year ended December 31		
				2022	2021	Change
Net financial expense	\$ (0.2)	\$ (0.1)	\$ (0.1)	\$ (0.5)	\$ (0.2)	\$ (0.3)
Non-financial income	29.2	26.9	2.3	110.5	107.5	3.0
Net financial expense and non-financial income	29.0	26.8	2.2	110.0	107.3	2.7
Non-financial expense, excl. strategic initiatives ¹	28.7	28.8	(0.1)	110.6	105.1	5.5
Strategic initiatives ¹	0.3	(2.0)	2.3	(0.6)	2.2	(2.8)
Loss before income taxes	(6.0)	(4.4)	(1.6)	(28.4)	(14.0)	(14.4)
Income tax recovery	(2.0)	(1.7)	(0.3)	(14.7)	(4.3)	(10.4)
Loss	\$ (4.0)	\$ (2.7)	\$ (1.3)	\$ (13.7)	\$ (9.7)	\$ (4.0)

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

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

Q4 2022 vs Q4 2021

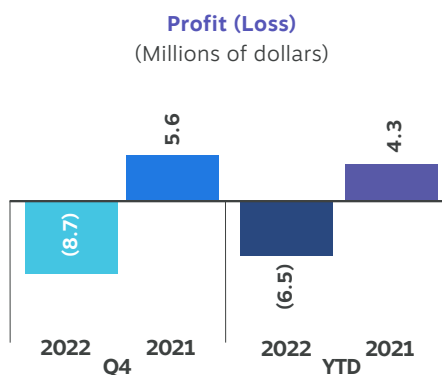
Payments & DBPX reported a loss of \$4.0 million in the fourth quarter of 2022, compared to a loss of \$2.7 million reported in the same quarter last year. Investments in strategic initiatives, which included the Payments Modernization and Forge 2.0 initiatives, continued in the fourth quarter and were consistent with Central 1's strategic priorities. Non-financial income for this segment was largely consistent year-over-year supported by relatively stable transaction volumes in digital and payments products. Non-financial expense, excluding strategic initiatives was in line with the prior year.

YTD 2022 vs YTD 2021

For the year ended December 31, 2022, Payments & DBPX reported a loss of \$13.7 million, compared to a loss of \$9.7 million reported in 2021. Investment in strategic initiatives saw a \$11.6 million increase, consistent with Central 1's strategic priorities. While non-financial income was stable year-over-year due to consistent transaction volumes in Payments and DBPX products, non-financial expense, excluding strategic initiatives saw a \$5.5 million increase, due to higher salaries and professional fees. Offsetting these increases was the income tax recovery driven by an increased effective tax rate in 2022 as certain expenditures in strategic initiatives qualify for SR&ED tax incentive credits, which contributed to a higher tax recovery in 2022.

As at March 3, 2023

System Affiliates & Other



\$ millions	Q4 2022	Q4 2021	Change	For the year ended December 31		
	2022	2021		2022	2021	Change
Net financial expense	\$ 0.2	\$ 12.3	\$ (12.1)	\$ 3.1	\$ 12.3	\$ (9.2)
Non-financial income	-	1.3	(1.3)	8.2	10.9	(2.7)
Net financial expense and non-financial income	0.2	13.6	(13.4)	11.3	23.2	(11.9)
Non-financial expense, excl. strategic initiatives ¹	6.3	0.9	5.4	6.2	4.3	1.9
	(6.1)	12.7	(18.8)	5.1	18.9	(13.8)
Strategic initiatives ¹	3.0	5.2	(2.2)	11.7	13.1	(1.4)
Profit (loss) before income taxes	(9.1)	7.5	(16.6)	(6.6)	5.8	(12.4)
Income tax expense (recovery)	(0.4)	1.9	(2.3)	(0.1)	1.5	(1.6)
Profit (loss)	\$ (8.7)	\$ 5.6	\$ (14.3)	\$ (6.5)	\$ 4.3	\$ (10.8)

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

Q4 2022 vs Q4 2021

System Affiliates & Other reported a loss of \$8.7 million, compared to a profit of \$5.6 million in the same quarter last year. The profit in 2021 was attributed to a fair value gain of \$11.5 million in Central 1's investment in Concentra after Equitable Bank announced its acquisition. The transaction closed in November 2022. Non-financial income has been consistent year-over-year, and non-financial expense, excluding strategic initiatives was up by \$5.4 million driven by higher salaries and professional fees. Investments in strategic initiatives continued, consistent with Central 1's strategic priorities, which included the implementation of initiatives aimed to expand corporate efficiency.

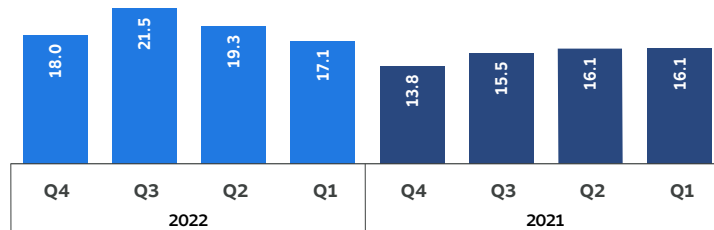
YTD 2022 vs YTD 2021

For the year ended December 31, 2022, System Affiliates & Other reported a loss of \$6.5 million, compared to a profit of \$4.3 million from the same period last year. Upon closing of the transaction between Equitable Bank and Concentra, Central 1 recognized a \$2.9 million gain, compared to an \$11.5 million fair value gain in 2021. Non-financial income included the liquidation distributions from the U.S. Central with the amount received in 2022 being \$1.3 million lower than 2021. Excluding these distributions, non-financial income was relatively stable. Non-financial expense, excluding strategic initiatives for this segment saw a \$1.9 million increase year-over-year reflecting the high inflation. Investments in strategic initiatives remained consistent, which included the implementation of initiatives aimed to expand corporate efficiency.

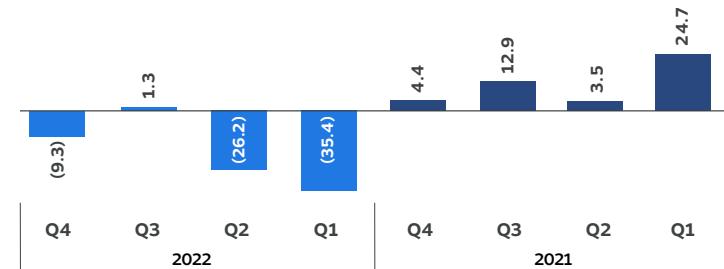
As at March 3, 2023

Summary of Quarterly Results

Interest Margin
(Millions of dollars)



Profit (Loss)
(Millions of dollars)



\$ thousands, except as indicated	2022				2021			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Interest income	\$ 94,605	\$ 79,841	\$ 52,660	\$ 36,974	\$ 33,807	\$ 34,482	\$ 35,106	\$ 36,532
Interest expense	76,626	58,372	33,335	19,893	20,054	18,994	19,032	20,398
Interest margin	17,979	21,469	19,325	17,081	13,753	15,488	16,074	16,134
Gain (loss) on disposal of financial instruments	31,479	(4,175)	(7,665)	(13,595)	(5,281)	2,690	11,467	6,134
Change in fair value of financial instruments	(50,185)	(9,113)	(36,522)	(53,204)	9,698	1,318	(17,775)	13,672
	(18,706)	(13,288)	(44,187)	(66,799)	4,417	4,008	(6,308)	19,806
Impairment recovery (loss) on financial assets	13	(394)	(413)	433	(461)	3	557	1,346
Net financial income (expense)	(714)	7,787	(25,275)	(49,285)	17,709	19,499	10,323	37,286
Non-financial income	36,263	39,747	35,733	38,265	36,518	40,413	39,983	34,670
Net financial and non-financial income (expense)	35,549	47,534	10,458	(11,020)	54,227	59,912	50,306	71,956
Non-financial expense ¹	53,871	45,944	50,509	45,338	45,844	43,133	44,084	41,031
Profit (loss) before income taxes	(18,322)	1,590	(40,051)	(56,358)	8,383	16,779	6,222	30,925
Income tax expense (recovery)	(9,061)	335	(13,823)	(20,982)	4,007	3,908	2,737	6,257
Profit (loss)	\$ (9,261)	\$ 1,255	\$ (26,228)	\$ (35,376)	\$ 4,376	\$ 12,871	\$ 3,485	\$ 24,668
Weighted average shares outstanding (millions)	43.4	43.4	43.4	43.4	43.4	43.4	43.4	74.3
Earnings (loss) per share (cents) ²								
Basic/Diluted	(21.4)	3.0	(60.4)	(81.6)	10.1	29.7	8.1	33.2

¹ Non-financial 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 Central 1's Board of Directors.

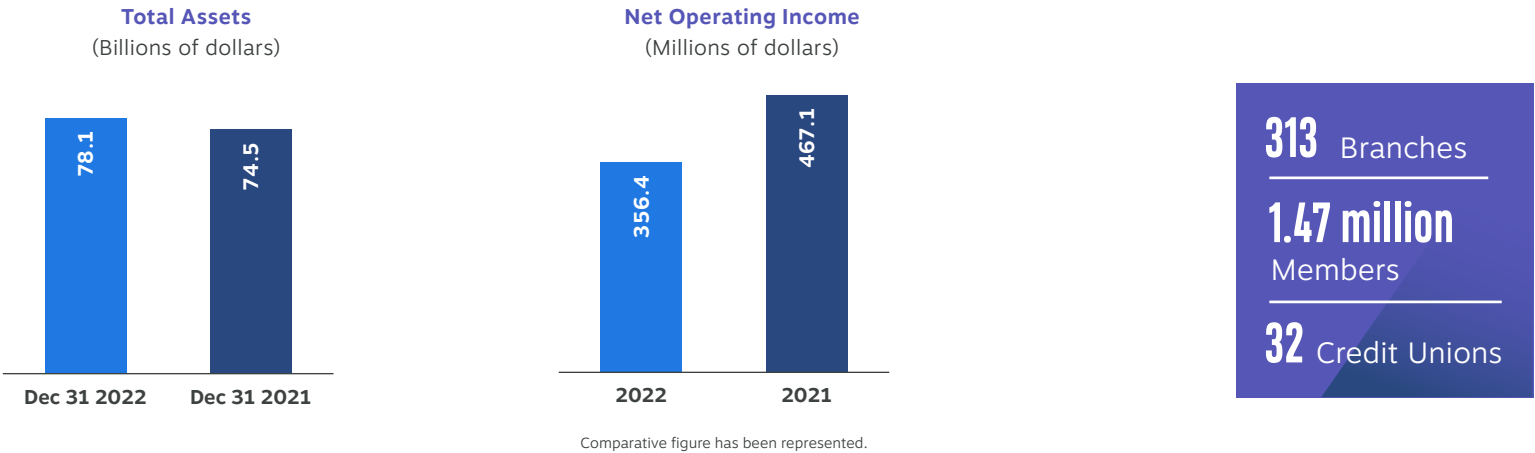
As at March 3, 2023

The analysis of the past eight quarters reflects the sustained performance of all the business segments and helps readers identify the items that have favorably or unfavorably affected results. The upward trend of interest margin seen during the first three quarters of 2022 has started to taper off in the fourth quarter which reported a decrease of \$3.5 million from the third quarter due to the repricing of financial liabilities at a higher rate in the rising rate environment. The rapid increase of BoC rate to combat inflation has led to a higher interest income as floating rate assets repriced at a higher rate. The persistent inflationary pressure together with the ongoing Russia–Ukraine conflict and lingering COVID-19 pandemic led to continuous widening of credit spreads. Market yields saw increases across all tenors which in turn reduced the fair value of financial instruments, reflecting an aggregate decrease of \$149.0 million over the four quarters of 2022, of which \$133.4 million was from the Treasury segment and \$15.6 million was from System Affiliates, driven by the reversal of the historical fair value gain adjustments of the investment in Concentra as a result of the Equitable Bank transaction that closed in the quarter.

Since the third quarter of 2021, Central 1 has been receiving U.S. Central liquidation distributions totaling \$9.7 million (US \$7.6 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. Excluding these distributions, non-financial income remained relatively stable quarter-over-quarter, reflective of consistent transaction volume in Digital and DBPX products. Non-financial expense saw an upward trend over the past few quarters in 2022 driven by higher salaries and professional fees.

System Performance

British Columbia



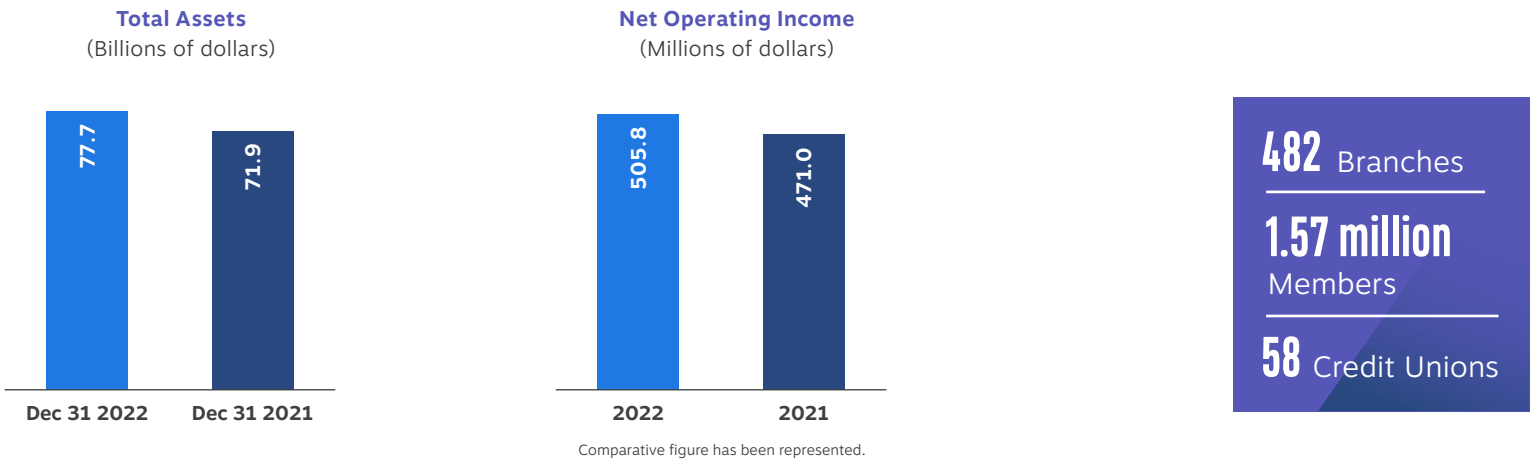
Net operating income totaled \$356.4 million, down from \$467.1 million in 2021. This was driven by an increase in non-interest expenses and a lower non-interest income. Net interest income increased 4.5 per cent to \$1.46 billion as higher interest income exceeded higher interest expenses. Non-interest income fell 19.9 per cent to \$264.8 million. Non-interest expenses in 2022 increased 8.6 per cent year-over-year to \$1.37 billion led by higher loan loss expenses.

Assets of the B.C. system totaled \$78.1 billion at the end of 2022, up \$3.6 billion or 4.8 per cent from a year earlier. Asset growth was largely in an increase in personal and commercial loans while cash and investments decreased. Liability growth was led by non-registered term deposits, which grew by \$5.0 billion or 19.9 per cent and offset the \$2.6 billion or 8.2 per cent decrease in non-registered demand deposits. The 90-day delinquency rate at year-end stood at 0.09 per cent of the loan portfolio, down one bp from a year earlier. Net loan loss expense was 0.06 per cent of average loans in 2021, up 11 bps from a year earlier. Reserves held against loan losses totaled 0.32 per cent of the portfolio at year-end, compared to 0.29 per cent from a year earlier.

As at March 3, 2023

The B.C. system had \$37.3 billion in risk weighted assets (RWA) and regulatory capital as a percentage of RWA at 14.7 per cent, down 47 bps year-over-year. The system’s liquidity ratio was 16.1 per cent at the end of 2022, down 189 bps from a year earlier. B.C. credit union membership stood at approximately 1.47 million at year-end, up 8.5 thousand from a year earlier.

Ontario



The Ontario credit union system saw profits increase in 2022. Net operating income totaled \$505.8 million, up 7.4 per cent or \$34.8 million from 2021. Financial margin grew 10.4 per cent to \$1.5 billion. Non-financial income increased by 2.8 per cent to \$277.1 million. Non-Financial expenses increased 9.9 per cent to \$1.3 billion, led by higher salaries and benefits.

Asset growth for the Ontario system was strong in 2021, with assets totaling \$77.7 billion at year-end, up 8.0 per cent year-over-year. Net loans grew by 11.2 per cent to \$67.2 billion. Liabilities grew 7.5 per cent to \$72.2 billion. Deposits totaled \$61.7 billion at year-end, up 6.5 per cent from a year earlier. Deposit growth was largely in term deposits.

The system’s liquidity ratio ended 2022 at 12.9 per cent, down from 16.6 per cent from 2021. The system had \$37.2 billion in RWA in 2022 and the risk-weighted capital ratio increased seven bps to 13.6 per cent. The system’s credit risk measures decreased with the overall 90-day delinquency rate down from 0.18 per cent to 0.15 per cent at year-end, while total loan loss reserves ended 2022 at 0.25 per cent of the portfolio. The rate of loan loss expense was two bps in 2022, up three bps from 2021. Ontario credit union membership stood at approximately 1.57 million at year-end, up 34.4 thousand from a year earlier.

As at March 3, 2023

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	2022	2021	As at December 31 2020
Interest rate contracts			
Swap contracts	\$ 31,844.0	\$ 32,435.1	\$ 34,375.8
Futures contracts	604.0	653.0	2,209.0
Bond forwards	-	41.0	40.1
	32,448.0	33,129.1	36,624.9
Foreign exchange contracts			
Foreign exchange forward contracts	543.5	587.1	568.2
Other derivative contracts			
Equity index-linked options	221.1	216.8	171.3
	\$ 33,212.6	\$ 33,933.0	\$ 37,364.4

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. Central 1 also acts as a swap counterparty with the Canada Mortgage Housing Corporation in the Insured Mortgage Purchase Program, to provide support for its members' liquidity.

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.

As at March 3, 2023

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	2022	2021	As at December 31 2020
Commitments to extend credit	\$ 4,976.6	\$ 5,083.4	\$ 4,800.9
Guarantees			
Financial guarantees	\$ 717.6	\$ 802.6	\$ 767.6
Performance guarantees	\$ 130.0	\$ 100.0	\$ 100.0
Standby letters of credit	\$ 236.9	\$ 239.4	\$ 237.2
Future prepayment swap reinvestment commitment	\$ 797.9	\$ 1,089.5	\$ 1,646.8

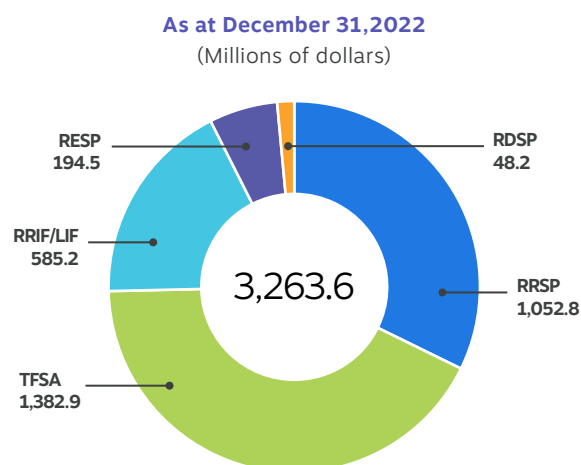
In the normal course of business, Central 1 enters into various off-balance sheet arrangements to meet the financing, credit, and liquidity requirements of our member credit unions. These are in the form of commitments to extend credit, guarantees, standby letter of credit, and future prepayment swap reinvestment commitment.

Commitments to extend credit, representing undrawn commitments, decreased \$106.8 million from December 31, 2021 and increased \$175.7 million from December 31, 2020. Financial guarantees decreased \$85.0 million from year-end, while standby letters of credit were in line with the prior year. Future prepayment swap reinvestment commitments also decreased by \$291.6 million from a year ago due to the maturity of National Housing Act Mortgage-Backed Securities (NHA MBS) which was reinvested through Central 1's prepayment swap program, reflective of the higher reinvestment assets in Central 1's balance sheet.

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.

As at March 3, 2023

Assets under Administration



\$ millions	2022	2021	As at December 31 2020
Registered Retirement Savings Plans (RRSP)	\$ 1,052.8	\$ 1,066.9	\$ 1,077.2
Tax-Free Savings Accounts (TFSA)	1,382.9	1,271.4	1,196.4
Registered Retirement Income Funds/Life Income Funds (RRIF/LIF)	585.2	552.3	526.9
Registered Education Savings Plans (RESP)	194.5	200.2	262.4
Registered Disability Savings Plans (RDSP)	48.2	42.8	37.8
	\$ 3,263.6	\$ 3,133.6	\$ 3,100.7

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

The offboarding of a RESP client in 2021 resulted in a material decrease in AUA for RESPs. However, this reduction was partially offset by an overall increase in business from both Ontario and B.C., along with market value appreciation, contributing to a 4.1 per cent increase in total AUA from a year ago. Notable trends show that the AUA of RDSPs, TFSAs, and RRIFs increased by 12.6, 8.8, and 6.0 per cent respectively from a year ago. Economic outlooks reflect an upward trend in TFSA sales reflective of its increasing popularity amount investors as an alternative to RRSPs and the desire to keep cash at hand during this period of financial uncertainty. Additionally, modest RDSP growth is contributed to CRA's national awareness campaign targeting qualified beneficiaries. Altogether, AUA is up \$130.0 million from a year ago chiefly due to increased TFSA contributions, moderate RDSP sales, RRIF transfers, contributions, together with market value appreciation over the past year.

The 2022 federal budget introduced a new registered product, the tax-free First Home Savings Accounts (FHSA) which is scheduled to come into effect April 1, 2023. This new product is expected to compete with RRSP and TFSA contributions. Credit unions are working with their system providers and/or mutual fund dealers on solutions to offer this new product to their members sometime 2023.

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.

As at March 3, 2023

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.

As at March 3, 2023

Regulatory Capital

\$ millions, except as indicated	2022	2021	At as December 31 2020
Share capital	\$ 43.4	\$ 43.4	\$ 441.1
Retained earnings	656.8	727.2	684.2
Less: accumulated net after tax gain in investment property	(4.7)	(4.7)	(4.7)
Tier 1 capital ²	695.5	765.9	1,120.6
Subordinated debt ¹	212.6	216.8	221.0
Add: accumulated net after tax gain in investment property	4.7	4.7	4.7
Tier 2 capital ²	217.3	221.5	225.7
Total capital	912.8	987.4	1,346.3
Statutory capital adjustments	(176.3)	(125.6)	(106.3)
Total regulatory capital ²	\$ 736.5	\$ 861.8	\$ 1,240.0
Borrowing multiple – Consolidated ³	14.7:1	14.3:1	17.8:1
Borrowing multiple – Mandatory Liquidity Pool ³	n/a	n/a	18.1:1
Borrowing multiple – Treasury ³	n/a	n/a	18.6:1

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, 2022, Central 1's consolidated borrowing multiple was 14.7:1 compared to 14.3:1 at December 31, 2021, largely due to the reduction in Retained Earnings. Central 1 was in compliance with all regulatory capital requirements as at December 31, 2022 and December 31, 2021.

As at March 3, 2023

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



As at March 3, 2023

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

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

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

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

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

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 liquidity support to the credit union system in B.C. and Ontario and consider the liquidity and funding risks for each of our member credit unions as part of our risk.

Market risk is the potential for financial gain or loss resulting from 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 Management Framework

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

The Board and our Committees

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

The Board reviews and approves material business strategies and activities. Subject to our Constitution and Rules (Rules) and applicable legislation, the Board may delegate certain duties to committees of the Board. The Board has delegated to the RRILC the responsibility for overseeing the risk-taking operations and risk

As at March 3, 2023

management functions and ensuring appropriate risk governance processes are executed effectively and that investment, lending and other business operations are undertaken in a prudent and risk-informed manner.

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

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

Management and our Risk Committees

President and Chief Executive Officer				
Business Leaders	Corporate Support and Control Functions			
	Chief Risk Officer	Chief Financial Officer		Other Senior Exec.
Business Functions	Risk Group	Finance Group	Internal Audit	Legal, IT, HR, etc.
Management Risk Committee				
Asset and Liability Committee				

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 Digital and Payments Officer is responsible for the management of the Payments & DBPX 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 Framework and 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.

As at March 3, 2023

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

As at March 3, 2023

Risk Oversight and Management

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 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.

Compliance Risk is owned by the first line of defense. 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 and procedures form a framework that includes:

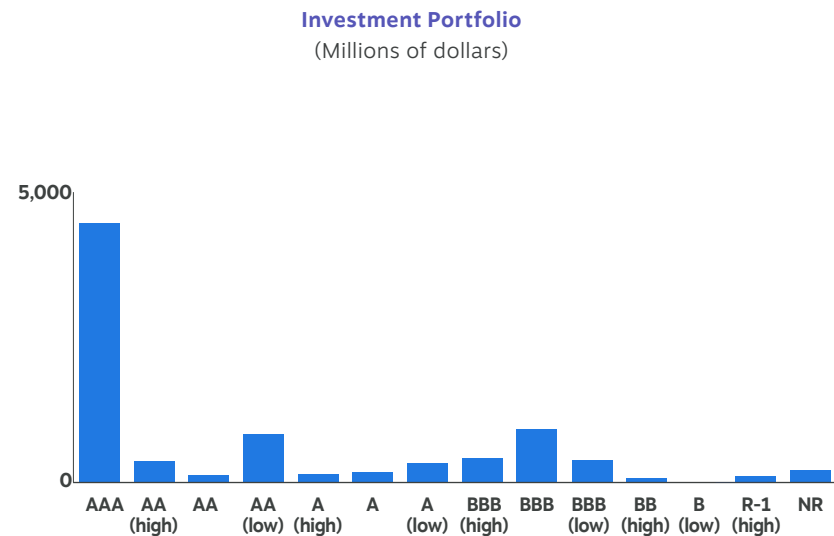
- application of safe and sound, stringent lending and/or funding criteria to all credit exposures prior to their acquisition
- clearly defined management and policy limits on the amount, types, and concentrations of credit risk
- regular evaluation and assessment of existing credit risk exposures and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

All potential and existing borrowers are evaluated by skilled lenders and are adjudicated by independent highly credit risk professionals. Annually, the status of each borrower and transaction is reviewed through a comprehensive assessment process. The exposures are concentrated in low-risk investment securities with very limited exposure to underperforming loans in the lending portfolios.

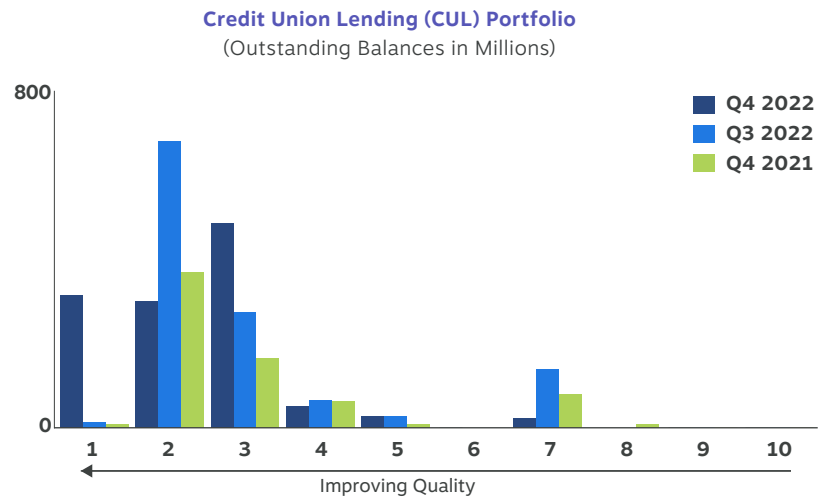
In the fourth quarter of 2022, Central 1 reduced its expected credit loss allowances for the Commercial Real Estate Lending (CREL) portfolio by \$41 thousand to a total of \$3.54 million. Expected credit loss allowances for the Investment portfolio were slightly increased by \$28 thousand to a total of \$284 thousand. Zero expected credit loss remained in the Credit Union Lending portfolio given ample security pledged to secure credit facilities.

As at March 3, 2023

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.



As at March 3, 2023

Credit Quality Performance

As part of our risk management activities, we perform ongoing stress tests to measure the resiliency of our lending and investment portfolios against a range of severe scenarios. The stress tests provide comfort that we continue to maintain adequate capital to withstand a range of severe economic scenarios.

Investments Portfolio

There are no impaired investments in the Investments Portfolio.

Credit Union Lending (CU Lending)

Currently, there are no impaired loan facilities in the CU Lending portfolio. As at December 31, 2022, there were six Ontario credit unions and one B.C. credit union classified as Watch List (risk rating 7). The Watch List and Unsatisfactory accounts represented 1.74 per cent of the authorized portfolio as at December 31, 2022. The security provided for the Watch List facilities is substantial and no losses are expected.

Commercial Real Estate Lending (CREL)

There is one impaired loan in the portfolio representing 0.11 per cent of the outstanding portfolio balance as of December 31, 2022. The loan is secured by a first priority security interest over real estate assets and is 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 (Dominion Bond Rating Service), 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 ensures ongoing liquidity support of the credit union system in both normal and stressed market conditions. Central 1 is continuously monitoring the liquidity and funding needs of the credit union system and remain ready to meet the liquidity requirements of our credit union members, as and when required.

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 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
- an enterprise Contingency Funding Plan (CFP)
- frequent measurement of portfolio liquidity

As at March 3, 2023

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.

Contingency Funding Plan

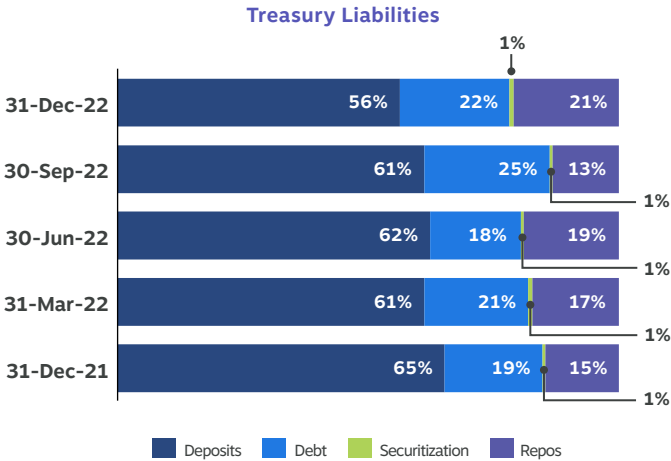
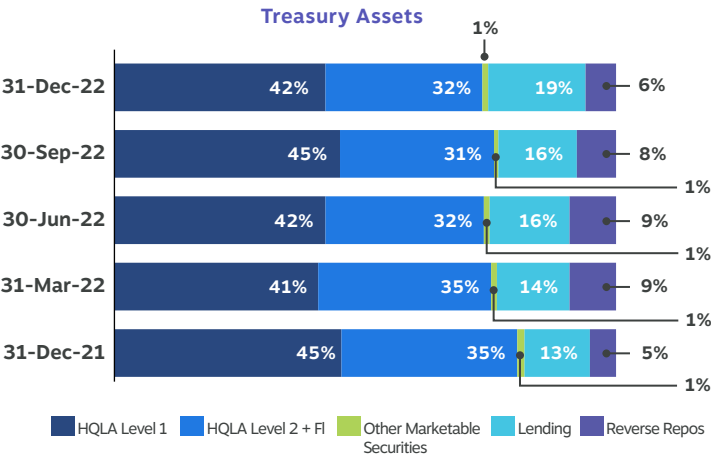
Central 1 provides financial stewardship of the liquidity deposits of the B.C. and Ontario credit union systems. Accordingly, it is imperative that we maintain members' trust and confidence by ensuring the existence of an appropriate plan to provide the credit union system with access to funding during a liquidity crisis.

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

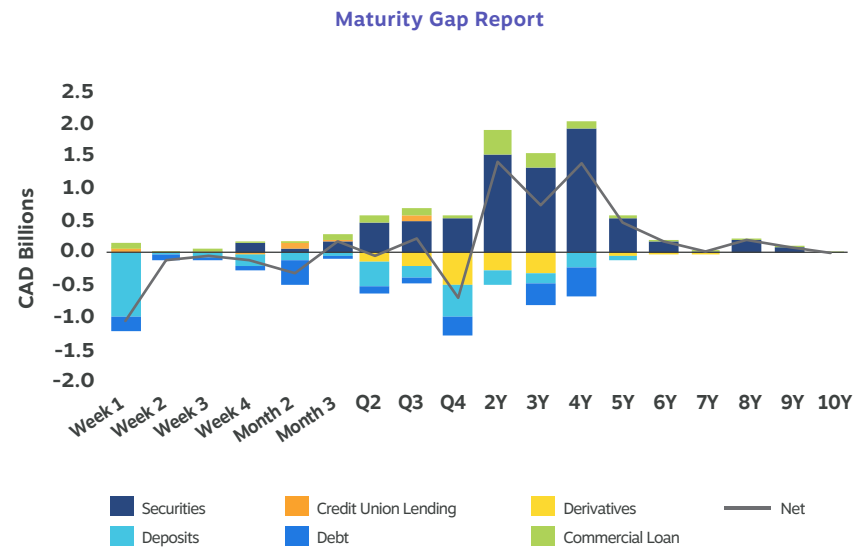
As at March 3, 2023

Risk Monitoring

We at Central 1 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 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.



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.



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 on a monthly basis.

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.

Central 1 further shocks the LCR by applying additional seven stressed scenarios - the default of a Canadian bank to which Central 1 faces the largest exposure, three scenarios around the drawdown of committed credit facilities and deposits by the largest credit union, and three scenarios around the drawdown of committed credit facilities and deposits by three largest credit unions. 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.

As at March 3, 2023

Central 1's liquidity position as of December 31, 2022, remains strong based on assessment of the LCR, NCCF and other key risk indicators. Although the OSFI LCR of 124.1 per cent as of December 31, 2022, was lower than the previous quarters, it still 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 liquidity needs of the system.

	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	LTM Average ¹
OSFI LCR	124.1 %	145.4 %	126.3 %	128.4 %	130.2 %	126.4 %

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 metrics decreased in the fourth quarter. The portfolio's exposure to interest rates and credit spreads has been managed down in the first half of the year to reduce risk.

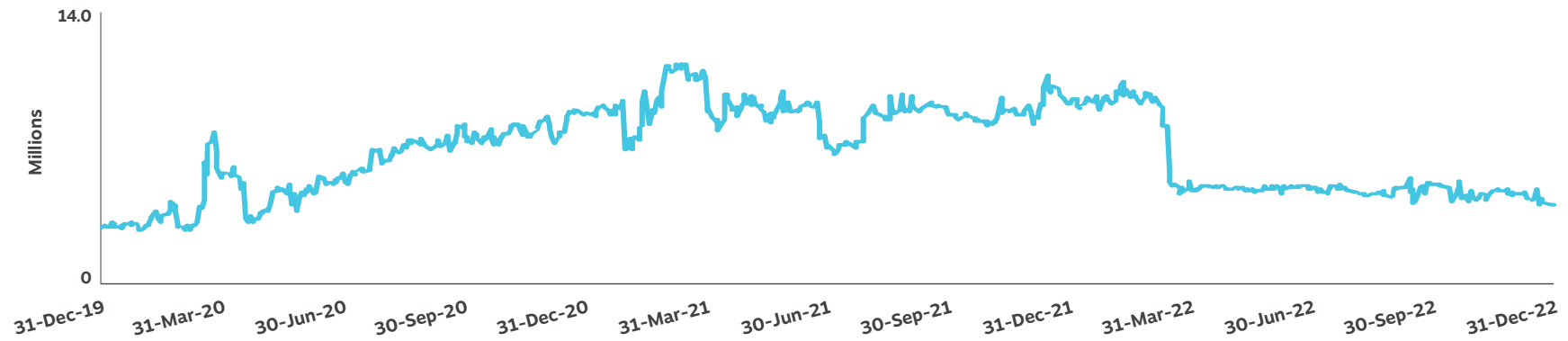
As at March 3, 2023

\$ millions	Treasury				Last 12 Months		
	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Average	High	Low
Interest Rate VaR	\$ 2.7	\$ 4.5	\$ 3.6	\$ 4.2	\$ 3.9	\$ 5.1	\$ 2.4
Credit Spread VaR	2.9	3.4	3.4	3.9	4.8	10.4	2.9
Foreign Exchange VaR	1.9	1.7	2.6	2.8	2.3	3.8	1.0
Diversification ¹	(3.4)	(4.4)	(4.5)	(5.9)	(5.2)	nm	nm
Total VaR	\$ 4.1	\$ 5.2	\$ 5.1	\$ 5.0	\$ 5.8	\$ 10.6	\$ 4.1
Expected Shortfall	\$ 5.5	\$ 6.5	\$ 5.4	\$ 5.3	\$ 7.6	\$ 15.7	\$ 5.0

¹ Total VaR is less than the sum of Risk Factors' VaR as a result of diversification and offsetting risk factors.

nm - not meaningful to calculation

Treasury 1 Day VaR



As at March 3, 2023

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, as a result of a lower risk profile in the portfolio.

\$ millions	Treasury				Last 12 Months		
	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Average	High	Low
1-Day SVaR	\$ 10.5	\$ 12.5	\$ 14.7	\$ 15.9	\$ 15.4	\$ 45.3	\$ 9.8
10-Day SVaR	\$ 34.5	\$ 35.4	\$ 41.7	\$ 47.7	\$ 42.4	\$ 52.3	\$ 32.0

Foreign Exchange Rate Exposure

Most of Central 1's foreign exchange (FX) exposure is largely concentrated in USD on account of USD deposits held with Central 1. 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	\$ 15.7	\$ (31.4)	\$ (15.7)	1.3536	(21.2)

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.

During the COVID-19 pandemic Central 1 and other financial organizations, are exposed to heightened operational risks in the form of cyber-attacks, data breaches, third party service provider failures, and other uncertainties. To counter this ongoing threat, we are continuously improving our security posture, including real-time intrusion detection monitoring of our remote banking applications and implementing stronger authentication controls.

As at March 3, 2023

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, 2022, the key Emerging Risks for Central 1 are:

- **Technology 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 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, 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.
- **Economic and Regulatory Influences:** Risk of a recession in 2023 and possible increase in taxes as government seek to recoup pandemic related costs places pressure on retail and corporate investors. Central 1 is vulnerable to economic downturns, which can lead to increased loan defaults and other financial challenges.
- **Environmental Social and Governance (ESG):** Increased scrutiny on how we address environmental and social issues and our ability to comply with regulations which come into effect from 2024. Over the coming year, the Risk team will develop a more formal Framework and fulsome view of the ESG risk controls and mitigations in place.

As at March 3, 2023

Accounting and Control Matters

Our 2022 Consolidated Financial Statements have been prepared using the accounting policies as set out in Note 2 to those statements.

Use of Estimates and Judgements

Judgements, 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.

The economic uncertainties around persistent inflation pressure and geopolitical tensions have negatively impacted the global economy. Depending on the future developments of these challenges, the full impact on Central 1's results of operations and financial conditions remains unknown. Developing reliable estimates and applying judgment continue to be substantially complex. While management makes its best estimates and assumptions, actual results may differ from those estimates and assumptions.

Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis with revisions to estimates being recognized prospectively.

Expected Credit Loss

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

Central 1 has developed models incorporating specific macroeconomic variables that are relevant to each specific portfolio. The forecast of future economic conditions is developed internally by Central 1's Allowance Working Group (AWG) Committee, considering external data and Central 1's view of future economic conditions. Central 1 exercises experienced credit judgement to incorporate multiple economic forecasts which are probability-weighted in the determination of the final expected credit loss. The allowance is sensitive to changes in both economic forecast and the probability-weight assigned to each forecast scenario.

The ECL allowance as at December 31, 2022 is reflective of:

- A weaker Real GDP growth in 2023,
- Rising unemployment rates until the third quarter of 2023,
- A continued falling consumer debt ratio in the first two quarters of 2023, and
- A declined Housing price index over 2023 due to high interest rates.

The AWG Committee determines assumptions and estimates used to predict the future performance of the key economic variables. Additional information regarding the ECL allowance is included in Note 9 of Central 1's Consolidated Financial Statements.

Determining Fair Value of Financial Instruments

The determination of fair value for difficult to price financial assets and liabilities requires the exercise of judgement by management. Certain financial instruments are classified as level 2 in the fair value hierarchy, whose fair values are measured using quoted market prices in active markets for similar instruments or other valuation techniques where all significant inputs are directly or indirectly observable from market data. At the end of each reporting period, the fair values of the level 2 financial instruments are determined using third party sources that supply prices of similar instruments which are priced by third parties, i.e. from various brokers, banks and other financial institutions.

When there is no observable market price, Central 1 uses valuation techniques which use unobservable inputs to measure level 3 financial instruments. The expected cash flows are discounted using interest rates currently being offered on instruments with similar terms. For a portion of Central 1's equity investments in cooperative entities, Central 1 uses valuation techniques such as discounted cash flows, comparison with instruments where observable inputs exist, Binomial Tree option pricing model and other valuation techniques. Assumptions and inputs used in these valuation techniques include risk-free rate, benchmark interest rate, and expected price volatility.

While the market volatility under the current deteriorating economic conditions poses challenges on valuing these instruments, Central 1 makes critical estimates and judgements to adjust these inputs to incorporate how market participants would reflect the impact of rising interest rates, persistent high inflation and geopolitical tensions, if any, in their expectations of the duration and extent of this impact, future cash flows, discount rate and other significant valuation inputs relating to the assets at the reporting date.

Additional information regarding the fair value measurement techniques of financial instruments is included in Note 31 of Central 1's Consolidated Financial Statements.

As at March 3, 2023

Changes in Accounting Policies

Interest Rate Benchmark Reform (IBOR)

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.

Central 1 considers that a contract is not yet transitioned to an alternative benchmark rate and referred to as an 'unreformed contract' when interest under the contract is indexed to a benchmark rate that is still subject to CDOR reform, even if it includes a fallback clause that deals with the cessation of the existing CDOR. As at December 31, 2022, 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 \$559.1 million and \$42.5 million, respectively. The notional balance of Central 1's total exposure to unreformed one-month and three-month CDOR derivatives that mature after June 28, 2024 was \$18.5 billion, of which \$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. Central 1 is currently working on adding fallback clauses to these contracts.

Central 1's CORRA Focus Group (the Group), which was formed to oversee the transition, is in the process of assessing of the impact of IBOR reform and CDOR cessation on Central 1's operations including the need for new or revised hedging relationships to the alternative benchmark rate. The Group monitors the progress of the transition from IBOR to the new benchmark rate by reviewing the total amounts of contracts that have yet to transition to an alternative benchmark rate.

The transition from CDOR to alternative benchmark rates presents a number of risks to Central 1, including operational risk due to the change of process and model, liquidity risk, and legal risk associated with contracts amendments. High level impacts covering legal, financial, risk and technological have been identified for each line of business, with detailed analysis commencing in February 2023. All risks associated with the transition are currently being assessed and will be monitored with mitigation strategies implemented to ensure a smooth transition to the alternative benchmark rates.

Future Accounting Policies

A number of other amendments in IFRS become effective on January 1, 2023. The amendments in IAS 1 relating to classification of liabilities as current or non-current and disclosure of accounting policies are applicable to Central 1 but do not have a significant impact on Central 1's Consolidated Financial Statements.

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

On May 7, 2021, the IASB published *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* (Amendments to IAS 12, *Income Tax*) that clarify how deferred tax on transactions such as leases and decommissioning obligations is accounted for.

The main change in these amendments is an exemption from the *initial recognition exemption* provided in IAS 12. Accordingly, the initial recognition exemption 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 amendments are effective for annual reporting periods beginning on or after January 1, 2023 with early adoption permitted. Central 1 has assessed these amendments and determined that they would not have a significant impact to the Consolidated Financial Statements.

Definition of Accounting Estimates (Amendments to IAS 8)

On February 12, 2021, the IASB published *Definition of Accounting Estimates* (Amendments to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*) to help entities to distinguish between accounting policies and accounting estimates.

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 amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted and will apply prospectively to changes in accounting estimates and changes in accounting policies occurring on or after the start of that period. Central 1 has not applied this amended standard in preparing these Consolidated Financial Statements as it plans to adopt the standard at its effective date. As at December 31, 2022, the impact of these amendments to the Consolidated Financial Statements cannot be reasonably estimated.

As at March 3, 2023

Financial Instruments

As a financial institution, financial instruments make up a substantial portion of Central 1's financial position and are integral to Central 1's business. The use of financial instruments exposes Central 1 to several risks, including credit risk, liquidity risk, operational risk and market risk which are managed within approved risk management limits as further described in the Risk Review section of this MD&A.

Certain financial instruments are classified and measured at fair value such as securities, derivative assets and liabilities, obligations under the CMB program, and obligations related to securities sold short. Some are classified and measured at amortized cost including cash, loans, deposits, debt securities issued, subordinated liabilities, and securities under the repurchase agreements, unless they are designated at fair value through profit or loss at inception.

In Central 1's Annual Consolidated Financial Statements for the year ended December 31, 2022, Note 31 discloses how the fair values of the financial instruments are determined based on the assumptions applied, Note 8 provides details about derivatives used in trading and hedging activities, including notional amount and fair values, and Notes 22 and 23 disclose amounts of gains and losses associated with these financial instruments.

Related Party Disclosures

In the normal course of business, we grant loans to our key management personnel under the same terms as those offered to any other employees. Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling of our activities, which include our Executive Management, Vice-Presidents & their close family members.

CUPP Services Ltd. (CUPP) completed the distribution of its net assets to the shareholders during the second quarter of 2022. This distribution has resulted in the balances of non-controlling interest and reserves being nil. CUPP was dissolved on July 5, 2022 when the share capital was cancelled.

Details of our related party disclosures were disclosed in Note 35 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, 2022. Based on that evaluation, Central 1 has concluded that the design of their internal monitoring controls and procedures over financial reporting was effective.

Subsequent Event

On February 7, 2023, Central 1 issued \$300.0 million principal of Series 20 medium-term fixed rate notes due February 7, 2028. The notes bear interest at a fixed rate of 4.648 per cent, payable semi-annually on February 7 and August 7 of each year, commencing August 7, 2023. The notes are redeemable at the option of Central 1.

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.

As at March 3, 2023

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.

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

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

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

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

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

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

Net 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.

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

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

Non-Financial Income consists of income excluding net financial income, derived from activities related to our other core business operations. This includes income generated from fees, dues and equity income.

Schedule A

– Corporate Governance

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, 2022, Central 1's membership consisted of 92 Class A members, 114 Class B members and 84 Class C members.

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

Corporate Governance Disclosure

Board of Directors

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



Rob Paterson

Toronto, Ontario

Chair of the Board (since 2021); Director since 2014
Currently serving a third term (2020-2023)

Rob was first elected to Central 1's Board in 2014. He joined Alterna Savings as President & CEO in 2013; under his leadership, the credit union has grown its assets under management to almost \$11 billion and completed eight credit union acquisitions. Previously, Rob held executive roles at CIBC, JP Morgan Chase, McKinsey & Company and Aon plc. His experience includes all aspects of retail and commercial banking

as well as digital and payments. He is active in the fintech space.

Rob is a graduate of the University of Western Ontario. He gives back to the community as a Director and Vice Chairman of Enactus Canada, and sits on Advisory Boards of the University of Western Ontario Arts School, the Sprott School of Business at the University of Carlton and the Smith's New Master of Financial Innovation & Technology Program at Queens University.

Central 1's Board/ Committee Memberships	Attendance at Meetings during 2022		
	Attendance	Term in 2022	% of Meetings Attended
Chair, Board of Directors	12/12	Jan 1 – Dec 31	100%
Member, Conduct Review and Corporate Governance Committee	2/2	Jan 1 – May 3	100%
Member, Human Resources Committee	4/4	Jan 1 – Dec 31	100%
Member, Risk Review and Investment & Loan Committee	5/5	Jan 1 – Dec 31	100%
Member, Technology & Innovation Committee	2/2	Jan 1 – May 3	100%
Other Current Boards/Committee Memberships			
Director: CS Alterna Bank; Enactus Canada; The Co-operators Group Ltd. & Payments Canada			
Advisor SASAH, University of Western Ontario			
Areas of Expertise			
Credit Union/Cooperative Sector, P&L Ownership, Financial Acumen, Risk Management, Individual F.I. Liquidity, Regulatory Expertise, Technology Business Expertise, Governance Experience, Human Resources Experience, Community Engagement			



Shelley McDade

Campbell River, British Columbia

Vice Chair (2021). Director since 2017
Currently serving a second term (2020-2023)

Shelley's financial services career spans over 35 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 also dedicates 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 and the Central 1 Solutions Center Board. Currently, she serves on the Wealth Management CUSO Strategies, Rhiza Capital Investments, Sunshine Coast Insurance Services, and The Co-operators Group boards.

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 2022		
	Attendance	Term in 2022	% of Meetings Attended
Vice Chair, Board of Directors	11/12	Jan 1 – Dec 31	91.6%
Chair, Human Resources Committee	4/4	Jan 1 – Dec 31	100%
Member, Technology & Innovation Committee	5/6	Jan 1 – Dec 31	83.3%
Other Current Boards/Committee Memberships			
Director, Wealth Management CUSO Strategies, 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*

Director since 2021

Currently serving a first term (2021–2023)



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 has obtained 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, and was recently appointed to the board of another financial institution in Canada.

Central 1's Board/ Committee Memberships	Attendance at Meetings during 2022		
	Attendance	Term in 2022	% of Meetings Attended
Board of Directors	12/12	Jan 1 – Dec 31	100%
Member, Conduct Review and Corporate Governance Committee	2/2	Jan 1 – May 3	100%
Member, Human Resources Committee	2/3	May 3 – Dec 31	66.6%
Member and Chair (May onwards), Technology & Innovation Committee	6/6	Jan 1 – Dec 31	100%
Other Current Boards/Committee Memberships			
Director, Financial Institution			
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 first term (2020–2023)



Paul was 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.

Recently 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 two 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 2022		
	Attendance	Term in 2022	% of Meetings Attended
Board of Directors	10/12	Jan 1 – Dec 31	83%
Member and Chair (May 3 – Dec 31), Audit and Finance Committee	4/4	Jan 1 – Dec 31	100%
Member, Human Resources Committee	1/1	Jan 1 – May 3	100%
Member, Risk Review and Investment & Loan Committee	2/3	May 3 – Dec 31	67%
Other Current Boards/Committee Memberships			
Director, First West Credit Union – Risk Committee Chair, Audit Committee Member			
Director, Finance Committee Chair - Delta Hospital and Community Health Foundation			
Member, Investigation Committee, Chartered Professional Accountants of British Columbia			
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 28 years in the BC and Ontario credit union systems have provided CEO experience executing mergers, developing engaged leadership

teams and attaining long-term growth.

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 2022	
	Attendance	Term in 2022	% of Meetings Attended
Board of Directors	12/12	Jan 1 – Dec 31	100%
Member, Conduct Review and Corporate Governance Committee	5/5	Jan 1 – Dec 31	100%
Member, Technology & Innovation Committee	6/6	Jan 1 – 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 currently 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 2022	
	Attendance	Term in 2022	% of Meetings Attended
Board of Directors	10/12	Jan 1 – Dec 31	83%
Member, Audit and Finance Committee	3/3	May 3 – Dec 31	100%
Member, Conduct Review and Corporate Governance Committee	2/2	Jan 1 – May 3	100%
Member and Chair (May 3 onwards), Nominations & Elections Committee	4/4	Jan 1 – Dec 31	100%
Other Current Boards/Committee Memberships			
Director, Board of SASCU Insurance Services			
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 the Board of Central 1 in 2022 and is in her eighth 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; and Okanagan College Board of Governors and currently serves on 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 is in the process of completing the High-Performing Board digital series (2 year program) offered by CUES.

Central 1's Board/ Committee Memberships	Attendance at Meetings during 2022		
	Attendance	Term in 2022	% of Meetings Attended
Board of Directors	8/8	May 3 – Dec 31	100%
Member, Conduct Review and Corporate Governance Committee	3/3	May 3 – Dec 31	100%
Member, Nominations & Elections Committee	3/3	May 3 – Dec 31	100%
Other Current Boards/Committee Memberships			
Director, Summerland and District Credit Union			
Chair, Okanagan College Foundation			
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 the Chief Finance and Compliance/Chief Financial Officer for Kindred Credit Union in Kitchener, Ontario, since 2009. He worked in a 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 2022		
	Attendance	Term in 2022	% of Meetings Attended
Board of Directors	12/12	Jan 1 – Dec 31	100%
Member, Audit and Finance Committee	4/4	Jan 1 – Dec 31	100%
Member, Nominations & Elections Committee	2/2	Jan 1 – Dec 31	100%
Member, Technology & Innovation Committee	4/4	May 3 – 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 is a business owner in the community which eventually led him to become a member of the Nelson and District Credit Union Board of Directors. As director on 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 2022		
	Attendance	Term in 2022	% of Meetings Attended
Board of Directors	12/12	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	5/5	Jan 1 – Dec 31	100%
Chair, Nominations and Elections Committee	2/2	Jan 1 – May 3	100%
Other Current Boards/Committee Memberships			
Director, Nelson & District Credit Union			
Director, Board of 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, e-commerce, 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 2022		
	Attendance	Term in 2022	% of Meetings Attended
Board of Directors	12/12	Jan 1 – Dec 31	100%
Member, Audit and Finance Committee	4/4	Jan 1 – Dec 31	100%
Chair, Risk Review and Investment & Loan Committee	5/5	Jan 1 – Dec 31	100%
Member, Technology & Innovation Committee	5/6	Jan 1 – Dec 31	83.3%
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 (Sunny) Sodhi

Toronto, Ontario

Director since 2019

Currently serving a second term (2022-2025)

Sunny is Chief Strategy and Corporate Affairs Officer at Meridian Credit Union, Ontario's largest credit union, and second largest in Canada, with \$28 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 and vendor management; social impact and community

partnerships; corporate governance and compliance; internal audit services; and government & 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 2022		
	Attendance	Term in 2022	% of Meetings Attended
Board of Directors	8/12	Jan 1 – Dec 31	66.6%
Member and Chair (since May 3), Conduct Review and Corporate Governance Committee	5/5	Jan 1 – Dec 31	100%
Member, Human Resources Committee	4/4	Jan 1 – Dec 31	100%
Other Current Boards/Committee Memberships			
Director: Meridian OneCap Credit Corporation / Motus Bank / Centre for Addiction and Mental Health (CAMH) / Focal Healthcare Limited / Sikh Foundation of Canada			
Chair, Ontario Pension Sub-Committee			
Delegate, The Co-operators			
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 first term (2021-2023)

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, and 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 both 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 also 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, which has included serving on the boards and committees of credit unions in both 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 2022		
	Attendance	Term in 2022	% of Meetings Attended
Board of Directors	12/12	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	5/5	Jan 1 – Dec 31	100%
Other Current Boards/Committee Memberships			
Director, Vancouver City Savings Credit Union			
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 currently serving as board chair. He was first elected to the board of Westminster Savings in 2013 (Prospera and Westminster Savings Credit Unions merged January 1, 2020) and became chair of that board in 2018.

Art is a seasoned human resources professional with more than 35 years experience. As 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 currently serves as a member on the board of the Ridge Meadows Hospital Foundation. He has served on various boards over the years, including the Canadian Grocery HR Council, Alouette Addictions Services Society and the Westminster Savings Foundation (now Prospera Foundation). Art is secretary and lead management trustee of the United Food and Commercial Workers Industry Pension Trust, 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 is a graduate of the ICD.D program.

Central 1's Board/ Committee Memberships	Attendance at Meetings during 2022		
	Attendance	Term in 2022	% of Meetings Attended
Board of Directors	8/8	May 3 – Dec 31	100%
Member, Conduct Review and Corporate Governance Committee	2/3	May 3 – Dec 31	66.6%
Member, Human Resources Committee	3/3	May 3 – Dec 31	100%
Member, Nominations and Elections Committee	n/a	Dec 9 – Dec 31	n/a
Other Current Boards/Committee Memberships			
Board Chair; Member, People Experience Committee - Prospera Credit Union			
Director, Ridge Meadows Hospital 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 first term (2021-2024)

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 2022		
	Attendance	Term in 2022	% of Meetings Attended
Board of Directors	11/12	Jan 1 – Dec 31	91.6%
Member, Audit and Finance Committee	3/4	Jan 1 – Dec 31	75%
Member, Risk Review and Investment & Loan Committee	8/8	Jan 1 – Dec 31	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			



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, currently serving as its 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 is the Chief Financial Officer at 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. Previously, she was Director of Finance and Administration with Junior Achievement BC. She is a Chartered Professional Accountant (CPA, CMA) holds a Master of Business Administration (MBA) from UNBC and completed the ICD.D designation through the Institute of Corporate Directors.

Central 1's Board/ Committee Memberships	Attendance at Meetings during 2022		
	Attendance	Term in 2022	% of Meetings Attended
Board of Directors	12/12	Jan 1 – Dec 31	100%
Member, Audit and Finance Committee	1/1	Jan 1 – May 3	100%
Member, Human Resources Committee	4/4	Jan 1 – Dec 31	100%
Chair, Nominations & Elections Committee	3/3	May 3 – 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. Directors are encouraged to attend meetings in person, but they may also participate by teleconference. Throughout the COVID-19 pandemic, directors have been attending meetings by videoconference. The following tables set out a summary of the Board and Committee meetings held during 2022.

Board/Committee	Total Number of Meetings
Board	12
Audit and Finance Committee	4
Conduct Review and Corporate Governance Committee	5
Human Resources Committee	4
Nominations and Elections Committee	4
Risk Review and Investment & Loan Committee	5
Technology & Innovation Committee	6

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	10/11	12/12	96%
P. Challinor	7/8	10/12	85%
R. Davies	11/11	12/12	100%
B. Delaney	9/9	10/12	90%
C. Denesiuk	6/6	8/8	100%
J. Klassen	10/10	12/12	100%
J. Kortram	12/12	12/12	100%
S. McDade	9/10	11/12	91%
P. McPherson	14/15	12/12	96%
R. Paterson	13/13	12/12	100%
S. Sodhi	9/9	8/12	81%
C. Stephenson	10/10	12/12	100%
A. Van Pelt	5/6	8/8	93%
T. Vandelloo	8/9	11/12	90%
C. Wallace	8/8	12/12	100%

Governance Framework

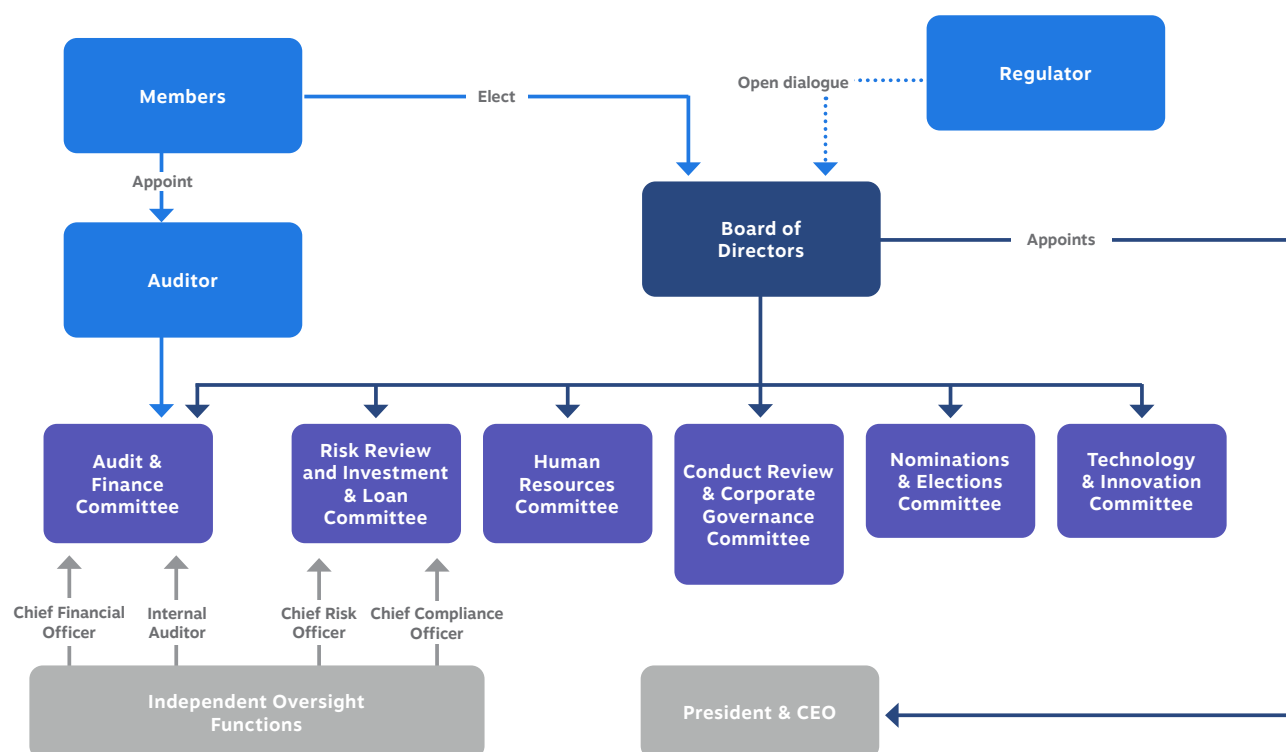
This framework provides an overview of the corporate governance structures, principles, policies and practices of the Board of Central 1, which together enable Central 1 to meet or exceed governance expectations of the British Columbia Financial Services Authority (BSFSA), the Canadian Securities Administrators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



Board Mandate

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

Committees of the Board

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

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 2022 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	Chief Finance and Compliance/ Chief Financial Officer, Kindred Credit Union Limited. Previous senior level experience as Chief Operating Officer.
Penny-Lynn McPherson	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 Vandelloo	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:

	2022	2021
Audit Fees ⁽¹⁾	\$ 1,152,642	\$ 1,255,650
Audit-related Fees ⁽²⁾	90,400	95,946
Tax Fees ⁽³⁾	182,300	145,441
All Other Fees		
MLP Segregation Fees ⁽⁴⁾	\$ -	\$ 59,332
Other Fees ⁽⁵⁾	109,338	25,207
Total⁽⁶⁾	\$ 1,534,679	\$ 1,581,576

⁽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 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.

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-three per cent women and fifty-seven per cent men.

Board Operations

Chair of the Board

Each year, the directors elect a Chairperson. Mr. Robert Paterson is currently Chairperson of the Board.

Board and Committee Meetings

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

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

In-camera Sessions

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

Compensation

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

Key Policies

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

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

All directors, officers and salaried employees are asked to acknowledge that they have read and understand the Code and undertake to abide by it. In 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. At year-end 2022, Central 1 held approximately 14% of its Treasury Securities Portfolio in issuers labelled green, social, sustainably or sustainability linked bonds. 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.

- **Cloud for the climate**

Our information technology team continues the a multi-year process to transition our technology to the cloud. One benefit of this move in other organizations has been a significant reduction in the environmental footprint of technology.

- **Assisted in rallying support for communities in Atlantic Canada impacted by Hurricane Fiona**

With impacts of climate change being felt across Canada, Central 1 worked with CCUA and Atlantic Canada credit unions in raising funds in addition to its donation of \$20,000.

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

- **Central 1 invests in Ukraine Sovereignty Bond**

In December 2022, Central 1 announced its \$5 million investment in the Government of Canada's Ukraine Sovereignty Bond. An amount equal to the proceeds from the bond will directly support the Government of Ukraine to provide essential services to Ukrainians, such as pensions, purchasing of fuel before winter and restoring energy infrastructure.

- **Grassroots employee-led inclusion initiatives receive excellent engagement**

Central 1 maintains an executive-sponsored, Employee Resource Group (ERG). Events organized in 2022 included:

- celebrating Black History Month through education, entertainment and sharing recipes
- recognizing International Women's Day sharing personal stories and quotes on individuals' commitments to call out bias, stereotypes and inequality
- Asian Heritage Month offering cooking classes featuring a variety of Asian cuisines and culture
- Pride month flying the rainbow flags and providing opportunities to attend webinars addressing race, ethnicity, sexuality, and gender matters

- **Employee development on DEI topics**

Central 1's 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.

- **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 the ongoing conversation at Central 1 and a commitment to longer term learning, acknowledgement of the truth to move forward towards reconciliation, and openness to improving how our everyday business can support Indigenous communities, a video of the history of the Senakw development, underway adjacent to Central 1's Vancouver office, was shared at the employees' September townhall.

- **Employee-directed donations to diverse community needs**

In 2022, Central 1 employees maximized a corporate match donation program, raising \$15,481 to unlock a match of \$10,000 to a total of \$25,481 to the United Way. In similar spirit, the Volunteer Impact Fund was leveraged by employees to support a number of community organizations with \$1,000 grants.

- **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 2022 Frank Chisholm at Kindred Credit Union and Earl Campbell at Alterna Savings were recognized for their work at their credit unions and 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 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 2022, 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:

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

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

New Director Orientation

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

- Ensure new directors fully understand the formal governance structure, the role of the Board, its committees and the individual performance expectations set out in the individual Director's Terms of Reference.

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

Mandatory Education

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

Ongoing Director Education

During 2022, directors attended a number of in-house education sessions.

Following is a list of those education sessions held in 2022:

Attendees	Session
Board Members	Enterprise Risk Assessment
Board Members	Open Banking and more
Board Members	AML and Compliance
Risk Review and Investment & Loan Committee Members	Treasury - Credit Spreads

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 2022.

Director	Continuing Formal and Informal Education Sessions in 2022	Director	Continuing Formal and Informal Education Sessions in 2022
Carolyn Burke	CCUA Governing Credit Risk eclass June 2022 CCUA Governing a Credit Union EClass CUDA Credit Union Director Achievement Graduate 2022	Rob Paterson	CUMIS Executive Round Table Feb, 2022 Central 1 Member Forum, May 2022 CCUA 2022 National Conference and AGM, Niagara Falls, May 2022 Momentum 2022, October 2022 Money 20/20, October 2022 McKinsey & Co monthly Knowledge Centre events throughout 2022 Payments Canada Summit 2022 Canada Fintech Forum, Nov 2022
Paul Challinor	Central 1 Member Forum, May 2022 Momentum 2022, October 2022 Completed CPD requirements	Sunny Sodhi	Portage Strategy Summit – 2022 Fintech Trends & Venture Outlook (Mar 2) GPC Becoming Fluent in ESG (March 8) Webinar with Roger L. Martin, former Dean at the Rotman School, on <i>A New Way to Think: Your Guide to Superior Management Effectiveness</i> (April 26) Northwind Financial Forum - “Volatility & Uncertainty Navigating a Globalized & Challenging Environment” (April 27-29) Central 1 Member Forum and AGM (May 1-3) CCUA 2022 National Conference and AGM, Niagara Falls, May 2022 Momentum 2022, Vancouver, October 2022 Competent Board Program, “ESG Designation Program for Board Members”, September 14, 2022 – March 15, 2023
Richard Davies	Central 1 Member Forum, May 2022 CCUA 2022 National Conference and AGM, Niagara Falls, May 2022 Momentum 2022, October 2022 CCUA Campus – Governing IT – The Directors Role CCUA Campus – AML – Flag the Money for Directors & Senior Officers	Christie Stephenson	Central 1 Member Forum, May 2022 Institute of Corporate Directors, ICD.D, September 2022 Momentum 2022, October 2022
Barry Delaney	Central 1 Member Forum, May 2022 CCUA 2022 National Conference and AGM, Niagara Falls, May 2022 Momentum 2022, October 2022 The Directors College, Module 4 Effective Governance under Complex Circumstances, November 17, 18 and 19, 2022	Art Van Pelt	CPHRBC Annual Conference, Vancouver, April 2022 Central 1 Member Forum, Virtual, May 2022 CCUA 2022 National Conference and AGM, Niagara Falls, May 2022 IFEBP Canadian Investment Institute, Quebec City, September 2022 Momentum 2022, Vancouver, October 2022
Connie Denesiuk	Central 1 Member Forum, Virtual, May 2022 Momentum 2022, Vancouver, October 2022	Tom Vandelloo	Mandatory Ontario regulatory training, 2022 Annual securitization training, January 2022 CCUA Shared Vision Forum, March 2022 FSRA Discussion: Sound Business and Financial Practices Rule April 2022 Diversity, Equity, and Inclusion for Boards, May 2022 Central 1 Member Forum, Virtual, May 2022 CCUA 2022 National Conference and AGM, Niagara Falls, May 2022 2022 Strategic Insights present ESG Risk: Calls to Action for Canadian CUs, June 2022 Board Seminar: Ontario Credit Union / Caisse Populaire Act, July 2022 Momentum 2022, Vancouver, October 2022 Board360 Annual Training, December 2022
John Klassen	Central 1 Member Forum, Virtual, May 2022 CCUA 2022 National Conference and AGM, Niagara Falls, May 2022 CCUA National Treasury and Finance Forum, Toronto, June 2022 Momentum 2022, Vancouver, October 2022 CCUA National Lending Conference, Quebec City, October 2022 Completed all 2022 Continuing Education requirements for Certified Financial Planner (CFP) and Chartered Professional Accountant (CPA) designations.	Cheryl Wallace	Central 1 Member Forum, May 2022 Institute of Corporate Directors, ICD.D September 2022 Momentum 2022, October 2022 Northline Peer Group meeting October 2022
John Kortram	Central 1 Member Forum, May 2022 CCUA 2022 National Conference and AGM, Niagara Falls, May 2022 Momentum 2022, October 2022 CUDA Reconciliation Awareness and its importance for Credit Unions CUDA ESG Oversight and Climate competency for Boards CUDA Flag the money for Board Directors and Sr. Executives Youth member engagement (Hawkeye Inc.)		
Shelley McDade	Central 1 Member Forum, Virtual, May 2022 CCUA 2022 National Conference and AGM, Niagara Falls, May 2022 Momentum 2022, Vancouver, October 2022		
Penny-Lynn McPherson	ICD (& PWC) Board Cybersecurity Governance during Geopolitical Conflict - March 9, 2022 CCUA Shared Vision 2.0 Forum, March 29-30, 2022 2022 Payments Canada Summit - Payments Canada (April 26-28) Central 1 Member Forum, May 2022 Momentum 2022, October 2022		

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. Hugessen's was engaged to assist in the director compensation review and will be providing its recommendations to the Conduct Review and Corporate Governance Committee in early 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.

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

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

2022 Director Compensation

The following table sets out the value of fees and other compensation paid to directors of Central 1 during 2022.

Director	Annual Cash Retainer	Meeting Fees	Total Remuneration (Annual Cash Retainer and Meeting Fees) ¹
Carolyn Burke	\$21,995	\$18,700	\$40,695
Paul Challinor	\$25,990	\$12,600	\$38,590
Richard Davies	\$18,001	\$20,000	\$38,001
Barry Delaney	\$21,995	\$20,400	\$42,395
Connie Denesiuk (from May 3, 2022)	\$11,984	\$11,400	\$23,384
Mary Falconer (Jan 1 - May 3, 2022)	\$10,027	\$4,600	\$14,627
Bill Kiss (Jan 1 - May 3, 2022)	\$10,027	\$9,200	\$19,227
John Klassen	\$18,002	\$21,400	\$39,402
John Kortram	\$20,005	\$27,700	\$47,705
Shelley McDade	\$30,000	\$16,200	\$46,200
Penny-Lynn McPherson	\$30,509	\$22,100	\$52,609
Rob Paterson	\$45,000	\$28,200	\$73,200
Sanjit (Sunny) Sodhi	\$21,995	\$19,900	\$41,895
Christie Stephenson	\$18,001	\$20,600	\$38,601
Art Van Pelt (from May 3, 2022)	\$11,984	\$11,700	\$23,684
Tom Vandelloo	\$18,001	\$20,200	\$38,201
Cheryl Wallace	\$18,001	\$14,400	\$32,401
Total	\$351,517	\$299,300	\$650,817

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 2022

	Target Incentive Payment	Maximum Incentive Payment (150 per cent of target)
President & CEO	70 per cent of base salary	105 per cent of base salary

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

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

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

Long Term Incentive Program

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

The design of the program is based on a rolling cycle method, 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 2022

	Target Incentive Payment	Maximum Incentive Payment (150 per cent of target)
President & CEO	85 per cent of base salary	127.5 per cent of base salary

Our Board reviews the performance of the CEO which was based on three (3) prioritized focus areas: 1) Strategy, 2) Organization Stabilization, and 3) External

Relations. A balanced scorecard approach, based on qualitative and quantitative metrics was created to structure LTIP in measuring financial, client centricity and internal organizational health.

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%.

2022 President and Chief Executive Officer Compensation

The table below sets out 2022 compensation for Sheila Vokey, in her role as Central 1's President and Chief Executive Officer.

	Year	Salary ⁽²⁾	Bonus ⁽³⁾	Committee or Meeting Fees	Value of Perquisites ⁽⁴⁾	Value of all other Compensation ⁽⁵⁾	Total Compensation
Sheila Vokey							
Interim President & CEO ⁽¹⁾	2022	\$498,000	\$711,011	-	\$94,305	\$39,344	\$1,342,660
President & CEO							

1. Sheila Vokey was appointed President & CEO on January 25, 2022.

2. Except as otherwise indicated, compensation reported is compensation earned in the specified calendar year.

3. Amount includes long-term incentive plan and annual short-term incentive plans. Incentive earned each year is paid the following year to employees that are actively employed at the time of incentive payment date (April 12 in 2023).

4. Amount includes car maintenance, car allowance, car parking, and untaken vacation payout accrued in CFO role.

5. Amount includes employer contributions related to Group RRSP and SERP. Amount does not include LTIP amounts granted during the 2022 year, which do not vest until later years. The anticipated value of such unvested LTIP amounts is \$425,000 subject to satisfaction of performance conditions. These unvested amounts will be included in the year in which such amounts are paid, if and when payment occurs.

Appendix A

Audit and Finance Committee Terms of Reference

Approved: September 10, 2021 Reviewed: November 22, 2022

1.1 PURPOSE

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

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

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

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

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

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

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

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

1.2 COMPOSITION AND TERM OF OFFICE

- 1.2.1 The Committee shall consist of a minimum of five (5) directors. The members of the Committee shall be elected or appointed annually by the Board at the first meeting of the Board following Central 1’s annual general meeting (“AGM”) to hold office until the next AGM, unless the member becomes unable to serve or is removed by the Board. A casual vacancy may be filled, and additional members of the Committee may be appointed by the Board, to hold office until the next AGM.
- 1.2.2 Each member of the Committee must be able to read and understand financial statements to the level of detail and complexity to which Central 1 reports, including the notes attached thereto.
- 1.2.3 The members of the Committee must be independent as defined in the Board Structure section of the Board Manual and the majority of the members of the Committee shall not be officers or employees of Central 1 or an affiliate of Central 1.
- 1.2.4 No more than one representative from any one credit union is permitted to serve on the Committee, except where one representative is serving as an ex-officio member of the Committee.
- 1.2.5 The Chairperson of the Risk Review and Investment and Loan Committee shall be an ex-officio member of the Committee, if not otherwise appointed to the Committee.
- 1.2.6 The Chairperson of the Board of Directors shall be an ex-officio member of the Committee.
- 1.2.7 The Committee shall elect one (1) of its members to be its Chairperson. The Chairperson of the Committee shall act in accordance with the Position Description: Committee Chairperson section of the Board Manual.

1.3 OBJECTIVES/DELIVERABLES

- 1.3.1 Oversight of External Auditors:
 - a) **Selection:** the Committee shall annually recommend to the Board the appointment, reappointment or termination of the external auditor. This recommendation shall be done sufficiently in advance of the next annual meeting of Central 1 to allow the Board to seek membership approval. At regular intervals (not greater than every 5 years), the Committee will assess Central 1’s external audit requirements and review the appropriateness of undertaking a

full Request for Proposal (RFP) process, with such RFP process to be undertaken at the option of the Committee, if it so determines. The Committee shall report annually to the Board on the performance of the external auditor.

- b) **Independence:** the Committee shall oversee the process to determine the independence of the external auditor. The Committee shall obtain and review a formal written statement from the external auditor describing all relationships between Central 1 and the external auditor that may impact upon its independence. The Committee shall actively discuss with the external auditor any disclosed relationships or services that might impact on the independence or objectivity of the external auditor. The Committee shall report annually to the Board on the independence of the external auditor.
- c) The Committee shall annually review and approve Central 1's policy regarding the hiring of members of the external audit team and former external audit teams.

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

1.3.2 Compensation of External Auditors

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

1.3.3 Pre-approval of Services

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

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

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

1.3.4 Reporting of External Auditors.

- a) The external auditors shall report directly to the Committee, and the Committee shall have responsibility for overseeing the activities of the external auditors, including resolution of any disagreements between management and the external auditors regarding financial reporting. The Committee shall review, prior to the commencement of the audit, the audit engagement letter, audit plans and scope of the external audit, identifying special areas of concern to the external auditor. The Committee shall annually approve the audit plan. The Committee will monitor the audit process, the annual audit report and the findings of the examination after its completion.
- b) **Accounting Policies:** the Committee shall review with management and the external auditors the appropriateness of accounting policies and approve any changes thereto.
- c) **Reports:** the Committee shall review all written or oral reports made by the external auditor. Such reports may include:
 - i. Current and prospective changes in accounting policies and practices;
 - ii. Alternative treatment of financial information within generally accepted accounting principles;
 - iii. Review of transactions or investments, as brought forward by either the auditors or management, which could adversely affect the financial wellbeing of Central 1; and
 - iv. Any other written communications between the external auditor and Central 1's management.
- d) **Review of Reportable Events:** the Committee shall review all reportable events (occurrences in the relationship between Central 1 and the external auditor which may have been a contributing factor in the resignation or termination of the external auditor) including disagreements, unresolved issues or consultations, as defined in NI 52-102, whether or not there is a change of the auditors.
- e) **In-Camera Meetings:** the Committee shall have an in-camera meeting with the external auditors at every Committee meeting, at which the external auditors are in attendance.

1.3.5 Oversight of Internal Auditor

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

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

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

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

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

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

1.3.6 Review of Financial Statements

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

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

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

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

1.3.7 Review of Financial Disclosures

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

The Committee must satisfy itself that adequate procedures are in place for the review of Central 1's public disclosure of financial information extracted from or derived from the financial statements (i.e. press releases, information posted to Central 1's website and any other form of public communication). While this information is currently vetted through the

Disclosure Committee, the Committee must assess the adequacy of the disclosures made by management through the Disclosure Committee and the adequacy of management representation on that Committee. The Committee shall review the Disclosure Policy at least every two years and, if deemed advisable, recommend changes to the Board.

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

1.3.8 Controls and Procedures

- a) **Oversight:** The Committee shall provide oversight of Central 1's internal accounting controls, of its disclosure controls and procedures and of its Ethical Reporting Policy. The Committee shall require management to implement and maintain appropriate systems of internal control, including internal controls over financial reporting and for the prevention and detection of fraud and error.

The Committee shall receive and review reports from other board committees with regard to matters that could affect financial reporting, including the major financial and business risks to which Central 1 is exposed, and management's actions to monitor and control such exposures.

- b) **External Auditor Reporting:** The Committee shall consider the external auditors' management letters, recommendations and comments with respect to accounting treatment and internal controls and management's responses and subsequent follow-up of any identified weaknesses.
- c) **Internal Auditor:** The Committee shall meet with the internal auditor and with management to discuss the effectiveness of internal control procedures and shall approve recommendations for improvements.
- d) **CEO/CFO Certification Program:** The Committee shall oversee Central 1's CEO/CFO Certification program and the meeting of its obligations under that program.
- e) **Procedures for Complaints:** The Committee shall establish procedures for the receipt, retention and treatment of complaints received by Central 1 regarding accounting, internal accounting controls or auditing matters. The Committee shall also establish procedures for the confidential, anonymous submission by Central 1's employees of their concerns regarding questionable accounting and internal controls over auditing matters.
- f) **Additional Powers:** The Committee shall have such other duties as may be delegated to it by the Board, from time to time.
- g) The Committee shall receive material of the Risk Review and Investment & Loan Committee.

Related Information: Ethical Reporting Policy

1.3.9. Oversight of Budgets

- a) The Committee shall review, annually, Central 1's Operating Budget, Dues Budget and Capital Asset Budget and recommend their approval to the Board.
- b) 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 Chairperson, the Committee Chairperson, any two (2) members of the Committee, the AVP, Internal Audit, the external auditors, or the Corporate Secretary may call meetings of the Committee. The external auditor shall be given notice of, and shall have the right to appear before, every Committee meeting.

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

- 1.4.2 Whenever possible, seven (7) days' notice of the meeting shall be provided, in writing, to members of the Committee, the external auditors and any invited persons. The agenda and required reports shall be circulated to the Committee (via Diligent or e-mail) one week in advance of the meeting date, whenever possible.
- 1.4.3 A quorum at any meeting of the Committee shall be a majority of the members of the Committee, excluding any ex-officio members. Decisions of the Committee will be by an affirmative vote of the majority of those members of the Committee voting at a meeting. The Committee may also act by resolution in writing consented to by all the members of the Committee.
- 1.4.4 The external auditor, the internal auditor, and the provincial Superintendent of Financial Institutions shall have the right to appear before and be heard at any meeting of the Committee and to request the Committee Chairperson to consider any matter that the requisitioning party believes should be brought to the attention of Directors or members.
- 1.4.5 The Chairperson of the Committee shall appoint a Secretary who need not be a director to keep minutes or other records of the meeting.
- 1.4.6 The Committee will meet "*in-camera*" at each meeting with only the members of the Committee present.
- 1.4.7 The Committee will meet "*in-camera*" with Internal Audit at every meeting at which Internal Auditor is in attendance.
- 1.4.8 At least quarterly, the Committee shall meet "*in-camera*" with the Chief Financial Officer.
- 1.4.9 The Committee may invite any director, officer or employee of Central 1 or any other person, as appropriate, to attend meetings of the Committee to assist in the discussion and examination of the matters under consideration by the Committee, including: the external auditor, external counsel, Internal Audit, Chief Risk Officer, the President and Chief Executive Officer or any member of executive management.

1.5 MANAGEMENT AND RESOURCES

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

1.6 RECORDS

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

1.7 ACCOUNTABILITY

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

1.8 EVALUATION OF COMMITTEE EFFECTIVENESS

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

1.9 COMMITTEE OUTPUT

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

1.10 AMENDMENTS

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

Routine Outputs – Audit and Finance Committee

Routine Outputs	Q1	Q2	Q3	Q4	Comments
Audited Financial Statements – year end	•				
Interim Consolidated Financial Report		•	•	•	
Management Discussion & Analysis (MD&A)	•	•	•	•	
Financial Report	•	•	•	•	
External Audit Report	•				
Interim Review Findings Report		•	•	•	
Internal Audit Report	•	•	•	•	
Review the Procedures for Ethical Reporting	•	•	•	•	
Annual Report to Board on performance and independence of external auditor	•				
Election of Chairperson		•			
Provincial Examination (if applicable)		•			
Subsidiary Financial Statements	•				
Set Meeting Dates for Following Year	•				
Audit Plan and engagement letter			•		
Auditor remuneration			•		
Review Committee's Terms of Reference, including all policies under Committee oversight			•		
Review Finance Policies (when applicable) • Budget • Disclosure • Ethical Reporting • Internal Audit • Procurement					
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	•				

Appendix 1

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

Approved: November 22, 2022

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 22, 2022

1.1 PURPOSE

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

1.2 PERMITTED SERVICES

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

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

1.2.2 Prohibited Services

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

- a) bookkeeping or other services related to the audit client's accounting records or financial statements;
- b) financial information systems design and implementation;
- c) appraisal or valuation services for financial reporting purposes;
- d) actuarial services for items recorded in the financial statements;
- e) internal audit outsourcing services;
- f) management functions;
- g) Human Resources;
- h) corporate financing activities;
- i) legal services; and
- j) expert witness services.

1.3 POLICY

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

- a) **Audit Services:** The Audit & Finance Committee will pre-approve all audit services provided by Central 1's external auditor through its recommendation of the external auditor at Central 1's AGM and through the Audit & Finance Committee's review of the external auditor's annual Audit Plan.
- b) **Pre-Approval of Audit Related, Tax and Other Non-Audit Services:** On an annual basis, the Audit & Finance Committee will update the attached list of Permitted Services and pre-approve services that are recurring or otherwise reasonably expected to be provided. The Audit & Finance Committee will be subsequently informed of the services on the attached list for which the auditor has been actually engaged.
- c) **Approval of Additional Services:** The Central 1 employee making the request will submit the request for service to the Chief Financial Officer. The request for service should include a description of the service, the estimated fee, a statement that the service is not a Prohibited Service and the reason that the external auditor is being engaged.

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

Consolidated Financial Statements

For the Year Ended December 31, 2022 and 2021

Management's Responsibility for Financial Reporting

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

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

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

The Board of Directors, acting through its Audit and Finance Committee (the Committee), oversees management's responsibilities for the financial reporting and internal control systems. The Committee reviews the Consolidated Financial Statements and recommends them to the Board of Directors for approval. Other

key responsibilities of the Committee include reviewing the adequacy and effectiveness of internal controls, the performance of Central 1's internal audit function and external auditors, and the compliance with legal and regulatory requirements affecting financial reporting.

The B.C. Financial Services Authority (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



Brian K. Li
Acting Chief Financial Officer

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, 2022 and December 31, 2021
- the consolidated statements of profit (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 significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of Central 1 as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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 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.



Chartered Professional Accountants
Vancouver, Canada
March 3, 2023

Consolidated Statement of Financial Position

As at December 31

\$ thousands	Notes	2022	2021
Assets			
Cash	5	\$ 957,228	\$ 1,251,516
Settlements in-transit		57,268	201,017
Securities	6	8,193,482	9,848,603
Loans	7	2,078,156	1,794,368
Derivative assets	8	378,674	120,930
Current tax assets		3,455	1,187
Property and equipment	10	16,691	19,450
Intangible assets	11	19,948	15,371
Investments in affiliates	12	88,935	84,820
Deferred tax assets	13	64,119	16,599
Other assets	14	23,303	29,728
		\$ 11,881,259	\$ 13,383,589
Liabilities			
Settlements in-transit		\$ 483,468	\$ 390,884
Deposits	15	5,319,628	7,200,199
Obligations related to securities sold short		-	40,494
Securities under repurchase agreements		1,909,708	1,553,290
Obligations under the Canada Mortgage Bond Program	16	992,140	960,765
Derivative liabilities	8	126,142	75,435
Debt securities issued	17	1,997,569	2,062,175
Subordinated liabilities	18	198,887	220,321
Other liabilities	20	162,793	93,574
		11,190,335	12,597,137
Equity			
Share capital	21	43,401	43,396
Retained earnings		656,814	727,213
Accumulated other comprehensive income (loss)		(9,291)	8,700
Other reserves		-	2
Total equity attributable to members of Central 1		690,924	779,311
Non-controlling interest	35	-	7,141
		690,924	786,452
		\$ 11,881,259	\$ 13,383,589
Guarantees, commitments, contingencies and pledged assets	29		
Subsequent event	36		

Approved by the Directors:



Rob Paterson
Chairperson



Paul Challinor
Chairperson
Audit and Finance Committee

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statement of Profit (Loss)

For the year ended December 31

\$ thousands	Notes	2022	2021
Interest income			
Securities		\$ 184,458	\$ 98,501
Loans		79,622	41,426
		264,080	139,927
Interest expense			
Deposits		89,673	32,056
Debt securities issued		92,750	35,754
Subordinated liabilities		5,271	8,585
Obligations under the CMB Program		532	2,083
		188,226	78,478
Interest margin		75,854	61,449
Gain on disposal of financial instruments	22	6,044	15,010
Change in fair value of financial instruments	23	(149,024)	6,913
		(67,126)	83,372
Impairment recovery (loss) on financial assets	9	(361)	1,445
Net financial income (expense)		(67,487)	84,817
Non-financial income	24	150,008	151,584
Net financial and non-financial income		82,521	236,401
Non-financial expense			
Salaries and employee benefits		103,524	92,430
Premises and equipment		5,514	6,956
Other administrative expense	25	86,624	74,706
		195,662	174,092
Profit (loss) before income taxes		(113,141)	62,309
Income tax expense (recovery)	26	(43,531)	16,909
Profit (loss)		\$ (69,610)	\$ 45,400

See accompanying Notes to the Consolidated Financial Statements

For the year ended December 31

\$ thousands	2022	2021
Profit (loss)	\$ (69,610)	\$ 45,400
Other comprehensive income (loss), net of tax		
Items that may be reclassified subsequently to profit		
Fair value reserves (securities at fair value through other comprehensive income)		
Net change in fair value of debt securities at fair value through other comprehensive income	(39,173)	(14,863)
Reclassification of realized (gains) loss to profit	3,918	(13,412)
Share of other comprehensive income of affiliates accounted for using the equity method	807	2,910
	(34,448)	(25,365)
Items that will not be reclassified subsequently to profit		
Net change in fair value due to change in own credit risk on financial liabilities designated under the fair value option	13,864	49
Net actuarial gain on employee benefits plans (Note 27)	1,779	2,746
Total other comprehensive loss, net of tax	(18,805)	(22,570)
Total comprehensive income (loss), net of tax	\$ (88,415)	\$ 22,830

Income Taxes – Other Comprehensive Income (Loss)

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

\$ thousands	2022	2021
Income tax expense (recovery) on items that may be reclassified subsequently to profit		
Fair value reserves (securities at fair value through other comprehensive income)		
Net change in fair value of debt securities at fair value through other comprehensive income	\$ (14,444)	\$ (4,919)
Reclassification of realized (gains) loss to profit	1,443	(3,494)
Share of other comprehensive income of affiliates accounted for using the equity method	126	453
Income tax expense on items that will not be reclassified subsequently to profit		
Net change in fair value due to change in own credit risk on financial liabilities designated under the fair value option	5,107	18
Net actuarial gain on employee benefits plans	655	1,012
	\$ (7,113)	\$ (6,930)

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statement of Changes in Equity

Central 1 Credit Union | 107

For the year ended December 31

\$ thousands	Attributable to Equity Members								Non-Controlling Interest	Total Equity
	Share Capital	Retained Earnings	Fair Value & Affiliates Reserves	Liability Credit Reserve	Employee Benefits Reserve	Other Reserves	Equity Attributable to Members			
Balance 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										
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 21)	5						5		5	
Subsidiary's distribution to its shareholders (Note 35)		25				(2)	23	(7,141)	(7,118)	
Total contribution from (distribution to) owners	5	25	-	-	-	(2)	28	(7,141)	(7,118)	
Reclassification of liability credit reserve on derecognition¹		(814)		814					-	
Balance at December 31, 2022	\$ 43,401	\$ 656,814	\$ (27,100)	\$ 12,901	\$ 4,908	\$ -	\$ 690,924	\$ -	\$ 690,924	

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

Profit (loss) attributable to:	2022	2021
Members of Central 1	\$ (69,610)	\$ 45,911
Non-controlling interest	-	(511)
	\$ (69,610)	\$ 45,400
Total comprehensive income (loss) attributable to:		
Members of Central 1	\$ (88,415)	\$ 23,341
Non-controlling interest	-	(511)
	\$ (88,415)	\$ 22,830

See accompanying Notes to the Consolidated Financial Statements

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Consolidated Statement of Changes in Equity

Central 1 Credit Union | 108

For the year ended December 31

\$ thousands	Attributable to Equity Members								Non-Controlling Interest	Total Equity
	Share Capital	Retained Earnings	Fair Value & Affiliates Reserves	Liability Credit Reserve	Employee Benefits Reserve	Other Reserves	Equity Attributable to Members			
Balance at December 31, 2020	\$ 441,127	\$ 684,210	\$ 32,713	\$ (4,763)	\$ 383	\$ 2	\$ 1,153,672	\$ 7,652	\$ 1,161,324	
Total comprehensive income (loss), net of tax										
Profit (loss)		45,911					45,911	(511)	45,400	
Other comprehensive income (loss), net of tax										
Fair value reserve (securities at fair value through other comprehensive income)			(28,275)				(28,275)		(28,275)	
Share of other comprehensive income of affiliates accounted for using the equity method			2,910				2,910		2,910	
Liability credit reserve				49			49		49	
Net actuarial gain on employee benefits plans					2,746		2,746		2,746	
Total comprehensive income (loss)	-	45,911	(25,365)	49	2,746	-	23,341	(511)	22,830	
Transactions with owners, recorded directly in equity										
Class "B" shares issued (Note 21)	6						6		6	
Class "F" shares redemption (Note 21)	(397,737)						(397,737)		(397,737)	
Dividend		29				-	29		29	
Total contribution from (distribution to) owners	(397,731)	29	-	-	-	-	(397,702)	-	(397,702)	
Reclassification of liability credit reserve on derecognition ¹										
		(2,937)		2,937			-		-	
Balance as at December 31, 2021	\$ 43,396	\$ 727,213	\$ 7,348	\$ (1,777)	\$ 3,129	\$ 2	\$ 779,311	\$ 7,141	\$ 786,452	

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

See accompanying Notes to the Consolidated Financial Statements

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Consolidated Statement of Cash Flows

Central 1 Credit Union | 109

For the year ended December 31

\$ thousands	2022	2021
Cash flows used in operating activities		
Profit (loss)	\$ (69,610)	\$ 45,400
Adjustments for:		
Depreciation and amortization	6,723	7,011
Interest margin	(75,854)	(61,449)
Gain on disposal of financial instruments	(6,044)	(15,010)
Change in fair value of financial instruments	149,024	(6,913)
Impairment loss (recovery) on financial assets	361	(1,445)
Equity interest in affiliates	945	577
Income taxes expense (recovery)	(43,531)	16,909
	(37,986)	(14,920)
Change in securities ¹	1,266,205	9,355,625
Change in loans	(281,312)	(683,070)
Change in settlements in-transit	236,333	(104,650)
Change in deposits ¹	(1,846,193)	(10,800,627)
Change in obligations related to securities sold short	(33,999)	(424)
Change in securities under repurchase agreements	354,531	1,039,742
Change in derivative assets and liabilities	(13,897)	(16,576)
Change in other assets and liabilities	72,197	41,285
Interest received	257,127	163,757
Interest paid	(200,384)	(111,839)
Income tax received (paid)	826	(23,265)
Net cash from used in operating activities	(226,552)	(1,154,962)
Cash flows used in investing activities		
Purchase of reinvestment assets under the CMB Program	(585,111)	(505,295)
Maturity of reinvestment assets under the CMB Program	520,165	357,917
Property and equipment - net	(383)	(85)
Intangible assets - purchases	(8,069)	(11,943)
Investments in affiliates - net	(4,202)	(4,071)
Distribution received from affiliates	375	506
Net cash used in investing activities	(77,225)	(162,971)

¹ including the non-cash change of deposits and securities related to the MLP segregation on January 1, 2021

See accompanying Notes to the Consolidated Financial Statements

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For the year ended December 31

\$ thousands	2022	2021
Cash flows from financing activities		
Proceeds from debt securities issued	1,324,519	1,118,959
Maturity of debt securities issued	(1,366,175)	(600,118)
Repayment of lease liabilities	(421)	(450)
Maturity of obligation under CMB Program	(495,046)	(204,706)
Proceeds under the CMB Program	547,586	267,273
Proceeds from subordinated liabilities issuance	-	200,000
Redemption of subordinated liabilities	-	(199,380)
Subsidiaries distribution to its shareholders	(7,141)	-
Dividends paid	-	(13,383)
Redemption of Class F shares	-	(397,737)
Issuance of Class A shares	5	-
Issuance of Class B shares	-	6
Net cash from financing activities	3,327	170,464
Effect of exchange rate changes on cash	6,162	(11,617)
Decrease in cash	(294,288)	(1,159,086)
Cash - beginning of period	1,251,516	1,467,557
Cash held for segregation - beginning of period	-	943,045
Cash - end of period	\$ 957,228	\$ 1,251,516

See accompanying Notes to the Consolidated Financial Statements

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Notes to the Consolidated Financial Statements

Year ended December 31, 2022 and 2021

1. General Information and Basis of Presentation

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

Basis of Accounting

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

The Consolidated Financial Statements were authorized for issue by the Board of Directors on March 3, 2023.

Basis of Measurement

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

- Financial instruments at fair value through profit or loss (FVTPL) measured at fair value.
- Financial assets at fair value through other comprehensive income (FVOCI) measured at fair value.

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

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.

Use of Estimates and Judgements

In preparing the Consolidated Financial Statements in accordance with IFRS, management must exercise judgements and make estimates and assumptions that affect the application of Central 1's accounting policies and the carrying amounts of assets and liabilities, net income and related disclosures. The most significant areas for which management must make subjective or complex estimates and judgements include Expected Credit Loss (ECL) allowance and determining fair value of financial instruments.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. Details of use of estimates and judgements can be found in Note 3.

Year ended December 31, 2022 and 2021

2. Accounting Policies

Central 1 has consistently applied the following significant accounting policies to all periods presented in these Consolidated Financial Statements, except for the following additional policies:

- Changes in accounting policies (Note 2u)

(a) Basis of Consolidation

Subsidiaries

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

An entity is consolidated if Central 1 concludes that it controls the entity. The following circumstances may indicate a relationship in which, in substance, Central 1 controls and therefore consolidates the entity:

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

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

Affiliates

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

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

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

Further information regarding Central 1's subsidiaries and affiliates is contained in Notes 12 and 35.

(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-financial income on the Consolidated Statement of Profit (Loss).

(c) Financial Assets and Financial Liabilities

Recognition and Initial Measurement

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

Year ended December 31, 2022 and 2021

Classification and Subsequent Measurement

a. Business Model Assessment

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

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

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

During the first quarter of 2021, Central 1 reassessed its business model objectives and determined that, for some portfolios, management's strategy had changed. As a result, prospectively from March 15, 2021, the following financial assets and financial liabilities are managed as a group on a fair value basis and classified as FVTPL:

- all securities acquired after March 15, 2021, except for Bankers' Acceptances, Asset-Backed Commercial Papers, and Commercial Papers, which are classified as FVOCI,
- all deposits after March 15, 2021, and

- certain new medium-term notes and subordinated liabilities issued after March 15, 2021

b. Contractual Cash Flows Characteristics Assessment

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

In assessing whether the contractual cash flows are solely payments of principal and interest (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. This includes non-recourse financial instruments and financial assets with 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.

Debt Instruments at Amortized Cost

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

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.
- After the initial measurement, these instruments are carried at amortized cost. Interest income on these instruments is recognized using the effective interest rate method. Premiums, discounts and related transaction costs are amortized over the expected life of the instruments to profit or loss using the effective interest rate method. ECL on these debt instruments is recognized under IFRS 9.

Debt Instruments at FVOCI

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

Year ended December 31, 2022 and 2021

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

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

ECL on debt instruments measured at FVOCI is recognized under IFRS 9. The ECL does not reduce the carrying amount of the asset in the Consolidated Statement of Financial Position, which remains at its fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI with a corresponding charge to profit or loss.

Debt Instruments at FVTPL

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

Debt Instruments Designated at FVTPL

On initial recognition, Central 1 may irrevocably designate a financial asset 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 profit or loss.

Equity Instruments at FVTPL

On initial recognition of an equity instrument that is not held for trading, Central 1 may irrevocably elect to present subsequent changes in the fair value of the instrument in OCI. Gains or loss recorded on this instrument is never recycled to profit or loss. This election is made on an instrument-by-instrument basis. Central 1 did not make such election and has classified its equity instruments at FVTPL.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after Central 1 changes its business model for managing those financial assets. The business model reassessment in March 2021 did not result in reclassification of financial assets as the new business model was applied on a prospective basis.

d. Financial Liabilities

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

Financial Liabilities Designated at FVTPL

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

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

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

Financial Liabilities at Amortized Cost

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

Fair Value Measurement

Note 31 contains information on the measurement of financial assets and liabilities recognized in the Consolidated Statement of Financial Position at fair value.

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Derecognition

a. Derecognition of Financial Assets

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

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

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

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

b. Derecognition of Financial Liabilities

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

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

Offsetting

Financial assets and liabilities are offset and the net amount is presented in the Consolidated Statement of Financial Position when, and only when, Central 1 has

a legally enforceable right to set off the recognized amounts and it intends to either settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions.

Impairment of Financial Assets

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

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

Central 1 measures ECL at an amount equal to 12-month or lifetime ECL. 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL is the ECL that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure.

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.

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.

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b. Assessment of Significant Increase in Credit Risk

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

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

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

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

c. Measurement of ECL

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

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

The PD is an estimate of the likelihood that a loan will not be repaid and will go into default in either a 12-month horizon for Stage 1 or lifetime horizon for Stage 2. The

PD for each individual instrument is modelled based on 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.

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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,
- Unemployment rates,
- 3-month Bankers' Acceptance rate,
- 3-month Government of Canada Bond rate,
- Consumer debt ratio, and
- Housing price index.

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. Restructured Financial Assets

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

- If the expected restructuring will not result in derecognition of the existing asset, the asset continues to be subject to the same assessment for a SICR relative to initial recognition and credit-impairment. Central 1 will recalculate the gross carrying amount of the financial asset based on the present value of the modified cash flows discounted at the original effective interest rate and recognize any gain or loss from the modification in profit or loss.

- The expected restructuring will result in derecognition of the existing asset when the changes to the terms of the asset are considered substantial. The modified financial asset is considered to be a new asset. The expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. For the purpose of assessing for a SICR, the date of initial recognition of the modified financial asset is the date of modification.

h. Credit-Impaired Financial Assets

At each reporting date, Central 1 assesses whether financial assets carried at amortized cost and debt instruments measured at FVOCI are credit-impaired. 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.

i. Presentation of Allowance for ECL

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

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

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excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

- No ECL is recognized for debt instruments measured at FVOCI in the Consolidated Statement of Financial Position, because the carrying value of these assets is their fair value. However, the loss allowance is disclosed and recognized in profit or loss.

j. Write-off

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

(d) Cash

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

(e) Securitizations

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

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

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

of these transactions is recognized in Central 1's Consolidated Statement of Financial Position as obligations under the CMB program.

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 6 and 16.

(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 profit or loss.

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

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, commercial loans and medium-term notes in qualifying hedging relationships. Central 1 has not entered into any cash flow hedges at this time.

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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. The disclosures require information about Central 1's risk management strategy and its effect on future cash flows. Detailed disclosures about the fair value hedges are included in Note 8.

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

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

Interest Rate Benchmark Reform (IBOR)

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, 2022, 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 Obligations Related to Securities 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 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.

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(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 determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment and is recognized net within other income in the Consolidated Statement of Profit.

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

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

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

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

(j) Investment Property

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

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

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

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

(k) 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.

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 in the Consolidated Statement of Profit (Loss) on a straight-line basis over the estimated useful life of the asset, from the date that it is available for use, since this most closely reflects the expected pattern of

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consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are three to ten years.

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

Accounting for Configuration Costs Incurred in Relation to a SaaS (Software as a Service) Arrangement

Central 1 enters into 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.

(I) 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 or liabilities, 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 the Consolidated Statement of Profit (Loss).

(m) Lease

Central 1 as a Lessee

a. Nature of Leasing Activities

Central 1 has entered into lease agreements for its Mississauga and Toronto offices. The leases of both offices run for a period of 11 years from January 1, 2019, with an option to renew the lease of the Mississauga office for two further periods of five years each and that of the Toronto office for one further period of five years after the end of the contract term. The lease payments for both property leases are reset periodically to market rental rates.

Central 1 also entered into lease agreements for its IT equipment and photocopiers. These leases have terms of three to five years. The lease payments are fixed over the lease term. Some of these leases are of low-value items and Central 1 has elected not to recognize the right-of-use (ROU) assets and lease liabilities for these leases.

b. Recognition and Measurement

Central 1 initially recognizes ROU assets and lease liabilities for the leases for its office spaces, IT equipment and photocopiers on its Consolidated Statement of Financial Position. Subsequently, a depreciation charge for these ROU assets and an interest expense on lease liabilities are recognized.

Measurement of Lease Liability

Central 1 initially measures the lease liability at the present value of the lease payments that are not paid on the commencement date, discounted using Central 1's weighted average incremental borrowing rate (IBR) on that date.

The IBR is the rate of interest that Central 1 would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment.

Subsequent to the initial measurement, the lease liability is measured at amortized cost by using the effective interest method. It is increased to reflect interest on the lease liability and decreased to reflect the lease payments made. It is remeasured when there is a lease modification or if Central 1 changes its assessment of whether it will exercise an extension or a termination option.

Some of Central 1's lease contracts contain lease and non-lease components. Charges paid for the right to use an asset is considered as a lease component. However, the fees for activities or costs that transfer goods or services, such as maintenance, utilities and property taxes, are non-lease components. Under IFRS 16, these fees are either excluded from the lease liability and expensed as incurred or included in the lease liability through an election to apply the practical expedient.

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Central 1 did not elect to apply the practical expedient to account for the lease component and associated non-lease component as a single lease component. As such, they are expensed as incurred.

Measurement of ROU Asset

Central 1 initially measures the ROU asset at cost on the lease commencement date which comprises of:

- The initial amount of the lease liability,
- Any lease payments made at or before the commencement date, less any lease incentive received,
- Any initial direct costs incurred by Central 1, and
- Any estimated costs to dismantle and remove the underlying asset or to restore the underlying asset to the conditions required by the lease contracts.

The ROU assets are subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful lives of the ROU assets or the end of the lease term. The estimated useful lives of the ROU assets are determined on the same basis as those of property and equipment. Subsequent to the initial measurement, Central 1 will measure the ROU assets at cost less any accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liability.

c. Short-Term Leases and Leases of Low-Value Assets

Central 1 has elected to apply recognition exemptions to short-term leases and leases of low-value items. Short-term leases are leases for which the lease term as determined under IFRS 16 is 12 months or less. Low-value items include underlying assets having a low value when they are new, even if they are material in aggregate, such as computers. These recognition exemptions allow Central 1 to continue recognize these leases as operating leases and the related lease payments as an expense on a straight-line basis over the lease term.

Central 1 as a Lessor

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.

(n) 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.

Liabilities arising from financial guarantees are recognized initially at their fair value, and the initial fair value is amortized over the life of the related guarantees.

(o) Income Taxes

Income tax expense comprises current tax and deferred tax. Current tax and deferred tax are recognized in profit 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 is 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 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.

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.

Year ended December 31, 2022 and 2021

(p) Post-Employment Benefits**Defined Contribution Plans**

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

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

Defined Benefit Plans

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

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

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

(q) Net Financial Income**Interest Income and Expense**

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

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

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

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

Year ended December 31, 2022 and 2021

Changes in Fair Value of Financial Instruments

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

- Fair value changes on derivatives.
- Fair value changes on loans at FVTPL.
- Fair value changes on financial assets measured at FVTPL.
- Fair value changes on financial liabilities designated at FVTPL.
- Fair value changes on financial assets and liabilities under the CMB Program.
- Impairment charges on debt instruments measured at FVOCI that have been reclassified from OCI.
- The ineffective portion of fair value changes due to the change in interest rates in qualifying hedging instruments and hedged items designated in hedge relationships.

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

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

(r) Non-Financial 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. Other sources of revenue include dues collected to fund certain services such as corporate secretary, economics, communication & public relations and annual general meeting. The consideration received does not include any significant financing components that are not included in the transaction price. Central 1's principal activities, separated by operating segments, from which Central 1 generates its revenue, are described below.

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 Mortgage Backed Securities (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 Central Banking System. It facilitates the day-to-day banking operations of Central 1's clients. It is divided into multiple payment services that are provided over time; therefore, performance obligations are satisfied as time passes. Accordingly, revenue is recognized and collected monthly over the contracted terms based on the number of transactions that have occurred in the month or a flat monthly fee depending on the type of services provided.

Year ended December 31, 2022 and 2021

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.

Operating Dues

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

Central 1 ceased collecting membership dues effective January 2022.

Marketing Revenues

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

(s) Operating Segments

Central 1's operations and activities are organized around a number of key operating segments in accordance with the aggregation criteria and quantitative thresholds under IFRS 8, *Operating Segments*. Management regularly monitors these segments' operating results for the purpose of making decisions about resource allocation and performance assessment. Segment results include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items including adjustments and other management reclassification, and residual unallocated revenue and expenses are included in "System Affiliates & Other" segment. Further information is included in Note 28.

(t) Change in Accounting Policies**Interest Rate Benchmark Reform (IBOR)**

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.

Central 1 considers that a contract is not yet transitioned to an alternative benchmark rate and referred to as an 'unreformed contract' when interest under the contract is indexed to a benchmark rate that is still subject to CDOR reform, even if it includes a fallback clause that deals with the cessation of the existing CDOR. As at December 31, 2022, 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 \$559.1 million and \$42.5 million, respectively. The notional balance of Central 1's total exposure to unreformed one-month and three-month CDOR derivatives that mature after June 28, 2024 was \$18.5 billion, of which \$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. Central 1 is currently working on adding fallback clauses to these contracts.

Year ended December 31, 2022 and 2021

Central 1's CORRA Focus Group (the Group), which was formed to oversee the transition, is in the process of assessing the impact of IBOR reform and CDOR cessation on Central 1's operations including the need for new or revised hedging relationships to the alternative benchmark rate. The Group monitors the progress of the transition from IBOR to the new benchmark rate by reviewing the total amounts of contracts that have yet to transition to an alternative benchmark rate.

The transition from CDOR to alternative benchmark rates presents a number of risks to Central 1, including operational risk due to the change of process and model, liquidity risk, and legal risk associated with contracts amendments. High level impacts covering legal, financial, risk and technological have been identified for each line of business, with detailed analysis commencing in February 2023. All risks associated with the transition are currently being assessed and will be monitored with mitigation strategies implemented to ensure a smooth transition to the alternative benchmark rates.

3. Use of Estimates and Judgements

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.

The economic uncertainties around persistent inflation pressure, and geopolitical tensions have negatively impacted the global economy. Depending on the future developments of these challenges, the full impact on Central 1's results of operations and financial conditions remains unknown. Developing reliable estimates and applying judgment continue to be substantially complex. While management makes its best estimates and assumptions, actual results may differ from those estimates and assumptions.

Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis with revisions to estimates being recognized prospectively.

Expected Credit Loss

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

Central 1 has developed models incorporating specific macroeconomic variables that are relevant to each specific portfolio. The forecast of future economic conditions is developed internally by Central 1's AWG Committee, considering external data and Central 1's view of future economic conditions. Central 1 exercises experienced credit judgement to incorporate multiple economic forecasts which are probability-weighted in the determination of the final expected credit loss. The allowance is sensitive to changes in both economic forecast and the probability-weight assigned to each forecast scenario.

The ECL allowance as at December 31, 2022 is reflective of:

- A weaker Real GDP growth in 2023,
- Rising unemployment rates until the third quarter of 2023,
- A continued falling consumer debt ratio in the first two quarters of 2023, and
- A declining Housing price index over 2023 due to high interest rates.

The AWG Committee determines assumptions and estimates used to predict the future performance of the key economic variables. Additional information regarding the ECL allowance is included in Note 9.

Determining Fair Value of Financial Instruments

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

When there is no observable market price, Central 1 uses valuation techniques which use unobservable inputs to measure level 3 financial instruments. The expected cash flows are discounted using interest rates currently being offered on instruments with similar terms. For a portion of Central 1's equity investments in cooperative entities, Central 1 uses valuation techniques such as discounted cash flows, comparison with instruments where observable inputs exist, Binomial Tree option pricing model and other valuation techniques. Assumptions and inputs used in these valuation techniques include risk-free rate, benchmark interest rate, and expected price volatility.

Year ended December 31, 2022 and 2021

While the market volatility under the current deteriorating economic conditions poses challenges on valuing these instruments, Central 1 makes critical estimates and judgements to adjust these inputs to incorporate how market participants would reflect the impact of rising interest rates, persistent high inflation and geopolitical tensions, if any, in their expectations of the duration and extent of this impact, future cash flows, discount rate and other significant valuation inputs relating to the assets at the reporting date.

Additional information regarding the fair value measurement techniques of financial instruments is included in Note 31.

4. Future Accounting Policies

A number of other amendments in IFRS become effective on January 1, 2023. The amendments in IAS 1 relating to classification of liabilities as current or non-current and disclosure of accounting policies are applicable to Central 1 but do not have a significant impact on Central 1's Consolidated Financial Statements.

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

On May 7, 2021, the IASB published *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* (Amendments to IAS 12, *Income Tax*) that clarify how deferred tax on transactions such as leases and decommissioning obligations is accounted for.

The main change in these amendments is an exemption from the *initial recognition exemption* provided in IAS 12. Accordingly, the initial recognition exemption 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 amendments are effective for annual reporting periods beginning on or after January 1, 2023 with early adoption permitted. Central 1 has assessed these amendments and determined that they would not have a significant impact to the Consolidated Financial Statements.

Definition of Accounting Estimates (Amendments to IAS 8)

On February 12, 2021, the IASB published *Definition of Accounting Estimates* (Amendments to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*) to help entities to distinguish between accounting policies and accounting estimates.

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 amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted and will apply prospectively to changes in accounting estimates and changes in accounting policies occurring on or after the start of that period. Central 1 has not applied this amended standard in preparing these consolidated financial statements as it plans to adopt the standard at its effective date. As at December 31, 2022, the impact of these amendments to the Consolidated Financial Statements cannot be reasonably estimated.

Year ended December 31, 2022 and 2021

5. Cash

\$ thousands, as at December 31	2022		2021	
With Bank of Canada	\$	889,211	\$	1,153,898
With other regulated financial institutions		68,017		97,618
	\$	957,228	\$	1,251,516

6. Securities

\$ thousands, as at December 31	2022		2021	
Securities FVTPL				
Government and government guaranteed securities	\$	2,925,283	\$	3,427,791
Corporate and major financial institutions				
AA low or greater		1,417,712		1,661,619
A (high) to A (low)		382,487		484,142
BBB (high) to BB (high)		888,114		959,963
Equity instruments		40,259		60,430
Fair value	\$	5,653,855	\$	6,593,945
Securities FVOCI				
Government and government guaranteed securities	\$	735,425	\$	1,103,978
Corporate and major financial institutions				
AA low or greater		192,767		275,040
A (high) to A (low)		92,075		182,074
BBB (high) to BBB (low)		566,119		784,931
Fair value	\$	1,586,386	\$	2,346,023
Reinvestment assets under the CMB Program				
FVTPL				
Government and government guaranteed securities	\$	445,666	\$	607,939
Corporate and major financial institutions AA low or greater		-		20,995
Fair value		445,666		628,934
Amortized cost				
Assets acquired under reverse repurchase agreements	\$	507,575	\$	279,701
Total reinvestment assets under the CMB Program	\$	953,241	\$	908,635
Total	\$	8,193,482	\$	9,848,603

Year ended December 31, 2022 and 2021

7. Loans

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

\$ thousands, as at December 31	2022		2021	
Amortized cost				
Due on demand				
Credit unions	\$	489,646	\$	291,809
Commercial and others		4,725		3,386
		494,371		295,195
Term				
Credit unions		175,000		5,700
Commercial and others		1,327,361		1,177,964
Reverse repurchase agreements		68,170		301,252
Staff loans ¹		-		1,439
		1,570,531		1,486,355
Accrued interest		2,064,902		1,781,550
Premium		6,461		3,117
		41		210
		2,071,404		1,784,877
Expected credit loss (Note 9)		(3,543)		(3,361)
Amortized cost		2,067,861		1,781,516
Fair value hedge adjustment ²		(140)		(1,421)
Carrying value	\$	2,067,721	\$	1,780,095
FVTPL				
Term - Commercial and others				
Fair value	\$	10,435	\$	14,273
Total loans	\$	2,078,156	\$	1,794,368

¹ Staff loans bear interest at rates varying from 2.50% to 2.72%. Central 1 has discontinued the staff loan program effective October 29, 2021.

² Central 1 enters into fair value hedges to hedge the risks caused by changes in interest rates.

Year ended December 31, 2022 and 2021

8. 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, 2022 and December 31, 2021:

As at December 31, 2022							Fair Value	
\$ thousands	Notional amount by term to maturity							
	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		

The amounts that have been pledged and received as collateral for derivatives transactions are \$18.2 million and \$177.5 million, respectively as at December 31, 2022, amount pledged as collateral comprises of securities and amount received as collateral comprises of securities and cash (Note 20).

As at December 31, 2021							Fair Value	
\$ thousands	Notional amount by term to maturity							
	1 year or less	1 to 5 years	Over 5 years	Total	Assets	Liabilities		
Interest rate contracts								
Swap contracts	\$ 8,860,728	\$ 21,415,744	\$ 2,158,616	\$ 32,435,088	\$ 206,274	\$ 160,570		
Futures contracts	538,000	115,000	-	653,000	3	507		
Bond forwards	41,000	-	-	41,000	277	-		
	9,439,728	21,530,744	2,158,616	33,129,088	206,554	161,077		
Foreign exchange contracts								
Forward contracts	587,125	-	-	587,125	4,960	4,942		
Other								
Equity index-linked options	38,809	178,039	-	216,848	16,199	16,199		
Total fair value before adjustment					227,713	182,218		
Adjustment for offsetting					(106,783)	(106,783)		
Fair value					\$ 120,930	\$ 75,435		

The amounts that have been pledged and received as collateral for derivatives transactions are \$18.2 million and \$76.6 million, respectively as at December 31, 2021, amount pledged as collateral comprises of securities and amount received as collateral comprises of securities and cash (Note 20).

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

Year ended December 31, 2022 and 2021

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 Profit (Loss).

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

\$ thousands, for the year ended December 31				2022	2021			
		Fair value hedge adjustment - gains (losses)	Change in the fair value on hedging instruments - gains (losses)	Hedge ineffectiveness recorded in profit (loss)		Fair value hedge adjustment - gains (losses)	Change in the fair value on hedging instruments - gains (losses)	Hedge ineffectiveness recorded in profit (loss)
Securities at FVOCI ¹	\$	(21,912)	\$ 22,737	\$ 825	\$	(10,344)	\$ 10,719	\$ 375
Loans		1,281	110	1,391		(546)	524	(22)
Debt securities issued		3,496	(3,905)	(409)		5,915	(5,830)	85
	\$	(17,135)	\$ 18,942	\$ 1,807	\$	(4,975)	\$ 5,413	\$ 438

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 profit (loss).

\$ thousands, as at December 31					2022	2021				
		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	\$ 199,815	\$ 32,730	\$ (31,563)	\$	235,156	\$ 233,047	\$ 9,993	\$ (9,651)
Loans		4,146	4,296	833	(140)		34,158	32,947	723	(1,421)
Debt securities issued		(350,000)	(353,609)	(1,562)	1,655		(300,000)	(302,763)	2,343	(1,841)
			\$	32,001	\$ (30,048)			\$	13,059	\$ (12,913)

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 profit (loss).

² Represents the carrying value in the 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.

Year ended December 31, 2022 and 2021

9. Expected Credit Loss

\$ thousands	Stage 1		Stage 2		Stage 3		Total
ECL on financial assets at amortized cost							
Balance as at December 31, 2021	\$	2,632	\$	729	\$	-	\$ 3,361
Impairment loss (recovery) on financial assets:							
Transfers in (out) to (from)		(4)		-		4	-
Purchases and originations		1,139		-		-	1,139
Derecognitions and maturities		(640)		(729)		-	(1,369)
Remeasurements		259		-		153	412
Total impairment loss (recovery) on financial assets		754		(729)		157	182
Balance as at December 31, 2022	\$	3,386	\$	-	\$	157	\$ 3,543
ECL on financial assets at FVOCI							
Balance as at December 31, 2021	\$	105	\$	-	\$	-	105
Impairment loss (recovery) on financial assets:							
Derecognitions and maturities		(68)		-		-	(68)
Remeasurements		247		-		-	247
Total impairment loss on financial assets		179		-		-	179
Balance as at December 31, 2022	\$	284	\$	-	\$	-	284
Total ECL							
Balance as at December 31, 2021	\$	2,737	\$	729	\$	-	\$ 3,466
Impairment loss (recovery) on financial assets:							
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 impairment loss (recovery) on financial assets		933		(729)		157	361
Balance as at December 31, 2022	\$	3,670	\$	-	\$	157	\$ 3,827

Year ended December 31, 2022 and 2021

\$ thousands		Stage 1		Stage 2		Stage 3		Total
ECL on financial assets at amortized cost								
Balance at December 31, 2020	\$	2,314	\$	940	\$	-	\$	3,254
Impairment loss (recovery) on financial assets:								
Transfers in (out) to (from)		(7)		7		-		-
Purchases and originations		1,158		70		-		1,228
Derecognitions and maturities		(813)		(276)		-		(1,089)
Remeasurements		(20)		(12)		-		(32)
Total impairment (loss) recovery on financial assets		318		(211)				107
Balance as at December 31, 2021	\$	2,632	\$	729	\$	-	\$	3,361
ECL on financial assets at FVOCI								
Balance at December 31, 2020	\$	1,611	\$	-	\$	-	\$	1,611
Impairment loss (recovery) on financial assets:								
Purchases		23		-				23
Derecognitions and maturities		(323)		-				(323)
Remeasurements		(1,206)		-		-		(1,206)
Total impairment recovery on financial assets		(1,506)		-		-		(1,506)
Balance as at December 31, 2021	\$	105	\$	-	\$	-	\$	105
Total ECL								
Balance at December 31, 2020	\$	3,925	\$	940	\$	-	\$	4,865
Impairment loss (recovery) on financial assets:								
Transfers in (out) to (from)		(7)		7		-		-
Purchases and originations		1,181		70		-		1,251
Derecognitions and maturities		(1,136)		(276)		-		(1,412)
Remeasurements		(1,226)		(12)		-		(1,238)
Total impairment recovery on financial assets		(1,188)		(211)				(1,399)
Balance as at December 31, 2021	\$	2,737	\$	729	\$	-	\$	3,466

Year ended December 31, 2022 and 2021

The following tables present the gross carrying amounts of the loans as at December 31, 2022 and December 31, 2021, according to credit quality:

As at December 31, 2022 \$ thousands		Stage 1		Stage 2		Stage 3		Total
Low Risk	\$	759,938	\$	-	\$	-	\$	759,938
Medium Risk		1,309,593		-		-		1,309,593
High Risk		-		-		-		-
Not Rated		391		-		-		391
Impaired		-		-		1,482		1,482
Total	\$	2,069,922	\$	-	\$	1,482	\$	2,071,404

As at December 31, 2021 \$ thousands		Stage 1		Stage 2		Stage 3		Total
Low Risk	\$	661,852	\$	-	\$	-	\$	661,852
Medium Risk		1,098,981		-		-		1,098,981
High Risk		-		22,168		-		22,168
Not Rated		1,876		-		-		1,876
Total	\$	1,762,709	\$	22,168	\$	-	\$	1,784,877

Forward Looking Macroeconomic Variables

The inputs that are used to estimate Stage 1 and 2 credit loss allowances are modelled based on macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. 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.

Year ended December 31, 2022 and 2021

10. Property and Equipment

\$ thousands, as at or for the year ended December 31	Land and Building		IT Equipment		Fixtures		Total
Cost							
Balance as at January 1, 2022	\$	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
Balance as at January 1, 2021	\$	23,772	\$	11,493	\$	18,982	\$ 54,247
Acquisitions		-		159		-	159
Disposals		-		(1,969)		(979)	(2,948)
Balance at December 31, 2021	\$	23,772	\$	9,683	\$	18,003	\$ 51,458
Depreciation							
Balance as at January 1, 2022	\$	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
Balance as at January 1, 2021	\$	12,640	\$	8,466	\$	10,205	\$ 31,311
Depreciation		947		1,215		1,409	3,571
Disposals		-		(1,969)		(905)	(2,874)
Balance as at December 31, 2021	\$	13,587	\$	7,712	\$	10,709	\$ 32,008
Carrying value							
Balance as at December 31, 2022	\$	9,228	\$	1,601	\$	5,862	\$ 16,691
Balance as at December 31, 2021	\$	10,185	\$	1,971	\$	7,294	\$ 19,450

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.

Year ended December 31, 2022 and 2021

11. Intangible Assets

\$ thousands, as at or for the year ended December 31	Externally Acquired		Internally Developed		Total
Cost					
Balance as at January 1, 2022	\$	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
Balance as at January 1, 2021	\$	32,806	\$	36,134	\$ 68,940
Acquisitions		-		11,943	11,943
Disposals		(1,645)		(931)	(2,576)
Balance at December 31, 2021	\$	31,161	\$	47,146	\$ 78,307
Amortization and impairment					
Balance as at January 1, 2022	\$	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
Balance as at January 1, 2021	\$	28,135	\$	34,029	\$ 62,164
Amortization		2,351		997	3,348
Disposals		(1,645)		(931)	(2,576)
Balance as at December 31, 2021	\$	28,841	\$	34,095	\$ 62,936
Carrying value					
Balance as at December 31, 2022	\$	163	\$	19,785	\$ 19,948
Balance as at December 31, 2021	\$	2,320	\$	13,051	\$ 15,371

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.

Year ended December 31, 2022 and 2021

12. Investments in Affiliates

The ownership interest and carrying values of Central 1's investments in affiliates are as follows:

\$ thousands, except as indicated, as at December 31	% of direct ownership outstanding			
	2022	2021	2022	2021
The CUMIS Group Limited	27 %	27 %	\$ 14,849	\$ 15,122
CU CUMIS Wealth Holdings LP	35 %	35 %	40,835	41,305
189286 Canada Inc.	52 %	52 %	32,024	27,351
Agility Forex Ltd.	27 %	28 %	1,227	1,042
			\$ 88,935	\$ 84,820

On September 24, 2021, Central 1 purchased a \$2.9 million non-interest bearing promissory note issued by 189286 Canada Inc. that was due on demand with a maturity of December 31, 2022. The principal amount of the promissory note was extinguished and converted into additional investment in 189286 Canada Inc. in December 2022. On December 29, 2022, Central 1 also invested \$1.4 million additional cash in 189286 Canada Inc., totalling \$4.3 million, to support the operational and initiative spend of 189286 Canada Inc in 2022.

Year ended December 31, 2022 and 2021

13. Deferred Tax Assets

\$ thousands, as at or for the year ended December 31	2021	Recognized in profit (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 legal entity and presented on a net basis on the Consolidated Statement of Financial Position.

\$ thousands, as at or for the year ended December 31	2020	Recognized in profit (loss)	Recognized in OCI	2021
Deferred tax assets				
Financial instruments	\$ 22,977	\$ 29	\$ -	\$ 23,006
Employee future benefits	6,438	43	-	6,481
Equity interest in affiliates	1,092	283	3	1,378
Unused tax losses	3,103	7,240	8,395	18,738
Other	4,140	532	-	4,672
Total deferred tax assets	37,750	8,127	8,398	54,275
Deferred tax liabilities				
Financial instruments	(579)	(23,295)	-	(23,874)
Property and equipment	(754)	(338)	-	(1,092)
Employee future benefits	(2,965)	(95)	(1,012)	(4,072)
Equity interest in affiliates	(5,622)	(15)	(456)	(6,093)
Other	(370)	(2,175)	-	(2,545)
Total deferred tax liabilities	(10,290)	(25,918)	(1,468)	(37,676)
Net deferred tax assets ¹	\$ 27,460	\$ (17,791)	\$ 6,930	\$ 16,599

¹ Deferred tax assets and liabilities are assessed by legal entity and presented on a net basis on the Consolidated Statement of Financial Position.

Year ended December 31, 2022 and 2021

14. Other Assets

\$ thousands, as at December 31	2022	2021
Prepaid expenses	\$ 8,456	\$ 6,434
Accounts receivable and other	8,298	9,298
Post-employment benefits	5,952	6,363
Investment property	597	686
Assets held for distribution	-	6,947
	\$ 23,303	\$ 29,728

Contract Balances

\$ thousands, as at December 31	2022	2021
Receivables arising from contracts with customers		
Trade receivables	\$ 6,784	\$ 8,494
Contract assets	1,354	776
Total contract assets ¹	\$ 8,138	\$ 9,270
Total contract liabilities ²	\$ 5,290	\$ 5,501

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.

Investment Property

\$ thousands, as at or for the year ended December 31	2022	2021
Carrying value, beginning balance	\$ 686	\$ 778
Depreciation	(89)	(92)
Carrying value, ending balance	\$ 597	\$ 686
Fair value	\$ 3,140	\$ 3,157

Investment property comprises of spaces leased to third parties from which Central 1 earns rental income. The property has been vacant since September 2020 after the previous tenant moved out. Since then, there has been no decision being made to change this floor to Central 1's own occupation.

The fair value of Central 1's investment property has been arrived at based on the internal and external market information of similar properties at the end of each reporting period.

Year ended December 31, 2022 and 2021

15. Deposits

\$ thousands, as at December 31		2022	2021
Deposits designated as FVTPL			
Due within three months	\$	1,546,972	\$ 1,900,588
Due after three months and within one year		902,014	1,059,641
Due after one year and within five years		646,526	820,860
		3,095,512	3,781,089
Accrued interest		16,143	8,066
Amortized cost	\$	3,111,655	\$ 3,789,155
Fair value	\$	3,070,737	\$ 3,789,543
Deposits held at amortized cost			
Due on demand	\$	2,208,422	\$ 3,232,904
Due within three months		10,043	5,500
Due after three months and within one year		20,000	98,790
Due after one year and within five years		10,225	73,157
		2,248,690	3,410,351
Accrued interest		201	305
Amortized cost	\$	2,248,891	\$ 3,410,656
Total carrying value	\$	5,319,628	\$ 7,200,199

Year ended December 31, 2022 and 2021

16. Obligations under the Canada Mortgage Bond Program

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

\$ thousands, as at December 31	2022		2021	
Amounts				
Due within three months	\$	506,000	\$	306,718
Due after three months and within one year		165,742		188,328
Due after one year and within five years		340,142		464,299
		1,011,884		959,345
Accrued interest		531		531
Amortized cost	\$	1,012,415	\$	959,876
Fair value	\$	992,140	\$	960,765

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

\$ thousands, as at December 31	2022		2021	
FVTPL				
Total reinvestment assets under the Canada Mortgage Bond Program (Note 6)	\$	445,666	\$	628,934
Assets recognized as securities		41,292		54,978
Fair value	\$	486,958	\$	683,912
Amortized cost				
Total reinvestment assets under the Canada Mortgage Bond Program (Note 6)	\$	507,575	\$	279,701
Total underlying assets designated	\$	994,533	\$	963,613

Year ended December 31, 2022 and 2021

17. Debt Securities Issued

\$ thousands, as at December 31		2022	2021
Amortized cost			
Due within three months	\$	850,179	\$ 866,657
Due after three months and within one year		571,855	499,518
Due after one year and within five years		348,726	446,241
		1,770,760	1,812,416
Accrued interest		5,711	2,787
Amortized cost		1,776,471	1,815,203
Fair value hedge adjustment ¹		(1,655)	1,841
Carrying value	\$	1,774,816	\$ 1,817,044
Designated as FVTPL			
Due after one year and within five years	\$	250,000	\$ 250,000
Accrued interest		1,414	1,414
Amortized cost		251,414	251,414
Fair value		222,753	245,131
Total Carrying value	\$	1,997,569	\$ 2,062,175

¹ Central 1 enters into fair value hedges to hedge the risks caused by changes in interest rates.

At December 31, 2022, the short-term commercial paper facility had a total par value of \$979.5 million (December 31, 2021 - \$866.9 million) and the medium-term note facility had a total par value of \$1.1 billion (December 31, 2021 - \$1.2 billion).

On December 6, 2019, Central 1 issued \$300.0 million principal of Series 17 medium-term fixed rate notes due December 6, 2023. The notes bear interest at a fixed rate of 2.584%, payable semi-annually on June 6 and December 6 of each year, commencing June 6, 2020. On March 30, 2020, Central 1 re-opened the Series 17 medium-term fixed rate notes and issued an additional \$150.0 million, which has the same maturity date and bears the same features as the notes issued on December 6, 2019.

On January 26, 2021, Central 1 issued \$250.0 million principal of Series 18 medium-term fixed rate notes due January 29, 2026. The notes bear interest at a fixed rate of 1.323%, payable semi-annually on January 29 and July 29 of each year, commencing July 29, 2021. These notes are designated at FVTPL at inception to reduce accounting mismatch.

On September 29, 2022, Central 1 issued \$350.0 million principal of Series 19 medium-term fixed rate notes due September 29, 2025. The notes bear interest at a fixed rate of 5.417%, payable semi-annually on March 29 and September 29 of each year, commencing March 29, 2023. The notes are redeemable at the option of Central 1.

On November 7, 2022, the \$500.0 million principal of Series 15 medium-term floating rate notes matured.

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, 2022 and December 31, 2021, the amounts outstanding were \$106.9 million and \$99.7 million respectively.

Year ended December 31, 2022 and 2021

18. Subordinated Liabilities

\$ thousands, as at December 31		2022	2021
Amortized cost			
Series 5	\$	21,000	\$ 21,000
Accrued interest		74	9
Amortized cost	\$	21,074	\$ 21,009
Designated as FVTPL			
Series 7	\$	200,000	\$ 200,000
Accrued interest		26	26
Amortized cost	\$	200,026	\$ 200,026
Fair value	\$	177,813	\$ 199,312
Total carrying value	\$	198,887	\$ 220,321

On July 6, 2016, Central 1 issued \$21.0 million principal amount of Series 5 subordinated notes due July 6, 2026. The notes bear interest at a floating rate based on the 90-day Bankers' Acceptance rate plus 10 basis points, payable quarterly until July 6, 2021. Central 1 has the option to redeem the outstanding notes in whole or in part on or after July 6, 2021. As at December 31, 2022, Central 1 did not exercise its option to redeem the outstanding notes.

During the second quarter of 2021, Central 1 issued \$200.0 million principal of Series 7 subordinated fixed rate notes due on or after June 30, 2026. 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. The series 7 notes are designated at FVTPL at inception to be managed as a group on a fair value basis with securities portfolio.

Year ended December 31, 2022 and 2021

19. Change in Liabilities Arising from Financing Activities

\$ thousands, as at or for the year ended December 31	2021	Cash Flow	Non-cash changes		2022
			Fair Value	Other	
Obligations under the CMB Program	\$ 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

\$ thousands, as at or for the year ended December 31	2020	Cash Flow	Non-cash changes		2021
			Fair Value	Other	
Obligations under the CMB Program	\$ 909,692	\$ 62,567	\$ (11,384)	\$ (110)	\$ 960,765
Debt securities issued	1,554,576	518,842	(5,499)	(5,744)	2,062,175
Subordinated liabilities	221,716	620	(1,874)	(141)	220,321
Dividends payable	13,412	(13,383)	-	(29)	-
Finance Lease	6,493	(450)	-	-	6,043
	\$ 2,705,889	\$ 568,196	\$ (18,757)	\$ (6,024)	\$ 3,249,304

20. Other liabilities

\$ thousands, as at December 31	2022	2021
Cash collateral payable ¹	\$ 77,445	\$ 1,872
Deferred revenue ²	31,326	33,795
Accounts payable	21,764	22,529
Short-term employee benefits	14,425	14,009
Post-employment benefits	12,211	15,326
Finance lease	5,622	6,043
	\$ 162,793	\$ 93,574

¹ Received as collateral for derivatives transactions.² Deferred revenue includes the amount received from credit union clients under the Payments Modernization Cost Share Arrangement.

Year ended December 31, 2022 and 2021

21. 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.

Prior to the segregation of the MLP, Central 1 could issue an unlimited number of Class F shares and could redeem these shares at its option with the approval of the Board of Directors. The shares were issued to Class A members in proportion to their share of mandatory deposits with Central 1. With the MLP segregation, on January 1, 2021, all Class F shares were redeemed and cancelled for the redemption price of \$1.00 per share which was paid to the holders of Class F shares on January 8, 2021. The total redemption amount was \$397.7 million.

thousands of shares, as at or for the year ended December 31	2022	2021
Number of shares issued		
Balance at beginning of period	43,359	43,359
Issued during the period	5	-
Class A - credit unions: balance at the end of period	43,364	43,359
Balance at beginning of period	11	5
Issued during the period	-	6
Class B - co-operatives: balance at the 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
Balance at the beginning of period	-	397,737
Redeemed during the period	-	(397,737)
Class F - credit unions: balance at the end of period	-	-
Number of treasury shares		
Treasury shares - Class E: balance at the beginning and end of period	(264)	(264)

Year ended December 31, 2022 and 2021

\$ thousands, as at December 31	2022	2021
Amount of share capital outstanding		
Outstanding \$1 par value shares		
Class A – credit unions	\$ 43,364	\$ 43,359
Class B – cooperatives	11	11
Class C – other	7	7
Outstanding \$0.01 par value shares		
Class E – credit unions	21	21
	43,403	43,398
Amount of treasury shares		
Treasury shares	(2)	(2)
Balance at the end of period	\$ 43,401	\$ 43,396

The dividend amounts are as follows:

\$ thousands, as at or for the year ended December 31	2022	2021
Dividend payable, balance at beginning of period	\$ -	\$ 13,412
Other	-	(29)
Paid during the period	-	(13,383)
Dividend payable, balance at the end of period	\$ -	\$ -

22. Gain on Disposal of Financial Instruments

\$ thousands, for the year ended December 31	2022	2021
Realized gain (loss) on securities at FVTPL	\$ (2,692)	\$ 77,390
Realized gain (loss) on securities at FVOCI	(5,368)	15,516
Realized gain (loss) on derivative instruments	6,789	(5,876)
Realized gain on loans at FVTPL	-	8
Realized gain (loss) on deposits designated at FVTPL	1,043	(71,559)
Realized gain (loss) on obligations related to securities sold short	6,272	(469)
	\$ 6,044	\$ 15,010

Year ended December 31, 2022 and 2021

23. Change in Fair Value of Financial Instruments

\$ thousands, for the year ended December 31	2022	2021
Change in unrealized gains (losses)		
Securities at FVTPL	\$ (380,728)	\$ (169,067)
Loans at FVTPL	(676)	(493)
Activities under the Canada Mortgage Bond Program		
Reinvestment assets	(20,361)	(9,278)
Obligations under the Canada Mortgage Bond Program	21,164	11,385
Derivative instruments	54,621	18,639
Derivative instruments	110,556	67,134
Financial liabilities at FVTPL		
Deposits designated at FVTPL	37,601	78,982
Obligations related to securities sold short	188	2,237
Debt securities issued designated at FVTPL	15,865	5,499
Subordinated debt issued designated at FVTPL	12,746	1,875
	\$ (149,024)	\$ 6,913

24. Non-Financial Income

	2022			2021		
\$ thousands, for the year ended December 31	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	\$ 12,528	\$ -	\$ 12,528	\$ 12,747	\$ -	\$ 12,747
Securitization fees	5,470	-	5,470	7,779	-	7,779
Foreign exchange income	-	2,668	2,668	-	3,739	3,739
Asset management services	3,417	-	3,417	3,576	-	3,576
Other	7,203	-	7,203	5,364	-	5,364
Payments & Digital Banking Platforms and Experiences						
Payment processing and other fees	74,153	-	74,153	72,403	-	72,403
Direct banking fees	36,324	-	36,324	35,060	-	35,060
System Affiliates & Other						
Equity interest in affiliates	-	(945)	(945)	-	(577)	(577)
Income from investees	-	2,664	2,664	-	1,415	1,415
Membership dues ¹	-	-	-	2,449	-	2,449
Other	6,526	-	6,526	7,629	-	7,629
	\$ 145,621	\$ 4,387	\$ 150,008	\$ 147,007	\$ 4,577	\$ 151,584

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

¹ Central 1 ceased collecting membership dues effective January 2022.

During 2022, Central 1 received liquidation distributions totalling \$4.2 million (2021 - \$5.5 million) from U.S. Central. These distributions are included in "Other" under System Affiliates & Other.

Year ended December 31, 2022 and 2021

25. Other Administrative Expense

\$ thousands, for the year ended December 31	2022	2021
Cost of sales and services	\$ 7,987	\$ 7,388
Cost of payments processing	25,804	22,905
Management information systems	17,215	18,005
Professional fees	33,312	24,256
Business development projects	303	155
Other	2,003	1,997
	\$ 86,624	\$ 74,706

26. Provision for Income Tax

Income tax reported in the Consolidated Financial Statements are as follows:

\$ thousands, for the year ended December 31	2022	2021
Current income tax recovery	\$ (3,106)	\$ (882)
Deferred income tax expense (recovery)	(40,425)	17,791
Income tax expense (recovery) in the statement of profit (loss)	(43,531)	16,909
Current income tax recovery in the statement of OCI	(18)	(11)
Deferred income tax recovery in the statement of OCI	(7,095)	(6,919)
Income tax recovery in the statement of OCI	(7,113)	(6,930)
Total income tax expense (recovery)	\$ (50,644)	\$ 9,979

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, 2021 – 26.9%).

The following table presents the effective tax rate:

December 31	2022	2021
Combined federal and provincial statutory income tax rates	26.9 %	26.9 %
Non-capital loss in subsidiary recognized in the year	3.7 %	1.8 %
Rate differential on equity interests in affiliates	(0.1) %	0.1 %
Change in future tax rate for deferred tax balances	(0.1) %	0.1 %
Sale of investment in Concentra	3.7 %	0.0 %
Investment tax credits from prior years	5.2 %	(1.5) %
Other	(0.8) %	(0.3) %
Effective income tax rate	38.5 %	27.1 %

Year ended December 31, 2022 and 2021

27. 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.

B.C. Credit Union Employees' defined benefit pension plans provide pension benefits based on the employee's years of service and average earnings for a limited period prior to retirement. The plan is a contributory, multi-employer, multidivisional registered defined benefit pension plan governed by a 12-member Board of Trustees. The Board of Trustees is responsible for overseeing the management of the plan, including investment of the assets and administration of the benefits. Central 1 is one of several employers participating in the 1.75% Defined Benefit Division of the B.C. Credit Union Employees' Pension Plan.

Every three years, an actuarial valuation is performed to assess the financial position of the multi-employer plan, the adequacy of the funding level, and to determine the present value of accrued pension benefits and recommended plan contributions based on projections of the employees' average compensation levels at retirement. The most recent actuarial valuation for the multi-employer plan, which was conducted as at December 31, 2021, indicated a going concern actuarial excess of \$112.5 million for the 1.75% Division (December 31, 2018 - \$31.6 million, unfunded liability) and a solvency deficiency of \$10.4 million (December 31, 2018 - \$99.5 million). Considering the funding and solvency status of the plan as at December 31, 2021, the recommended minimum required employer contribution rate remains the same at 14.80% starting from January 1, 2022.

As this is a multi-employer plan, the assets and liabilities are pooled and the actuary does not determine an individual employer's own unfunded liability. It is not possible to determine the portion of the deficit related to Central 1. The next actuarial valuation for the multi-employer plan should be performed no later than as at December 31, 2024 with results expected to be available in 2025.

The defined benefit pension option under the B.C. Credit Union Employees' Pension Plan is subject to the provisions under *Pension Benefits Standards Act* (the Act) regulated by the BCFSA. The Act prescribes that, with respect to a solvency deficiency, amortization payments must be made over a period not exceeding five years from the review date that established the solvency deficiency.

The single-employer plan is registered under the Ontario Pension Benefits Act and administered by Central 1 which is responsible over matters affecting the benefit entitlements earned by plan members and beneficiaries. As at December 31, 2019, 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 \$3.3 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, 2022, with the results available in 2023.

Year ended December 31, 2022 and 2021

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		2022	2021
Defined benefit obligation	\$	(11,280)	\$ (13,985)
Fair value of plan assets		17,232	20,348
Net defined benefit asset	\$	5,952	\$ 6,363
Defined benefit obligation			
Defined benefit obligation, beginning of year	\$	(13,985)	\$ (15,321)
Current service costs		(161)	(155)
Employee contributions		(38)	(32)
Interest cost on accrued benefit obligation		(430)	(378)
Benefit payments		602	817
Actuarial gain		2,732	1,084
Defined benefit obligation, end of year	\$	(11,280)	\$ (13,985)
Fair value of plan assets			
Plan assets, beginning of year	\$	20,348	\$ 19,387
Employer contributions		-	-
Employee contributions		38	32
Interest income on plan assets		622	475
Return on plan assets, excluding interest income (actuarial gain)		(3,126)	1,324
Benefit payments		(602)	(817)
Administration costs (other than costs from managing plan assets)		(48)	(53)
Plan assets, end of year	\$	17,232	\$ 20,348
\$ thousands, for the year ended December 31			
Expense recognized in profit or loss			
Current service costs	\$	161	\$ 155
Administration costs (other than costs from managing plan assets)		48	53
Interest cost on the accrued benefit obligation		430	378
Interest income on plan assets		(622)	(475)
	\$	17	\$ 111
\$ thousands, for the year ended December 31			
Amounts recognized in other comprehensive income (OCI)			
Actuarial gain on defined benefit obligation	\$	2,732	\$ 1,084
Actuarial gain (loss) on plan assets, excluding interest income		(3,126)	1,324
	\$	(394)	\$ 2,408

Year ended December 31, 2022 and 2021

December 31	2022	2021
Actuarial assumptions used to determine defined benefit expense:		
Weighted average discount rate on benefit obligation	3.10 %	2.50 %
Weighted average salary escalation	3.00 %	2.75 %
Expected return on plan assets	5.15 %	3.10 %
Actuarial assumptions used to determine accumulated benefit obligation:		
Weighted average discount rate on benefit obligation	2.85 %	2.25 %
Weighted average salary escalation	3.00 %	2.75 %
Expected return on plan assets	5.15 %	2.85 %

Sensitivity of Assumptions

Key economic assumptions used in measuring the accumulated benefit obligations and related expenses for the defined benefit option are outlined in the table below.

The sensitivity analysis provided is hypothetical as changes in assumptions may not be linear and the sensitivities in each key variable have been calculated independently of the other key variables.

\$ thousands, for the year ended December 31	Accumulated benefit obligation	2022 expense
Assumed discount rate		
Impact of 1% increase	\$ 1,032	\$ 40
Impact of 1% decrease	\$ (1,237)	\$ (53)
Weighted average salary escalation		
Impact of 1% increase	\$ (200)	\$ 13
Impact of 1% decrease	\$ 180	\$ (11)

Defined Contribution Plans

Subject to eligibility requirements, employees of Central 1 may be eligible to participate in one of the following defined contribution plans.

- The money purchase option under the B.C. Credit Union Employees' Pension Plan, which is a multi-employer plan governed by a Board of Trustees;
- The single-employer money purchase option administered by Central 1 operated for Ontario employees; and
- The group registered retirement savings plan under the B.C. Central 1 Retirement Savings Plan (group RRSP).

Contributions for defined contribution plan and expense for group RRSP included in Non-financial expense under the Consolidated Statements of Profit (Loss) were \$3.0 million (December 31, 2021 - \$3.0 million).

(b) 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.

Year ended December 31, 2022 and 2021

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	2022	2021
Defined benefit obligation	\$ (9,155)	\$ (11,402)
Defined benefit obligation		
Defined benefit obligation, beginning of year	\$ (11,402)	\$ (12,484)
Current service costs	(93)	(140)
Interest cost of accrued benefit obligation	(316)	(300)
Benefits payments	451	439
Actuarial liability experience gain	(43)	677
Valuation gain	-	264
Actuarial liability financial assumptions gain	2,248	142
Defined benefit obligation, end of year	\$ (9,155)	\$ (11,402)

\$ thousands, for the year ended December 31	2022	2021
Expense recognized in profit or loss		
Current service costs	\$ 93	\$ 140
Interest cost on accrued benefit obligation	316	300
	\$ 409	\$ 440

\$ thousands, for the year ended December 31	2022	2021
Amounts recognized in OCI		
Actuarial "loss" on obligation	\$ 2,205	\$ 1,083

December 31	2022	2021
Actuarial assumptions used to determine retiree non-pension benefits expense:		
Weighted average discount rate on benefit obligation	5.00 %	2.80 %
Actuarial assumptions used to determine accumulated benefit obligation:		
Weighted average discount rate on benefit obligation	5.00 %	2.80 %
Health care cost trend assumptions:		
Health care cost trend rate on benefit obligation	6.75 %	7.00 %
Ultimate trend rate on benefit obligation	2.00 %	2.00 %
Year that the rate reaches the ultimate trend rate	2041	2041

Year ended December 31, 2022 and 2021

Sensitivity of Assumptions

Key economic assumptions used in measuring the accumulated benefit obligations and related expenses for non-pension retiree benefits are outlined in the table below. The sensitivity analysis provided is hypothetical as changes in assumptions may not be linear and the sensitivities in each key variable have been calculated independently of the other key variables.

\$ thousands, for the year ended December 31	Accumulated benefit obligation		2022 expense
Assumed discount rate			
Impact of 1% increase	\$	829	\$ 8
Impact of 1% decrease	\$	(883)	\$ (10)
Assumed overall health care cost trend rate			
Impact of 1% increase	\$	(610)	\$ 3
Impact of 1% decrease	\$	582	\$ (3)

(c) 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	2022	2021
Defined benefit obligation	\$ (3,430)	\$ (4,266)
Fair value of plan assets	374	342
Net defined benefit liability	\$ (3,056)	\$ (3,924)

\$ thousands, as at or for the year ended December 31	2022	2021
Defined benefit obligation		
Defined benefit obligation, beginning of year	\$ (4,266)	\$ (4,803)
Current service costs	(69)	(59)
Interest cost on accrued benefit obligation	(126)	(120)
Benefits paid	410	449
Actuarial gain	621	267
Defined benefit obligation, end of year	\$ (3,430)	\$ (4,266)
Fair value of plan assets		
Plan assets, beginning of year	\$ 342	\$ 307
Employer contributions	385	433
Benefit payments	(353)	(398)
Plan assets, end of year	\$ 374	\$ 342
Expense recognized in profit or loss		
Current service costs	\$ 69	\$ 59
Interest cost on accrued benefit obligation	126	120
	\$ 195	\$ 179

Year ended December 31, 2022 and 2021

\$ thousands, for the year ended December 31		2022	2021
Amounts recognized in OCI			
Actuarial gain on defined benefit obligation	\$	621	\$ 267
December 31		2022	2021
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		5.00 %	2.80 %
Actuarial assumptions used to determine accumulated benefit obligation:			
Weighted average salary escalation		3.00 %	3.00 %
Weighted average discount rate on benefit obligation		5.00 %	2.80 %

Sensitivity of Assumptions

\$ thousands, for the year ended December 31		Accumulated benefit obligation	
Assumed discount rate			
Impact of 1% increase		\$	(219)
Impact of 1% decrease		\$	256

(d) 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.

Year ended December 31, 2022 and 2021

28. 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.

The products and services offered through *MemberDirect*® help credit unions attract new members, deepen their relationships with existing members and support them in delivering high quality member services. Certain strategic initiatives relating to digital banking and payments solutions are included in this segment such as Forge 2.0.

Payments operations encompass processing paper items and electronic transactions such as automated funds transfer and bill payments on behalf of member credit unions. The payment processing solutions are secure and reliable tools that allow financial and corporate-sector clients to complete a variety of digital, paper and remittance transactions. They also provide cash management services, including automated funds transfers, bill payments and wire transfers.

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, and was previously reported as its own business segment, "System Affiliates". It also includes the costs of implementing certain strategic initiatives other than ones included in the key segments of business above.

Management Reporting Framework

Central 1's management reporting framework is intended to measure the performance of each business segment as if it were a stand-alone business and reflects the way the business segments are managed. This approach is intended to ensure that the business segments' results reflect all relevant revenue and expenses associated with the conduct of their businesses. Management regularly monitors these segments' results for the purpose of making decisions about resource allocation and performance assessment. The expenses in each business segment may include costs of services incurred directly. For costs not directly attributable to one of the business segments, a management reporting framework that uses assumptions, estimates and judgements for allocating overhead costs and indirect expenses to each of the business segments is used. The management reporting framework assists in the attribution of capital and the transfer pricing of funds to the business segments in a manner that fairly and consistently measures and aligns the economic costs with the underlying benefits and risks of that specific business segment. Central 1's capital plan allows for tactical capital allocations within all segments. Central1 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.

Year ended December 31, 2022 and 2021

Basis of Presentation

The accounting policies used to prepare these segments are consistent with those followed in the preparation of Central 1's Consolidated Financial Statements as described in Note 2.

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

Results by Segment

The following table summarizes the segment results for the year ended December 31, 2022:

\$ thousands, for the year ended December 31, 2022		Treasury		Payments & DBPX		System Affiliates & Other		Total
Net financial income (expense)	\$	(70,089)	\$	(480)	\$	3,082	\$	(67,487)
Non-financial income		31,286		110,477		8,245		150,008
Net financial and non-financial income (expense)		(38,803)		109,997		11,327		82,521
Non-financial expense		39,294		138,437		17,931		195,662
Loss before income taxes		(78,097)		(28,440)		(6,604)		(113,141)
Income tax recovery		(28,715)		(14,748)		(68)		(43,531)
Loss	\$	(49,382)	\$	(13,692)	\$	(6,536)	\$	(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

The following table summarizes the segment results for the year ended December 31, 2021:

\$ thousands, for the year ended December 31, 2021		Treasury		Payments & DBPX		System Affiliates & Other		Total
Net financial income (expense)	\$	72,649	\$	(171)	\$	12,339	\$	84,817
Non-financial income		33,205		107,463		10,916		151,584
Net financial and non-financial income		105,854		107,292		23,255		236,401
Non-financial expense		35,373		121,342		17,377		174,092
Profit (loss) before income taxes		70,481		(14,050)		5,878		62,309
Income tax expense (recovery)		19,657		(4,294)		1,546		16,909
Profit (loss)	\$	50,824	\$	(9,756)	\$	4,332	\$	45,400
Total assets as at December 31, 2021	\$	13,162,726	\$	8,604	\$	212,259	\$	13,383,589
Total liabilities as at December 31, 2021	\$	12,623,480	\$	(14,743)	\$	(11,600)	\$	12,597,137

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

Year ended December 31, 2022 and 2021

29. Guarantees, Commitments, Contingencies and Pledged Assets

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

Central 1 is a Group Clearer under the rules of the Payments Canada and acts as the credit union systems' financial institution connection to the Canadian payments system. Pursuant to a joint venture agreement, Central 1 provides payment services to the credit union centrals of Alberta, Manitoba, and Saskatchewan (collectively, the Prairie Centrals). Central 1 guarantees payment of payment items drawn on or payable by the Prairie Centrals and their member credit unions. Each of the Prairie Centrals in return provides Central 1 with a guarantee for those payments.

The table below presents the maximum amount of credit that Central 1 could be required to extend if commitments were to be fully utilized, and the maximum amount of guarantees that could be in effect if the maximum authorized committed amounts were transacted.

\$ thousands, as at December 31		2022	2021
Commitments to extend credit	\$	4,976,567	\$ 5,083,369
Guarantees			
Financial guarantees	\$	717,600	\$ 802,600
Performance guarantees	\$	130,000	\$ 100,000
Standby letters of credit	\$	236,901	\$ 239,357
Future prepayment swap reinvestment commitment	\$	797,936	\$ 1,089,495

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, 2022 are \$121.2 million, \$458.6 million and \$120.8 million (December 31, 2021 - \$14.5 million, \$324.8 million and \$99.8 million).

Central 1 from time to time issues performance guarantees related to the Asset Backed Commercial Paper Program. The performance guarantees represented in the table above are the maximum limits for parties in existing contractual obligations. Central 1 also issues blanket approvals for performance guarantees on a non-committed basis which will become contractual obligations for specified amounts if requested and authorized by Central 1, in their sole discretion. Central 1 has the ability to unilaterally withdraw anytime from these approved limits. The un-committed performance guarantee approved limits for December 31, 2022 were \$0 million (December 31, 2021 - \$810.0 million).

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, 2022.

Year ended December 31, 2022 and 2021

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	2022	2021
Assets pledged to Bank of Canada & Direct Clearing Organizations ^{1, 2}	\$ 72,272	\$ 58,439
Assets pledged in relation to:		
Derivative financial instrument transactions	18,189	18,249
Securities lending	65,066	81,402
Obligations under the Canada Mortgage Bond Program	41,292	54,978
Reinvestment assets under the Canada Mortgage Bond Program	953,241	908,635
Securities under repurchase agreements	1,909,708	1,553,290
	\$ 3,059,768	\$ 2,674,993

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.

30. Leases

ROU assets relate to leased office premises, IT equipment and photocopiers that are presented within property and equipment in Note 10.

\$ thousands, as at or for the year ended December 31	2022	2021
Balance at the beginning of the year	\$ 5,645	\$ 6,164
Depreciation charge for the year	(458)	(519)
Balance at the end of the year	\$ 5,187	\$ 5,645

Amounts recognized in the Consolidated Statement of Profit are as follows:

\$ thousands, for the year ended December 31	2022	2021
Interest expense on lease liabilities	\$ 213	\$ 238
Depreciation charge for the year	\$ 458	\$ 519
Expense related to short term and low value leases	\$ 291	\$ 522

Total cash outflow for leases is presented in the Consolidated Statement of Cash Flows. Maturity analysis of lease liabilities is presented in the Note 34 along with the maturity analysis of other liabilities.

31. Financial Instruments – Fair Value

Certain financial instruments are recognized in the Consolidated Statement of Financial Position at fair value. These include derivative instruments, securities, loans and deposits and a medium-term note designated at FVTPL, a subordinated note designated at FVTPL, obligations related to securities sold short, reinvestment assets and obligations under the CMB Program. The fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants which takes place in the principal (or most advantageous) market at the measurement date under current market conditions. The fair value of financial instruments is best evidenced

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by unadjusted quoted prices in active markets. When there is no quoted price in an active market, valuation techniques which maximize the use of relevant observable inputs and minimize the use of unobservable inputs are used to derive the fair value.

Financial instruments are recorded at fair value upon initial recognition, which is normally equal to the fair value of the consideration given or received. Where financial instruments are measured at fair value subsequent to initial recognition, fair value is determined as described above. The use of valuation techniques to determine the fair value of a financial instrument requires management to make assumptions such as the amount and timing of future cash flows, discount rates, and use of appropriate benchmarks and spreads.

Financial Instruments Whose Carrying Value Approximates Fair Value

Fair value is assumed to be equal to the carrying value for cash, loans on demand classified as amortized cost, deposits due on demand classified as amortized cost, securities under repurchase agreements, other assets and other liabilities because of their short-term nature.

Financial Instruments for Which Fair Value is Determined Using Valuation Techniques

The most significant assets and liabilities for which fair values are determined using valuation techniques include: securities at FVTPL and FVOCI, loans designated at FVTPL, derivative instruments, deposits and debt securities issued designated at FVTPL, obligations under the securities sold short, subordinated liabilities designated at FVTPL, and obligations under the CMB Program. To determine fair value, Central 1 discounts the expected cash flows using interest rates currently being offered on instruments with similar terms. For Central 1's equity investments, quoted market prices are not available, in which case Central 1 would consider using valuation techniques such as discounted cash flows, comparison with instruments where observable inputs exist, Binomial Tree option pricing model and other valuation techniques. Assumptions and inputs used in these valuation techniques include risk-free rate, benchmark interest rate, and expected price volatility. The estimated fair value would increase (decrease) if:

- the expected cash flows were higher (lower);
- the risk-free rates were lower (higher).
- the expected price is more (less) volatile.

Level 3 financial assets includes \$32.1 million of equity investment securities that are measured at cost which is an appropriate estimate of fair value at December 31,

2022 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.

The fair value of the equity investment in Concentra Bank was previously classified as level 3 financial assets but it was reclassified to level 2 during the third quarter of 2022 as a result of the Equitable Bank's acquisition of Concentra Bank, eliminating the need to rely on significant unobservable inputs. As of December 31, 2021, this investment was remeasured to \$20.4 million, in light of the February 2022 announcement of Equitable Bank's proposed acquisition of Concentra Bank. On September 29, 2022, Equitable Bank's acquisition of Concentra Bank received formal approval from Canada's Minister of Finance, which marked the final step required for the official transition of Concentra to Equitable Bank. As a result, the fair value of the investment was increased further to \$23.3 million. On November 1, 2022, Equitable Bank's acquisition of Concentra Bank was successfully completed. Central 1 received cash proceeds of \$23.3 million on November 7, 2022 as consideration for its 4.7 per cent ownership in Concentra Bank's common shares which were cancelled upon the closing of the transaction.

Fair Value of Assets and Liabilities Classified Using the Fair Value Hierarchy

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

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

Securities, deposits and a medium-term note designated at FVTPL, a subordinated note designated at FVTPL, obligation related to securities sold short, derivative instruments, and obligations under CMB Program are classified as Level 2 in the

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hierarchy with observable prices or rate inputs as compared to transaction prices, dealer quotes or vendor prices. Loans at FVTPL and equity investments in Cooperative entities and Credit Union and private equities, where inputs are unobservable, are classified as Level 3 in the hierarchy.

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

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

As at December 31, 2022									
\$ millions	Level 1		Level 2		Level 3		Amounts at Fair Value	Amounts at Amortized Cost ¹	Total Carrying Value
Financial assets									
Cash	\$	-	\$	-	\$	-	\$	957.2	\$ 957.2
Securities		-		8,153.2		40.3	8,193.5	-	8,193.5
Loans		-		-		10.4	10.4	2,067.7	2,078.1
Derivative assets		0.4		378.3		-	378.7	-	378.7
Total financial assets	\$	0.4	\$	8,531.5	\$	50.7	\$ 8,582.6	\$ 3,024.9	\$ 11,607.5
Financial liabilities									
Deposits		-		3,070.7		-	3,070.7	2,248.9	5,319.6
Securities under repurchase agreements		-		-		-	-	1,909.7	1,909.7
Obligations under the CMB Program		-		992.1		-	992.1	-	992.1
Derivative liabilities		-		126.1		-	126.1	-	126.1
Debt securities issued		-		222.8		-	222.8	1,774.8	1,997.6
Subordinated liabilities		-		177.8		-	177.8	21.1	198.9
Total 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.

The fair value of the equity investment in Concentra Bank was reclassified as level 2 from level 3 during the third quarter of 2022.

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

As at December 31, 2022									
\$ millions	Level 1		Level 2		Level 3		Amounts at Fair Value	Amounts at Amortized Cost ¹	Total Carrying Value
Financial assets	\$	-	\$	9,909.1	\$	74.7	\$ 9,983.8	\$ 3,031.6	\$ 13,015.4
Financial liabilities	\$	0.5	\$	5,310.2	\$	-	\$ 5,310.7	\$ 6,802.0	\$ 12,112.7

¹ Amounts carried at amortized cost include financial instruments classified as amortized cost or other financial liabilities.

Year ended December 31, 2022 and 2021

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 2021		Purchases		Disposals		Transfer out and into level 2		Changes in fair value of assets in profit 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

\$ millions		Fair value at Dec 31 2020		Purchases		Disposals		Transfer out and into level 2		Changes in fair value of assets in profit or loss		Fair value at Dec 31 2021
Equity shares	\$	47.6	\$	0.5	\$	-		-	\$	12.3	\$	60.4
Loans		15.8		-		(1.0)		-		(0.5)		14.3
Total financial assets	\$	63.4	\$	0.5	\$	(1.0)		-	\$	11.8	\$	74.7

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.

\$ thousands, as at December 31	Fair Value		Carrying Value	
	2022	2021	2022	2021
Assets				
Cash	\$ 957.2	\$ 1,251.5	\$ 957.2	\$ 1,251.5
Securities	\$ 8,193.5	\$ 9,848.4	\$ 8,193.5	\$ 9,848.4
Loans ²	\$ 2,060.5	\$ 1,779.4	\$ 2,078.2	\$ 1,794.4
Derivative assets	\$ 378.7	\$ 120.9	\$ 378.7	\$ 120.9
Settlements in-transit	\$ 57.3	\$ 201.0	\$ 57.3	\$ 201.0
Other assets	\$ 8.3	\$ 29.7	\$ 8.3	\$ 29.7
Liabilities				
Deposits ³	\$ 5,319.7	\$ 7,200.6	\$ 5,319.6	\$ 7,200.2
Debt securities issued ^{1, 4}	\$ 1,988.0	\$ 2,082.6	\$ 1,997.6	\$ 2,062.2
Obligations under the CMB Program	\$ 992.1	\$ 960.8	\$ 992.1	\$ 960.8
Subordinated liabilities ^{1, 5}	\$ 198.9	\$ 220.3	\$ 198.9	\$ 220.3
Obligations related to securities sold short	\$ -	\$ 40.5	\$ -	\$ 40.5
Securities under repurchase agreements	\$ 1,909.7	\$ 1,553.3	\$ 1,909.7	\$ 1,553.3
Derivative liabilities	\$ 126.1	\$ 75.4	\$ 126.1	\$ 75.4
Settlements in-transit	\$ 483.5	\$ 390.9	\$ 483.5	\$ 390.9
Other liabilities	\$ 117.0	\$ 93.6	\$ 117.0	\$ 93.6

¹ Where the carrying values are at cost, the fair value calculations for these instruments are based on Level 2 inputs.

² Where the carrying values are at cost, the fair value calculations for these instruments are based on Level 3 inputs.

³ A portion of deposits is designated at FVTPL. See Note 15 for the carrying amount.

⁴ A portion of debt securities issued is designated at FVTPL. See Note 17 for the carrying amount.

⁵ A portion of subordinated liabilities is designated at FVTPL. See Note 18 for the carrying amount.

Year ended December 31, 2022 and 2021

32. Financial Instruments – Risk Management

The nature of Central 1's holdings of financial instruments exposes Central 1 to credit and counterparty, liquidity and funding, and market risk.

(a) Credit and Counterparty Risk

Credit risk is the potential for incurring financial loss or opportunity cost resulting from the default or failure of a borrower, endorser, guarantor, or issuer to repay their financial obligation as they come due. Counterparty risk is the potential for financial loss resulting from the inability of a counterparty in a value-exchange transaction to fulfil its obligations. 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 is exposed to counterparty risk through entering into contracts with counterparties in return for bilateral value-exchange of services, such as interest rate swap, foreign exchange deals. The counterparty risk is managed within the same adjudication process as credit risk and Central 1 has direct control over the types and amounts of credit and counterparty risk it accepts.

In managing credit and counterparty risk exposure, Central 1 establishes policies and procedures that include:

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

Provisions for ECL increased in 2022 from 2021 reflecting the worsening of the economic outlook. Counterparty risk continues to be assessed by management as low given the quality of counterparties being government entities, banks with external credit ratings A-Low to AAA (Dominion Bond Rating Service), and credit union system where a robust internal risk rating regime is utilized.

Information regarding Central 1's key exposure to credit and counterparty risk is provided in Notes 5, 6, 7, 8 and 9.

(b) Liquidity and Funding Risk

Liquidity and funding risk is the risk for Central 1 to have the potential inability to meet cash flows obligations in a timely manner due to an inability to generate sufficient cash from assets or funding sources. Central 1 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. Liquidity risk can be caused by an internal mismatch between the cash flows of our assets and liabilities, systemic market and credit events or unexpected changes in the liquidity needs of our members. Sound liquidity management of Central 1 ensures the safety of credit union members' deposits and the health of the credit union system.

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

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

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

Information regarding Central 1's high quality liquid securities is provided in Note 6. Information regarding Central 1's derivative liabilities, funding liabilities and off-balance sheet guarantees, commitments and contingencies is provided in Notes 8, 15, 16, 17, 18, and 29.

(c) Market Risk

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. The level of market risk to which Central 1 is exposed varies depending on market conditions, and the composition of Central 1's investment, lending and derivative portfolios.

Year ended December 31, 2022 and 2021

Central 1 manages its exposure to market risk through various means. Central 1's policies detail the measurement of market risk and establish exposure limits in keeping with Central 1's overall risk appetite. Market risk is measured using 1-Day Value-at-Risk (VaR) computed at a 99 per cent confidence level, meaning that the one-day change in portfolio value is expected to be less than VaR 99 per cent of the time. Central 1's risk appetite statement requires Central 1 to not assume additional market risk for speculative purposes or in pursuit of returns beyond those required to reasonably fulfill its primary mandate of safeguarding system liquidity.

Central 1 monitors exposure to market risk against limits, investigates any breaches and reports them at the appropriate level for review and action. This management framework is complemented by a series of rigorous stress test scenarios that are run on a regular basis.

Interest Rate and Credit Spread Risk

Central 1 regularly monitors its exposure to interest rate changes in order to assess their potential effects on financial margin. Central 1 Corporate Risk Management Policy defines exposure limits in relation to 1-day 99% Value at Risk (VaR). VaR provides a dollar estimate of loss due to 1-day movements in market risk factors at the 99% level. Interest rate VaR includes movements in sovereign and swap interest rate curves. Credit Spread VaR measures the loss associated with changes in credit spreads within the portfolio – CMB, Provincial, Bank and Corporate spreads.

Foreign Exchange Rate Risk

Central 1 has assets and liabilities denominated in several major currencies and buys foreign currencies from, and sells these currencies to its member credit unions. The risk associated with changing foreign currency values is managed by applying limits on the amounts (short or long positions) that can be maintained in the various currencies, and by utilizing derivative exchange contracts to lessen the impact of on-balance sheet positions and through VaR management limits. Most of Central 1's exposure to foreign exchange (FX) rate risk is concentrated in USD on account of USD deposits held with Central 1. 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.

Information regarding Central 1's exposure to foreign currency risk is provided in Note 33.

Contractual Repricing or Maturity Dates of Financial Instruments

The majority of the obligations is incurred in Central 1's role as a liquidity manager and consists of member deposits or short- and long-term notes. Central 1 also has contractual obligations to CHT under the CMB Program.

Year ended December 31, 2022 and 2021

The following table summarizes the carrying amounts by the earlier of the contractual repricing or maturity dates for the following financial instruments:

		Floating		Within 3 months		3 months to 1 year		1 year to 5 years		Over 5 years		Not rate sensitive		Total
Assets														
Cash	\$	771.6	\$	-	\$	-	\$	-	\$	-	\$	185.6	\$	957.2
Securities		1,254.6		804.6		1,364.5		3,936.9		1,264.8		(431.9)		8,193.5
Loans		733.9		745.8		141.6		446.9		7.3		2.7		2,078.2
Derivative assets		-		-		-		-		-		378.7		378.7
Other assets		-		-		-		-		-		273.7		273.7
	\$	2,760.1	\$	1,550.4	\$	1,506.1	\$	4,383.8	\$	1,272.1	\$	408.8	\$	11,881.3
Liabilities														
Deposits	\$	2,285.9	\$	1,547.0	\$	886.3	\$	625.0	\$	-	\$	(24.6)	\$	5,319.6
Securities under repurchase agreements		-		1,909.7		-		-		-		-		1,909.7
Obligations under the CMB Program		-		501.9		93.7		415.2		-		(18.7)		992.1
Derivative liabilities		-		-		-		-		-		126.1		126.1
Debt securities issued		-		853.1		576.4		600.0		-		(31.9)		1,997.6
Subordinated liabilities		21.0		-		-		-		200.0		(22.1)		198.9
Other liabilities		77.4		-		-		-		-		569.0		646.4
		-		-		-		-		-		690.9		690.9
	\$	2,384.3	\$	4,811.7	\$	1,556.4	\$	1,640.2	\$	200.0	\$	1,288.7	\$	11,881.3
On-balance sheet gap														
On-balance sheet gap	\$	375.8	\$	(3,261.3)	\$	(50.3)	\$	2,743.6	\$	1,072.1	\$	(879.9)	\$	-
Off-balance sheet gap	\$	(3,063.8)	\$	366.0	\$	27.6	\$	2,187.8	\$	482.4	\$	-	\$	-
Total Gap December 31, 2022	\$	(2,688.0)	\$	(2,895.3)	\$	(22.7)	\$	4,931.4	\$	1,554.5	\$	(879.9)	\$	-
Total Gap December 31, 2021	\$	(5,897.3)	\$	(3,163.7)	\$	13.1	\$	7,664.6	\$	2,149.1	\$	(765.8)	\$	-

Year ended December 31, 2022 and 2021

33. 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	2022		2021	
Assets				
Cash	\$	38,053	\$	55,910
Securities		552,732		492,045
Loans		256		1
Derivative assets		5,856		165
Other		1,202		484
		598,099		548,605
Liabilities				
Deposits		581,989		561,127
Derivative liabilities		2,928		82
Other		(2,553)		(3,365)
		582,364		557,844
On-balance sheet exposure		15,735		(9,239)
Off-balance sheet exposure		(31,358)		3,287
	\$	(15,623)	\$	(5,952)

Central 1 does not have a significant exposure to other foreign currencies.

Year ended December 31, 2022 and 2021

34. Capital Management

Central 1's Capital Policy ensures that each business segment has sufficient capital to support its business activities. The objective of managing capital includes, but is not limited to the following:

- ensuring that regulatory capital adequacy requirements are met at all times;
- ensuring internal capital targets are not breached; and
- earning an appropriate risk adjusted rate of return on members' equity.

Capital Management Framework

The capital management framework provides the policies and processes for defining, measuring, and allocating all types of capital across Central 1. The process of attributing capital to business segments is linked to the budgeting process and to the Internal Capital Adequacy Assessment Process (ICAAP). The budget process establishes expected business activities over the course of the following fiscal year and the ICAAP establishes the required amount of capital based on an internal risk assessment. Central 1's capital plan allows for tactical capital allocations within all segments. Capital, 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, 2022 and December 31, 2021.

35. 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 12; and
- Central 1's post-employment benefits as described in Note 27.

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, 2022 and December 31, 2021.

Year ended December 31, 2022 and 2021

The following table presents the compensation to key management personnel:

\$ thousands, for the year ended December 31	2022	2021
Salaries and short-term employee benefits	\$ 5,407	\$ 4,188
Incentive	1,654	1,581
Post-employment benefits	227	244
Termination and other long-term employee benefits	1,051	2,411
	\$ 8,339	\$ 8,424

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	2022	2021
Total remuneration	\$ 651	\$ 754

Significant Subsidiaries

CUPP Services Ltd. (CUPP) completed the distribution of its net assets to the shareholders during the second quarter of 2022. This distribution has resulted in the balances of non-controlling interest and reserves being nil. CUPP was dissolved on July 5, 2022 when the share capital was cancelled.

% of direct ownership outstanding, as at December 31	2022	2021
Central 1 Trust Company	100%	100%
CUPP Services Ltd.	0%	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	2022	2021
The Co-operators Group Limited	21%	21%
Canadian Credit Union Association	59%	59%

36. Subsequent Event

On February 7, 2023, Central 1 issued \$300.0 million principal of Series 20 medium-term fixed rate notes due February 7, 2028. The notes bear interest at a fixed rate of 4.648%, payable semi-annually on February 7 and August 7 of each year, commencing August 7, 2023. The notes are redeemable at the option of Central 1.

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

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
Gulf and Fraser Fishermen's Credit Union
Integris Credit Union
Interior Savings Credit Union
Khalsa Credit Union
Kootenay Savings Credit Union
Ladysmith & District Credit Union
Lake View Credit Union
Nelson & District Credit Union
North Peace Savings and Credit Union
Northern Savings Credit Union
Osoyoos Credit Union
Prospera Credit Union
Revelstoke Credit Union
Salmon Arm Savings and Credit Union
Sharons Credit Union
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
Airline Financial 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
Health Care 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
L.I.U.N.A. Local 183 Credit Union Limited
Libro Credit Union Limited
Lighthouse 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
United Employees Credit Union Limited
Windsor Family Credit Union Limited
Your Credit Union Limited
Your Neighbourhood Credit Union Limited

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