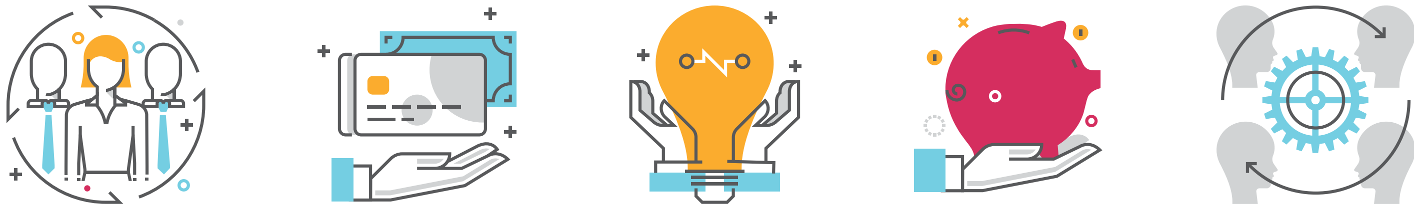
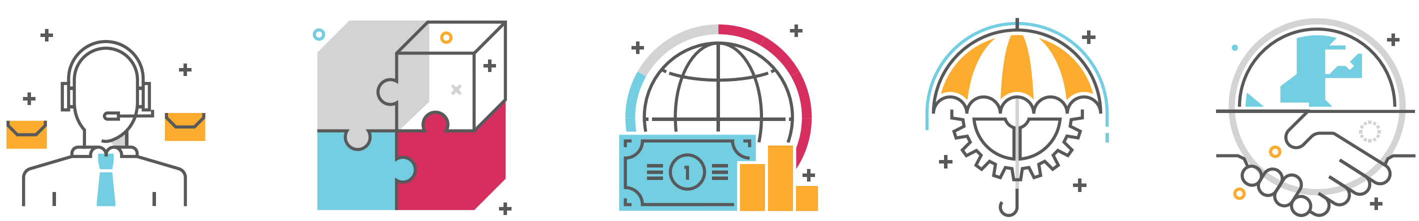


Making a Difference

Atlantic Central
Annual Report 2017



Contents

Vision without action is merely a dream. Action without vision just passes the time. Vision with action can change the world.
– Joel Barker

Making a Difference

Since launching our 10-year vision in 2014, we've been working on numerous initiatives to bring it to life.

This year, we moved from planning to action on several of those initiatives and, combined with the work we've completed over the past three years, we can see the potential to create real and meaningful differences in the Atlantic credit union system becoming a reality.

We're making a difference for credit unions as businesses – helping them stay competitive and growing. And the collaborative efforts of all of us who work in the Atlantic credit union system help improve the lives of our members and the communities in which they live and work. And that's what matters most. The real bottom line in our business is people: people who work with us, for us, and the people we work for.

No matter how big or small the undertaking, by working together we have the power to create positive change – we can and will continue making a difference.

Chair's Message

In 2017, Atlantic Central reached significant milestones as we executed several of the initiatives of our four-year strategic plan. We are now beginning to see the difference these key initiatives can make to achieving a stronger, successful Atlantic credit union system. The kind of transformation required in the Atlantic region can only happen when we work in a collaborative, open, supportive manner. The board is proud of the work Atlantic Central did with, and on behalf of, both the Atlantic and national system and by working together we will continue to achieve success.

Implementation of the Compelling Selling Proposition (CSP) continued throughout 2017 as new strategies to increase the awareness and understanding of credit unions were launched in the marketplace. Also of note, Atlantic Central, along with leaders of the other centrals across the country, saw the culmination of two years of work with the creation of Aviso Wealth, a merger of three existing national wealth management companies. This strengthened wealth management company will provide increased value for our credit unions and their members.

In December, the boards of Atlantic Central, League Savings, and League Data met to consider how best to align our strategies to benefit and support the Atlantic credit union system. League Data remains a critical partner for Atlantic Central and all three boards agree tremendous value is derived from coming together for these important discussions.

In 2017 we did see some disappointing results, one of which was the failure of part of a national payments strategy, Payco, to move forward. We still firmly believe that Payco can deliver real value for credit unions across the country and there is much we have learned from the work that was completed on the project. While we were disappointed in the initial results of the Linked Hub Resolutions, we were very pleased to see the work on implementing shared services for the benefit of all credit unions in the Atlantic region ultimately reach a key milestone in 2017. After three years of planning and consultations, credit unions determined there is a strong desire to implement shared services, and work in this area is expected to continue in 2018.

The boards of Atlantic Central and League Savings and Mortgage once again invited credit union CEOs and chairs to participate and share their feedback at our annual joint planning session. This approach has proven successful and desirable as the strategies we are developing and implementing impact us all – the perspectives shared by credit unions provide valuable input into our business plans. On behalf of the board, I'd like to thank the credit union representatives for taking the time to join us for those discussions. The Atlantic Central board is pleased to see this collaborative approach adopted even more broadly with the work on a common Atlantic credit union system strategy.

Throughout 2017, Atlantic Central continued to provide solid representation on behalf of credit unions at both the regional and national levels. I attended the credit union consultation sessions around shared services and was very pleased to see the high level of engagement from the credit union leaders. It was clear they were committed to getting the best information possible to make the best decision for their credit unions. I also attended both meetings of the Central chairs and CEOs. We worked hard to ensure Atlantic credit union voices were heard by providing input on issues that affect the Canadian credit union system as a whole.

Other centrals and credit unions across the country continue to pay close attention to the work we are doing in our region as they face the same pressures and demands of our highly competitive industry. I consistently feel a sense of pride in the interest Atlantic Central's initiatives receive. In many ways, our Atlantic system is leading the charge on the transformational change all credit unions realize they must make.

On behalf of the Board of Directors, I would like to thank the management and staff of Atlantic Central for their work in 2017. The time, effort, and dedication you have displayed has delivered positive results for the benefit of the Atlantic credit union system.

In 2018, I look forward to seeing how our strategies and initiatives drive the growth of credit unions, and make a difference in the lives of their employees, members, and communities, while remaining true to our co-operative roots.

Pat Duffield

Pat Duffield
Chair
Atlantic Central Board of Directors

CEO's Message

Making a difference. Isn't that why we're all here? Why do most of us choose to work in the credit union system? In the thousands of discussions I have had with credit union directors, executives, and staff, the answer, at least in part, is related to our desire to make a difference. For credit unions, the objective is to help improve the lives of your members and the communities they live in. At Atlantic Central, the objective is to support the Atlantic credit union system in ways that help our credit unions grow their businesses and provide value to their members and communities. So how do we do that? Our efforts take many forms, and include the skills of numerous talented people. From helping build strategy to acquiring products your members need and want, helping you manage your balance sheets, to working on your behalf with governments in all four provinces, our impact is both broad and deep. The fact is, Atlantic Central is here to serve you in helping you achieve your goals.

In many respects, 2017 was a landmark year. Our regional vision, first introduced in October 2013, took several years to develop and design. Numerous key initiatives have been in play since those early days, including national strategies in the areas of payments and wealth management, and regional strategies on our brand and sharing services. Each of these transformational initiatives was designed around a simple premise: consumers need to understand who we are, what we do, how that's different from our competitors, and why that matters. When they do, and they connect with us, we need to be able to compete for their business. Our strategy must continue to focus on improving awareness and understanding, and perhaps most critically, on our ability to deliver an exceptional experience. In 2017, we reached major milestones in several areas.

After two full years of work, the merger of Credential Financial, Northwest Ethical Investments, and Q-Trade was announced. The new entity, Aviso Wealth, will be better positioned to deliver a strong wealth management experience for members, while delivering improved returns for credit unions.

Also at the national level, our work on the CEO Payments Strategy Committee delivered real value for credit unions across the country. Initiatives in the areas of switching, ATM management and cards will improve accessibility for members and our economics in these important areas. While the failure of Payco, the flagship payments initiative, to go forward was disappointing, it should not distract from the tremendous value created by other work streams. Simply put, the CEO Payments Strategy Committee is the model for moving change forward in the future.

Here in Atlantic Canada, our initiative to define a shared services model reached a milestone. Credit unions from all four provinces were fully engaged in considering the opportunity to share services, leverage our shared expertise, improve our internal capabilities and our ability to serve our members. After considerable deliberation, credit unions reaffirmed the need for shared services, but also confirmed their need for additional flexibility to implement services at their own pace. We expect to continue to support the direction of shared services for credit unions as a critical part of our strategy in the future.

We saw other important successes in 2017 as well. Our marketing program was again recognized nationally and won two Achievement in Marketing Excellence (AIME) awards at the 2017 Canadian Credit Union Association (CCUA) Conference. Our innovative approach to owned and earned media is gaining recognition and is vital to achieving the first part of our strategy: improving awareness and understanding.

Our commercial syndication program delivered significant results in 2017. It's hard to imagine that, not long ago, the program sat at approximately $15 million in loans. Since that time, the program has exploded to over $221 million in high-quality commercial credit, and delivered more than $4 million in interest revenues to credit unions. This program is a tremendous example of the difference we can make for credit unions.

Finally, at our Fall Conference in October, we discussed the potential to create a new strategic framework, which we called the Atlantic Credit Union System Strategy. This new vision, driven by credit unions at the Atlantic system level, would outline how all our work fits together, and assist us in prioritizing initiatives. CEOs from across the region attended an important meeting in November to begin the planning process. We believe that this work will take system engagement to the next level, improving collaboration and results. We fully support this work and look forward to participating with you as it moves forward.

In considering our efforts in 2017, and the differences we made, I would be remiss if I didn't thank our employees. You worked so hard, and your commitment to credit unions really shone through. I couldn't be prouder of the work we did together this year.

To our Board of Directors, thank you for your leadership, direction, and guidance. You had to make difficult decisions in 2017 and you stayed true to our vision.

Finally, to our credit union owners, thank you for your continued engagement. We are fully committed to your success.

Michael Leonard
President and CEO
Atlantic Central

2017 Highlights…

Liaison Working Group

Card Payment Strategy

Atlantic Central co-led negotiations with the national team on the first ever National Master Services Agreement for Credit Card Services. In October 2017, Atlantic credit unions began their onboarding process to a new credit card service provider. Atlantic Central plans to engage the Regional Card Strategy Working Group in early 2018 in creating a win-back/ growth strategy in support of our regional launch beginning in June 2018.

New Product and Service Offerings

Lock'N'Block®

Lock'N'Block is the first fraud management solution of its kind in Canada. Members are now able to lock their debit card and block unauthorized transactions via online banking, mobile web, and mobile apps should their debit card get lost or stolen.

Liquidity Monitoring Tool

The Product Solutions team, together with the Financial Consulting team, developed a liquidity monitoring tool that provides credit unions with a high-level view of their future liquidity position based on data and assumptions they enter.

Payday Loan Alternatives

Atlantic Central released a Payday Lending Alternatives Assessment to the region in 2017. Opportunities to offer credit unions a product designed to end the payday lending cycle were explored and a model application was developed.

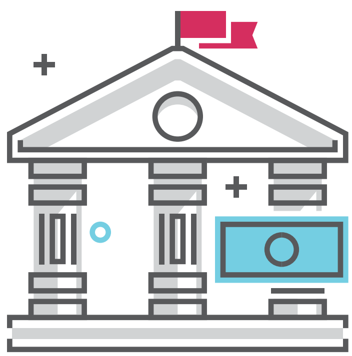
Each One Teach One (EOTO)

EOTO is designed to help individuals gain knowledge and skills that help improve their financial well-being.

52+ workshops held in Atlantic communities
828 individuals attending
48 certified coaches
21 participating credit unions

Bank, Banker, Banking

In 2017, Atlantic Central supported a national advocacy effort by the Canadian Credit Union Association (CCUA) resulting in the federal government reversing its decision on restricting credit unions from using the terms "bank, banker, banking." Credit unions welcomed this clarification as it allows them to continue to describe the services they provide to their members using the common everyday language they are accustomed to.



Simpler Initiative

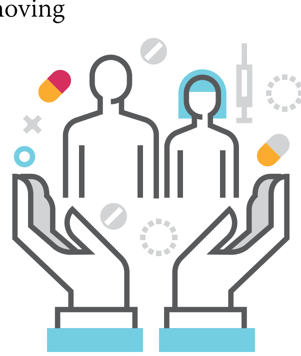
The Simpler Initiative was launched to help empower Atlantic Central and League Savings' staff, optimize risk, and focus on improving our members' experience. Our simple initiative includes ways to make meetings faster and more effective, eliminate time spent on emails, and speed up processes.

Compelling Selling Proposition (CSP)

Support for integrating our CSP in everything we do continued in 2017 with the implementation of tactics outlined in our three-year strategy.

New Flex Health & Dental Plan

In September 2017, we announced that we are moving to a new flexible health and dental plan called Your Health, Your Plan. This replaces the three plans currently in place that result in different coverage levels in each Atlantic province. The new plan provides the same coverage across Atlantic Canada, and allows employees to choose the coverage level that suits their needs.



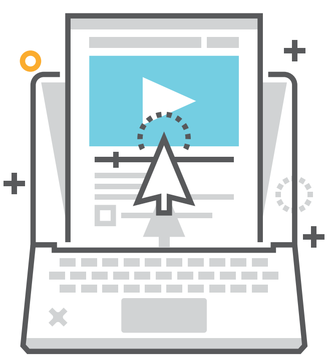
…2017 Highlights

Achievement in Marketing Excellence (AIME) Awards

We won two AIME awards at the 2017 CCUA Conference:

- Content Marketing for the quality of the content on our HonestMoney.ca website, and
- Our website, HonestMoney.ca, which promotes our brand values of honesty, fairness, and trust.

Trust video

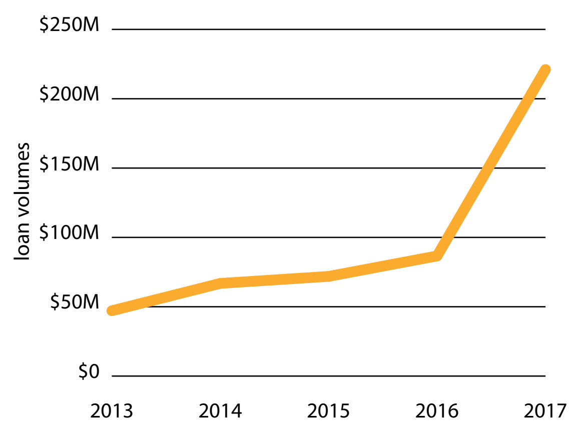


The Trust video was introduced to the market during a period when the media and the public were taking a harsh look at the practices of our competitors within the financial services industry. Mike Leonard's "A Message from Atlantic Credit Unions" is the top performing story on HonestMoney.ca to date.

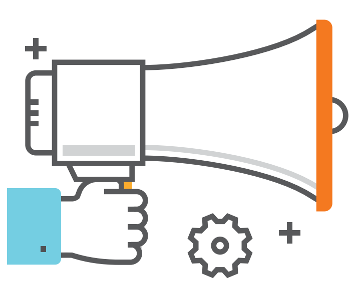
Trust video generated more than 11,000 clicks to HonestMoney.ca

Syndication Program

Our strengthened relationships with Concentra and other national partners resulted in significant growth in 2017, with an increase of 154 per cent over last year. Building these relationships has enabled us to create additional opportunities for credit union participation.



Net interest earned by credit unions in 2017 was $4.3 million



Always On

In 2017, our owned, earned, and paid media strategies included:

56 new articles on HonestMoney.ca which received more than 84,000 unique page views

7 earned media stories totalling $106,050 in value

4 paid campaigns (Registered Savings, Mortgage, and two brand campaigns)

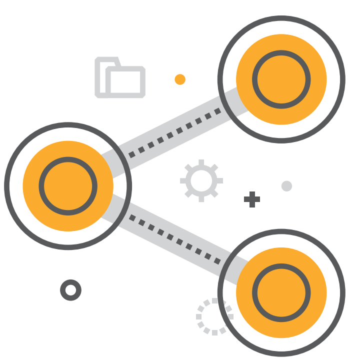
Branch Transformation

In January 2017, Atlantic Central, League Data and a committee of 10 credit union leaders from all four Atlantic provinces began work on developing new branch designs to address the changing needs and behaviours of consumers. Credit unions expressed the need to find new ways to compete and thrive in the financial services market and recognized one of the ways to do this is to change the approach to their physical locations in meeting the needs of members in their communities.

Prototype designs were completed in May, and there are currently seven credit unions participating in branch transformation pilots with two newly designed branches opened in 2017.

Shared Services

A key milestone was reached in December 2017 – after three years of research, planning and consultations, credit unions showed a strong desire and support for building shared services for the benefit of the Atlantic credit union system. Work on building the shared services will begin in early 2018.

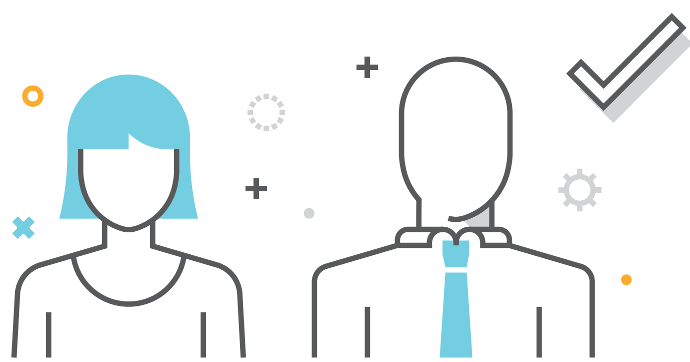


Atlantic Credit Union System Strategy

Atlantic Central, along with League Savings and credit union CEOs, agreed to the development of a combined system strategy that will develop goals and objectives designed to promote the growth of the Atlantic credit union system. The first meeting was held in Q4 2017 and strategy development is expected to continue well into 2018.

Employee Engagement

We believe employee engagement is critical to our ability to deliver on our business strategies and objectives. The annual results of the survey provide us the opportunity to focus on areas for improvement.



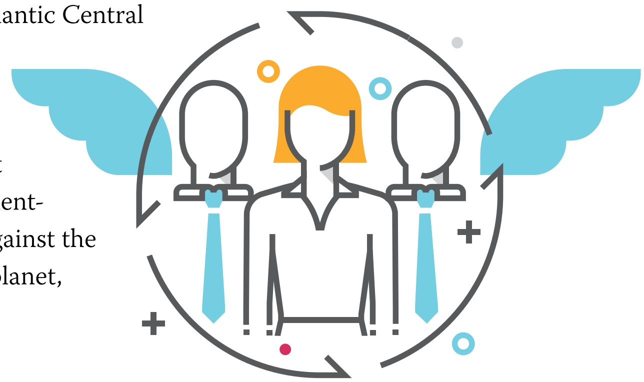
97% have trust and confidence that our vision and strategy have been developed with the best interests of stakeholders and the long-term success of the Atlantic credit union system in mind

90% are proud to tell people they work at Atlantic Central/League Savings

Co-operative Social Responsibility...

Credit Unions Put People Before Profits

Through our Co-operative Social Responsibility (CSR) Committee of the Board, and on behalf of our member credit unions, Atlantic Central provides awards, charitable giving, and other forms of support in the areas of education, health care, community and social well-being, environment, arts and culture, and co-operative development. It's all part of our commitment to pursuing socially and environmentally focused business practices, and it's all measured against the triple bottom-line approach with benefits for people, planet, and profit.



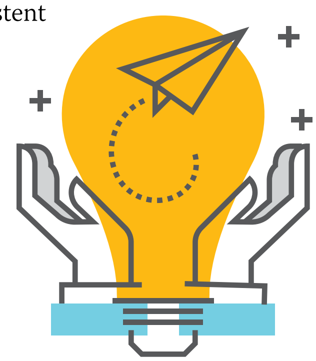
Atlantic Central contributed $142,000 in charitable donations

Coady Award

Each year Atlantic Central's CSR Committee oversees the nomination and selection process for the Coady Award. This award is named after Dr. Moses Coady, a passionate advocate and leader in the national co-operative movement, who encouraged his followers to strive for a meaningful economic democracy. The award honours the member credit union or caisse populaire that best exemplifies leadership, support, and involvement in its community.

The recipients of the 2016 Coady Award were Eastern Edge Credit Union and Reddy Kilowatt Credit Union. They made the decision to partner in their CSR activities to enhance their support of community organizations and events. The credit unions invest heavily in financial literacy and in 2016 delivered sessions to more than 200 high school students to help them understand items such as financial planning and establishing and using credit responsibly. Post-secondary scholarships are awarded to students who exemplify the qualities of good citizenship and community co-operation, both of which are consistent with credit union values.

The credit unions are deeply committed to their communities. Staff volunteer a significant amount of their time in support of numerous organizations and events that help improve the lives of all who live and work in them.



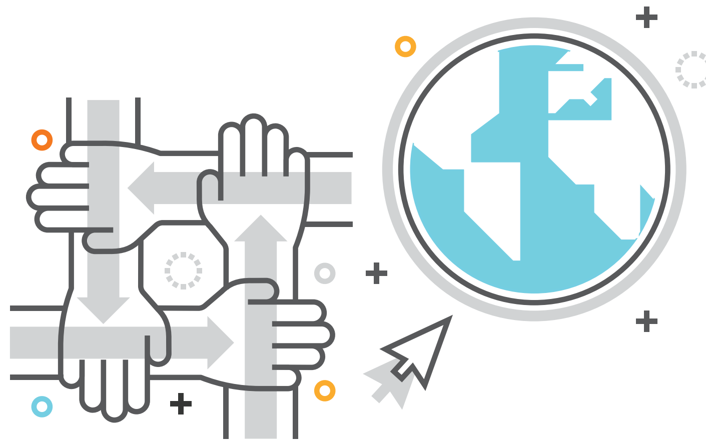
Co-operative Partner Support

Co-operative Councils $35,000
to support the growth and development of co-operatives, credit unions and other social and economic enterprises in the Atlantic provinces

Saint Mary's Co-operative Management Education Co-operative (CMEC) Program $4,000
to support the advancement of co-operative management education in a globalized curriculum

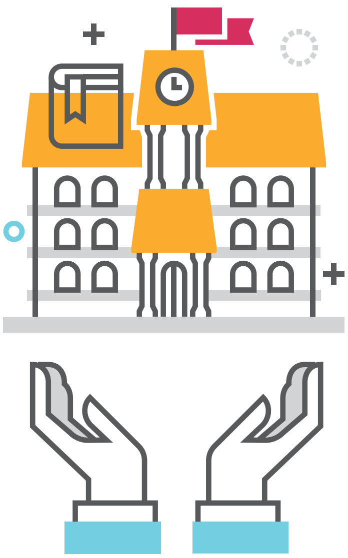
Co-op Housing Federation of Canada (CHF) $5,000
to represent and serve housing co-ops and the organizations that support them

Co-operative Development Foundation of Canada (CDF) $20,000
to help create and strengthen co-operative enterprises and networks in developing countries

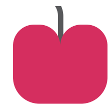


…Co-operative Social Responsibility

Regional Charitable Giving and Sponsorships



Atlantic Credit Union Bursary Program
$25,000
to support students attending the New Brunswick Community College, College of the North Atlantic, Holland College, and Nova Scotia Community College



School Breakfast Programs
$15,000
support to programs in Newfoundland and Labrador, Nova Scotia, and Prince Edward Island

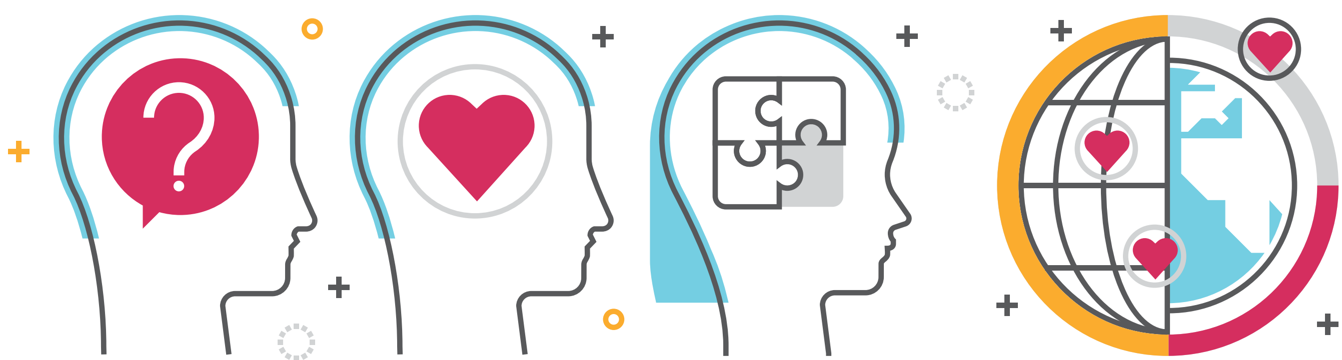
Atlantic Central and League Savings' United Way Campaign donations totalled nearly $26,000, up 4.66% over 2016

National and International Charitable Giving

Atlantic Central supported the Red Cross in their relief efforts for devastating natural disasters.

Hurricane Irma

BC Wildfires



Canadian Council for Refugees (CCR)
to support the rights and protection of refugees and other vulnerable migrants in Canada and around the world and the settlement of refugees and immigrants in Canada

Our Management Team

It’s been a tremendous year of collaboration with credit unions to advance key initiatives like Shared Services and Branch Transformation. This is a great model for us to make changes together and to ensure all who want to can benefit from those efforts.

Joe Malek,
VP Strategic Change

It’s difficult to put into words the pride I feel when I see how deeply committed our staff is to making a positive difference for our credit unions and their members.

Sharon Arnold,
Senior VP Finance & Chief Risk Officer

2017 was a great success! Our strategy to integrate the CSP into everything is exciting! Raising awareness of credit unions' honest approach to banking is making a real difference in the market place. Visit us at honestmoney.ca!

2017 proved how powerful collaboration can be – Aviso, shared services, and the national payments strategy – we can make big things happen when we work together.

We saw the months of planning and preparation on several projects deliver significant results in 2017 – this work can deliver enormous value to the Atlantic credit union system.

Paul Paruch,
VP Marketing & Business Solutions

Michael Leonard,
President & CEO

Kim Walker,
VP Treasury & Credit Services

Consolidated Financial Statements

December 31, 2017

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management has the responsibility of preparing the accompanying consolidated financial statements and ensuring that all information in the annual report is consistent with the consolidated financial statements. This responsibility includes selecting appropriate accounting principles and making objective judgments and estimates in accordance with International Financial Reporting Standards.

In discharging its responsibility for the integrity and fairness of the consolidated financial statements, Management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded and proper records maintained. The Board of Directors has appointed an Audit Committee to review the annual financial statements with Management and auditors before final approval by the Board.

Both the federal and provincial regulators of financial institutions may conduct examinations and make such enquiries into the affairs of Atlantic Central and its subsidiary as they deem necessary to ensure the safety of depositors and members of Atlantic Central and to ensure that Atlantic Central is in sound financial condition. Their findings are reported directly to Management.

PricewaterhouseCoopers LLP, the independent auditors, have examined the consolidated financial statements of Atlantic Central in accordance with Canadian generally accepted auditing standards and have expressed their opinion in the following report to members.

Michael Leonard
President and CEO

Sharon Arnold, CPA, CA
Senior Vice President, Finance and Chief Risk Officer

INDEPENDENT AUDITOR'S REPORT

To the members of Atlantic Central

We have audited the accompanying consolidated financial statements of Atlantic Central and its subsidiary, which comprise the consolidated balance sheet as at December 31, 2017, and the consolidated statements of income, comprehensive income, changes in members' equity, and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Atlantic Central and its subsidiary as at December 31, 2017, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Professional Accountants,
Licensed Public Accountants

February 21, 2018
Halifax, Canada

CONSOLIDATED BALANCE SHEET

December 31 (Cdn Dollars)

	2017	2016
Assets		
Cash and cash equivalents	$ 30,488,000	$ 31,048,388
Investments (note 6)	637,469,509	663,813,886
Loans and mortgages (note 7)	539,664,540	485,142,021
Accrued interest	4,765,176	4,439,224
Capital tax receivable	176,429	–
Fixed assets (note 9)	2,148,355	2,335,626
Deferred tax assets (note 14)	616,509	1,038,634
Securitization assets (note 8)	26,199,385	11,995,356
Other assets	5,749,112	4,035,224
	$ 1,247,277,015	$ 1,203,848,359
Liabilities		
Deposits (note 11)	$ 921,979,372	$ 950,931,609
Accrued interest	2,617,297	3,004,734
Accounts payable and accrued liabilities	14,033,122	10,446,524
Mortgage backed securities (note 8)	189,487,253	134,552,135
Capital tax payable	–	271,170
Income tax payable	373,483	255,346
Deferred tax liabilities (note 14)	1,440,632	–
	1,129,931,159	1,099,461,518
Members' equity		
Capital stock (note 10)	65,711,155	65,578,155
Contributed surplus	6,018,056	6,018,056
Special reserve (note 10)	5,609,101	4,952,504
Retained earnings	28,654,923	25,520,253
Accumulated other comprehensive income	11,352,621	2,317,873
	117,345,856	104,386,841
	$ 1,247,277,015	$ 1,203,848,359

Commitments and contractual obligations (note 13)

See accompanying notes to the consolidated financial statements

Approved:

Michael Leonard
President and CEO

On Behalf of the Board:

Pat Duffield
Chair

Marc LeClair
Director

CONSOLIDATED STATEMENT OF INCOME

Year Ended December 31 (Cdn Dollars)

	2017	2016
Financial income		
Interest on investments	$ 10,835,893	$ 10,354,159
Interest on loans and mortgages	17,740,167	16,980,979
	28,576,060	27,335,138
Financial expense	13,358,574	11,814,363
Gross financial margin	15,217,486	15,520,775
Provision for loan losses (recovery)	212,137	742,733
Net financial margin	15,005,349	14,778,042
Other financial income	137,664	299,429
Net financial income	15,143,013	15,077,471
Securitization gains	1,818,091	1,613,000
Non-interest income (note 20)	9,817,277	9,307,127
	26,778,381	25,997,598
Operating expenses		
Salaries and staff related	10,489,151	10,359,002
Office expense	2,384,518	2,424,657
Marketing and business development	1,116,973	1,106,073
Democracy	1,529,554	1,425,719
Professional fees	668,761	656,693
Other expenses	809,752	798,470
	16,998,709	16,770,614
Operating income	9,779,672	9,226,984
Special projects (note 23)	343,403	856,609
Distributions	1,700,000	2,312,215
Income before taxes	7,736,269	6,058,160
Capital tax (note 14)	679,198	575,670
Income taxes (note 14)	2,209,317	1,637,461
Net income	$ 4,847,754	$ 3,845,029

See accompanying notes
to the consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year Ended December 31 (Cdn Dollars)

	2017	2016
Net income	$ 4,847,754	$ 3,845,029
Other comprehensive income (OCI)		
Items that will be reclassified subsequently to income:		
Net change in unrealized gains (losses) on available for sale investments:		
Net unrealized gains (losses) on available for sale investments	10,117,597	(122,965)
Reclassification of net realized losses (gains) to net income	(32,500)	(287,689)
Income tax expense: (note 14)		
On unrealized losses (gains) on available for sale investments	(1,060,374)	21,648
On reclassification of net realized gains (losses) to net income	10,025	86,229
Other comprehensive income (loss)	9,034,748	(302,777)
Comprehensive income	$ 13,882,502	$ 3,542,252
Net income attributable to:		
Non-controlling interest – Preferred shareholders of subsidary	–	90,914
Shareholders	4,847,754	3,754,115
	$ 4,847,754	$ 3,845,029
Comprehensive income attributable to:		
Non-controlling interest – Preferred shareholders of subsidary	–	90,914
Shareholders	13,882,502	3,451,338
	$ 13,882,502	$ 3,542,252

See accompanying notes
to the consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

Year Ended December 31, 2017 (Cdn Dollars)	**Capital Stock (note 10)**	**Contributed Surplus**	**Special Reserve (note 10)**	**Retained Earnings**	**Accumulated Other Comprehen-sive Income**	**Total Members Equity**	**Non-controlling Interest**	**Total Equity**
Balance at beginning of year	$ 65,578,155	$ 6,018,056	$ 4,952,504	$ 25,520,253	$ 2,317,873	$ 104,386,841	$ –	$ 104,386,841
Net income	–	–	–	4,847,754	–	4,847,754	–	4,847,754
Other comprehensive income (loss) net of tax	–	–	–	–	9,034,748	9,034,748	–	9,034,748
Comprehensive income	–	–	–	4,847,754	9,034,748	13,882,502	–	13,882,502
Transfer to special reserve	–	–	1,000,000	(1,000,000)	–	–	–	–
Transfer from special reserve	–	–	(343,403)	343,403	–	–	–	–
Issued in equity rebalancing	586,890	–	–	–	–	586,890	–	586,890
Redeemed in equity rebalancing	(453,890)	–	–	–	–	(453,890)	–	(453,890)
Cash dividend paid on shares	–	–	–	(1,525,835)	–	(1,525,835)	–	(1,525,835)
Income tax recovery on cash dividend	–	–	–	469,348	–	469,348	–	469,348
Balance at end of year	$ 65,711,155	$ 6,018,056	$ 5,609,101	$ 28,654,923	$ 11,352,621	$ 117,345,856	$ –	$ 117,345,856

Year Ended December 31, 2016 (Cdn Dollars)	**Capital Stock (note 10)**	**Contributed Surplus**	**Special Reserve (note 10)**	**Retained Earnings**	**Accumulated Other Comprehen-sive Income**	**Total Members Equity**	**Non-controlling Interest**	**Total Equity**
Balance at beginning of year	$ 41,649,352	$ 6,018,056	$ 3,559,113	$ 23,973,949	$ 2,620,650	$ 77,821,120	$ 13,986,740	$ 91,807,860
Net income	–	–	–	3,754,115	–	3,754,115	90,914	3,845,029
Other comprehensive income (loss) net of tax	–	–	–	–	(302,777)	(302,777)	–	(302,777)
Comprehensive income	–	–	–	3,754,115	(302,777)	3,451,338	90,914	3,542,252
Transfer to special reserve	–	–	2,250,000	(2,250,000)	–	–	–	–
Transfer from special reserve	–	–	(856,609)	856,609	–	–	–	–
Issued	19,991,556	–	–	–	–	19,991,556		19,991,556
Redeemed	(42,043)	–	–	(5,000)	–	(47,043)	(13,986,740)	(14,033,783)
Issued in equity rebalancing	3,982,520	–	–	–	–	3,982,520	–	3,982,520
Redeemed in equity rebalancing, net of tax	(3,230)	–	–	–	–	(3,230)	–	(3,230)
Cash dividend paid on shares	–	–	–	(1,148,496)	–	(1,148,496)	(90,914)	(1,239,410)
Income tax recovery on cash dividend	–	–	–	339,076	–	339,076	–	339,076
Balance at end of year	$ 65,578,155	$ 6,018,056	$ 4,952,504	$ 25,520,253	$ 2,317,873	$ 104,386,841	$ –	$ 104,386,841

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31 (Cdn Dollars)

Increase (decrease) in cash and cash equivalents	2017	2016
Operating activities		
Net income	$ 4,847,754	$ 3,845,029
Adjustments:		
Loans and mortgages, net	(54,522,519)	(41,515,563)
Deposits, net	(28,952,237)	(44,706,102)
Mortgage backed securities, net	54,935,118	85,513,869
Depreciation	422,239	432,830
Interest receivable/payable, net	(713,389)	(947,415)
Income tax receivable/payable, net	118,137	341,418
Deferred tax assets/liabilities	1,862,757	(150,066)
Other items, net	(12,778,918)	(7,927,049)
	(34,781,058)	(5,113,049)
Financing activities		
Net proceeds from (redemptions) issuance of capital	133,000	9,973,063
Subordinated debentures	–	(6,381,000)
Dividends paid to minority interest	–	(90,914)
Dividends, net of income tax recovery	(1,056,487)	(809,420)
	(923,487)	2,655,729
Investing activities		
Investments, net	36,411,582	(2,918,345)
Fixed assets, net	(234,968)	(357,122)
	36,176,614	(3,275,467)
Net increase (decrease) in cash and cash equivalents	472,069	(5,732,787)
Cash and cash equivalents		
Beginning of year	31,109,141	36,841,928
End of year	$ 31,581,210	$ 31,109,141
Includes:		
Cash and balances with financial institutions	$ 30,488,000	$ 31,048,388
Cash included in investments	1,093,210	60,753
	$ 31,581,210	$ 31,109,141
Supplemental disclosure of cash flow information		
Interest received	$ 29,545,899	$ 28,097,250
Dividends received	178,061	177,656
Interest paid	14,532,753	13,385,815
Income taxes paid, net of refunds	1,598,220	1,003,510

See accompanying notes to the consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017

1. Reporting entity

Atlantic Central ("the Company" or "the Central") is incorporated in Nova Scotia under the *Credit Union Act*. Central has been regulated federally by the Office of the Superintendent of Financial Institutions (OSFI), and provincially by the Nova Scotia Office of the Superintendent of Credit Unions. OSFI supervision of the Central came to an end on January 15, 2017 (see Note 15).

On January 1, 2011, pursuant to a Definitive Combination Agreement dated June 30, 2010, Central purchased the assets and assumed the liabilities of Credit Union Central of New Brunswick and Credit Union Central of Prince Edward Island. With the proclamation of amended credit union legislation in each of Nova Scotia, New Brunswick and Prince Edward Island, the three Centrals completed a business combination to form Atlantic Central on that date.

Atlantic Central is the continuance of Credit Union Central of Nova Scotia and is owned by credit unions in the Atlantic Provinces. Its head office is located at 6074 Lady Hammond Road in Halifax, Nova Scotia, and the Central also operates out of offices in Riverview, New Brunswick and Charlottetown, Prince Edward Island. Central's key financial role is the management of the Atlantic credit union system's liquidity reserve requirements. Additionally, Central provides financial, trade association, and other support services to Atlantic credit unions, their members, and others.

The consolidated financial statements were authorized for issue by the Board of Directors on February 21, 2018.

2. Basis of presentation

The consolidated financial statements are presented in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The principal accounting policies applied in the preparation of the consolidated financial statements are set out in Note 3.

The consolidated financial statements include the accounts of the subsidiary, League Savings and Mortgage Company (League Savings). Subsidiaries are defined as entities controlled by the Company. Control is defined as the power to govern the financial and operating policies so as to obtain benefits from the entity's activities. Subsidiaries are consolidated from the date control is transferred, and consolidation ceases on the loss of control.

Significant inter-company transactions and account balances have been eliminated from the consolidated accounts. The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments as indicated in Note 3.

The Company presents its consolidated balance sheet on a non-classified basis. The following balances are generally classified as current: cash and cash equivalents, fixed income investments and loans and mortgages maturing within one year, assets held for sale, other assets, demand deposits, term deposits and mortgage backed securities maturing within one year, and accounts payable and accrued liabilities.

3. Summary of significant accounting policies

Financial instruments

Financial assets and liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as described below.

Financial assets must be classified as fair value through profit or loss (FVTPL), available for sale (AFS), held-to-maturity (HTM) or loans and receivables (L&R). Financial liabilities are required to be classified as FVTPL or other financial liabilities (OFL).

A financial asset is derecognized when the contractual rights to the cash flows from the asset have expired, or the Central transfers the contractual rights to receive the cash flows from the asset, or has assumed an obligation to pay those cash flows to a third party and Central has transferred substantially all of the risks and rewards of ownership of that asset to a third party. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Changes in fair values of financial assets and financial liabilities classified as FVTPL are reported in earnings, while the changes in value of AFS financial assets are reported within other comprehensive income (OCI) until the financial asset is disposed of, or becomes impaired.

Accumulated OCI is reported on the balance sheet as a separate component of Members' Equity. It includes, on a net of taxes basis, the net unrealized gains and losses on AFS financial assets. Central has classified its financial instruments as follows:

FVTPL	Interest rate swaps
AFS	Investments
L&R	Cash and cash equivalents, loans and mortgages, accrued interest and other assets
OFL	Borrowings, deposits, mortgage backed securities (MBS), accrued interest, accounts payable and accrued liabilities and subordinated debentures

All financial instruments, including all derivatives, are measured at fair value on the balance sheet with the exception of loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, and balances with financial institutions that are utilized primarily in the payments function. Certain cash accounts that are utilized in Central's investment activities are reported in investments.

Investments

Investments have been designated as available for sale. Investments are initially recorded at cost with premiums and discounts amortized to maturity. Investments are reported at market value with any unrealized gains or losses reported in OCI.

Investment income is recognized on an accrual basis. Realized gains and losses on the disposal of securities are included in investment income. All securities are held for investment purposes.

Loans and mortgages

Loans and mortgages have been designated as loans and receivables. Mortgages are secured by real estate. Co-operative loans are primarily credit union lines of credit which are secured by a general security agreement on the assets of the credit union.

Loans and mortgages are net of allowances established to recognize anticipated losses. The amount provided for anticipated loan losses is determined by reference to specific loans or mortgages in arrears and by the judgment of Management.

Loans and mortgages are assessed for impairment either individually, where appropriate, or collectively. A collective allowance has been established to provide for losses on loans and mortgages where past experience and existing economic and portfolio conditions indicate that losses have occurred, but where such losses cannot be specifically identified on an account-by-account basis.

Specific allowances are provided for individual loans that have experienced deterioration in credit quality such that there is no longer a reasonable assurance of the timely collection of the full amount of principal and interest, and where the current carrying value of the loan is greater than the present value of the future cash flows. The assessment of individual loans includes monthly reporting on delinquent accounts as well as an evaluation of other accounts where the possibility of loss exists, and includes an assessment of the security on the loan.

The collective allowance is determined based on Management's judgment considering business and economic conditions, portfolio composition, historical credit performance and other relevant factors. Pools of loans are assessed based on attributes specific to a defined group of borrowers, and considers other characteristics that directly affect the collectability of loans that are unique to the defined group of borrowers (such as inherent credit risk, industry, and geography). Each pool of loans is assigned a portfolio risk factor, which is used to determine a base amount required for the collective allowance. This base amount is adjusted to reflect the fluctuations in market conditions that most highly correlate with credit losses.

Assets received from borrowers in the event of borrower default are recorded as real estate held for resale (classified under loans and mortgages), and are recorded at the lower of the carrying value and the fair value less costs to sell. On the acquisition date any excess of the carrying value of the loan over the fair value of the assets received is recognized by a charge to the provision for loan losses. Any subsequent change in the fair value of real estate held for resale is recognized by a charge to lending services expenses.

The Company periodically sells or purchases mortgages, primarily to or from credit unions. In these transactions, the seller continues to administer the loans sold, but the contractual right to receive payments on the loans is offset by an obligation to transfer these payments to the purchaser.

The loans sold by the Company in these programs are derecognized, and the loans purchased are recognized, on the date of the transfer. Any gains or losses on these transactions are recorded in other financial income (lending services fees).

For most sales of mortgages to credit unions the advance of the mortgage to the borrower, and the sale of the mortgage to the credit union, occur at the same time. As the sale occurs at the current market rate there is no gain or loss on these sales.

Mortgage backed securities

The Company securitizes insured residential mortgages through the creation of mortgage backed securities (MBS) under the *National Housing Act* Mortgage-Backed Securities (NHA MBS) program sponsored by Canada Mortgage and Housing Corporation (CMHC). All loans securitized under the NHA MBS program are required to be insured by the Canadian Mortgage Housing Corporation or a third-party insurer. The NHA MBS Program utilizes a Central Payor and Transfer Agent (CPTA). The use of one designated CPTA for all Issuers makes greater Program efficiency possible in paying Investors, transferring NHA MBS and issuing new NHA MBS.

The MBS created under the program are sold to third-party investors, (Market MBS), or are sold to Canada Housing Trust (CHT), a CMHC sponsored structured entity, under the Canada Mortgage Bond (CMB) program.

In a Market MBS the CPTA registers the NHA MBS and issues NHA MBS Certificates to investors, and CMHC provides a guarantee of the timely payment of amounts due to the investors. The MBS are backed by the residential mortgages, and amortize in step with the mortgages underlying the security.

In the CMB program, the CHT aggregates NHA MBS from multiple issuers, financing the purchase of the NHA MBS through the issuance of securities to third-party investors. These CMB securities provide investors with semi-annual interest payments over the term of the bond, and the repayment of the principal balance on the specified maturity date. The timely payment of interest and principal to investors is guaranteed by CMHC.

The Company uses these securitization programs to diversify its funding sources.

With Market MBS, the Company typically continues to administer the loans securitized, and is entitled to the payments received on the mortgages. At the same time, the Company is obligated to make the payments due on the issued MBS, including the investment yield due to the investors in the security, regardless of whether the Company has collected the funds from the mortgagor.

The Company also purchases pools of mortgages to sell into the CMB program. These mortgage pools are typically administered by a third-party mortgage servicer, for a fee. For these pools, the Company is also entitled to the payments received on the mortgages and obligated to make the payments due on the issued MBS.

Unlike the Market MBS, the CMB securities do not amortize in step with the underlying mortgages. As a result, the CMB program requires the provision of replacement MBS securities to offset the declining balance of the underlying mortgages through principal payments. The CMB program also requires an interest rate swap agreement under which a Swap Counterparty pays the CHT the interest due to investors, and receives the interest on the NHA MBS securities. For a fee, the Company has contracted with a third-party financial institution to take on the requirements to provide the replacement NHA MBS securities, and to act as the Swap Counterparty.

Derecognition

In most cases, the sale of mortgages through the NHA MBS program does not meet the requirements for derecognition. Typically, the Company has not transferred substantially all the risks and rewards of ownership of the underlying mortgages, as the Company retains the prepayment, credit and interest rate risk associated with the mortgages. For sales of MBS that do not qualify for derecognition, the Company continues to recognize the underlying mortgages in assets as secured loans and the cash proceeds from the securitization are recognized as liabilities.

Securitization retained interests and servicing liabilities

In certain cases, the Company has purchased pools of mortgages for subsequent sale into the CMB program where the Company's exposure to risks and rewards from the securitized assets is quite limited. In these transactions, the Company retains the rights to the future excess interest spread and the liability associated with servicing the assets sold, with very little exposure to variable cash flows.

The Company accounts for its retained interests and servicing liabilities for these pools on the balance sheet, in securitization assets and other liabilities respectively. During the life of the securitization, as cash is received, the retained interest and the servicing liability are amortized and recognized in the statement of income under interest on loans and mortgages, and non-interest income (securitization expenses), respectively.

Gains on securitization
When these assets are derecognized, the gains or losses on the transactions are recorded in securitization gains and are dependent in part on the previous carrying amount of the financial assets involved in the transfer. The proceeds of the sale are allocated between the assets sold and the retained interests, based on their relative fair value at the date of transfer and net of transaction costs.

Fixed assets

Land is carried at cost. Buildings, equipment and improvements are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets. The useful life and residual value of fixed assets are reviewed at least annually. Depreciation rates are as follows:

Buildings and improvements	2–10%
Furniture and equipment	20–33%

Impairment

Investments are reviewed for impairment on at least an annual basis. Changes in the fair value of AFS investments are reported in other comprehensive income. If the investment is impaired, however, any cumulative losses previously recognized in OCI are reclassified from equity to net income.

Loans and mortgages are classified as impaired at the earlier of when, in the opinion of Management, there is reasonable doubt as to the collectability of principal or interest, or when interest or principal is contractually past due 90 days, unless the loan or mortgage is both well secured and in the process of collection. Interest on an impaired loan or mortgage continues to be recognized in earnings on an accrual basis and is provided for in the allowance for loan losses.

Non-financial assets are assessed for impairment at least annually and, where impairment exists, the carrying value is reduced to the recoverable amount and any adjustment is recognized in earnings.

Revenue and expense recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Central and the revenue can readily be measured. The principal sources of revenue are interest and fee income. Operating expenses are recognized upon the utilization of the services or at the date of their origin.

Interest on loans and mortgages is recognized and reported on an accrual basis using the effective interest method. Expenses incurred directly in the origination of loans and mortgages are deferred and recognized in the income statement as a reduction to income over the expected life of the relevant loans and mortgages. Fee, commission and other income is recognized on an accrual basis as it is earned.

The Company periodically sells mortgages. Gains or losses are recognized on transfers of mortgages to other parties when the Central has transferred the significant risks and rewards of ownership. Where the Central continues to service the mortgages, an administration fee is calculated on the outstanding balance of the mortgages. This fee is recognized as the services are provided and reported in lending services fees in non-interest income.

Translation of foreign currencies

Assets and liabilities that are denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Revenues and expenses denominated in foreign currencies are translated using the rate at the transaction date.

Foreign currency translation gains and losses are included in banking service fees.

Leases

A lease transfers the economic ownership of a leased asset if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is then recognized at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognized as a finance leasing liability.

All other leases are treated as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit or loss.

Recognition of deferred tax assets for unused tax (losses), tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available which allow the deferred tax asset to be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date and are expected to apply when the liabilities / (assets) are settled / (recovered).

Deposits

Deposits are measured at fair value on recognition net of transaction costs directly attributable to issuance. Subsequent measurement is at amortized cost using the effective interest method.

Employee benefits

Short-term employee benefits include salaries and wages, compensated absences, medical and dental plans, and variable compensation. Central also contributes on behalf of employees to a Group Savings for Retirement Program and to life and long-term disability insurance plans. Under these defined contribution programs the Central pays fixed contributions to an independent entity and has no legal or constructive obligation to pay further contributions. Defined contribution program costs of $545,122 (2016 – $529,275) are expensed as the related service is provided.

Special projects

Expenses that are not expected to recur in normal operations, including certain expenses relating to credit union system initiatives, are charged to special projects.

Critical accounting estimates and assumptions

In preparing Central's financial statements, Management is required to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ materially from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recorded in the period in which the estimate reversed if the revision affects only that period or in the period of revision and in future periods if the revision affects both the current and future periods.

The judgments and estimates that have the most significant effect on the amounts recognized in the financial statements are decisions with respect to the fair value of financial instruments, the allowance for loan losses, the derecognition of loans and mortgages, and income taxes.

Fair value of financial instruments
The determination of the fair value of financial instruments requires the exercise of judgment by Management. The fair value of financial instruments traded in active markets at the balance sheet date is based on their quoted market prices. Where independent quoted market prices do not exist, fair value may be based on other observable current market transactions or based on a valuation technique which maximizes the use of observable market inputs.

For certain types of equity instruments, where no active market exists or where quoted prices are not otherwise available, fair value is determined by using valuation techniques. Management has reviewed the attributes of these investments and has determined that in most cases the fair value was equal to the redemption value of the investment, as there is no ability to otherwise sell the investment, and that the redemption value approximated historical cost. In some cases, where no active market exists and there is no stated redemption value, the investment is reported at cost. In limited cases, where information exists to conclude that a valuation other than historical cost or redemption price is appropriate, management utilizes various valuation methodologies – including market and income based approaches – to determine fair value.

Allowance for credit losses
Judgments about the impairment of loans and mortgages, and the related allowances for credit losses, are based on Management's best estimate of the present value of the cash flows that are expected to be received. This includes estimates about the borrower's financial situation and the net realizable value of any underlying collateral. Collectively assessed allowances cover credit losses in portfolios of loans and mortgages having similar credit characteristics, and include judgments regarding factors such as portfolio credit quality, concentrations of credit, and economic factors. In order to estimate collective allowances, assumptions are made in determining modelling parameters based on historical experience and current economic conditions.

Derecognition of loans and mortgages
In determining whether to derecognize loans and mortgages, judgment is applied in determining whether the Company has transferred substantially all of the risks and rewards of ownership in transferring the assets to another entity.

Income taxes
The determination of deferred tax assets or liabilities requires judgment as the recognition is dependent on projections of future taxable profits and tax rates that are expected to be in effect in the period the asset is realized or the liability is settled.

4. Changes in accounting standards

The IASB continues to make changes to IFRS to improve the overall quality of financial reporting. The Company monitors IASB developments that are relevant to the Company's financial reporting and accounting policies.

Changes in accounting policies during the year

There were no new or amended standards effective in 2017 that had a material impact on the financial statements.

Future Changes in accounting policies

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2017 and have not yet been adopted by the Company in preparing these financial statements.

IFRS 9 – Financial Instruments
In July 2014, the IASB issued the final version of *IFRS 9 – Financial Instruments*, first issued in November 2009, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace *IAS 39*.

IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. All financial assets are measured at FVTPL unless certain conditions are met which permit measurement at amortized cost or fair value through OCI. The classification and measurement of liabilities remain generally unchanged.

IFRS 9 also introduces a new expected loss impairment model for all financial assets not at FVTPL, which results in credit losses being recognized regardless of whether a loss event has occurred. This expected credit loss (ECL) model replaces the current "incurred loss" model of IAS 39.

The ECL model requires an entity to recognise expected credit losses at all times and to update the amount of expected credit losses recognised at each reporting date to reflect changes in the credit risk of financial instruments. The ECL model has three stages:

- Stage 1 – on initial recognition, 12-month expected credit losses are recognized in profit or loss and a loss allowance is established;
- Stage 2 – if credit risk increases significantly and the resulting credit quality is not considered to be low credit risk, full lifetime expected credit losses are recognized; and
- Stage 3 – when the credit risk of a financial asset increases to the point it is considered credit-impaired, interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount. Lifetime expected credit losses are still recognized on these financial assets.

Finally, IFRS 9 introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with an entity's risk management activities.

IFRS 9 is effective January 1, 2018.

In general, IFRS 9 is to be applied retrospectively. As permitted by IFRS 9, the Company will not restate the comparative period financial statements. The retrospective impact of applying IFRS 9 will be accounted for through adjustments to the opening balances of retained earnings and accumulated other comprehensive income as at January 1, 2018.

To manage our transition to IFRS 9, we have implemented a comprehensive enterprise-wide program led jointly by Finance and Risk Management that focuses on key areas of impact, including financial reporting, data, systems and processes, as well as communications and training. The Company has completed its diagnostic assessment of the population of financial instruments impacted by the classification and measurement requirements of IFRS 9 and is developing an impairment methodology to support the calculation of the expected credit loss allowance. Specifically, in 2017 the Company began developing its approach for assessing significant increases in credit risk, and incorporating forward looking information – including macroeconomic factors – in the impairment model.

As the Company will continue to refine and monitor certain aspects of the impairment model in 2018, it is not possible at this stage to reliably quantify the potential financial impact to the Company from the adoption of IFRS 9.

IFRS 15 – Revenue from Contracts with Customers, which is also effective January 1, 2018, provides a recognition and measurement approach that replaces the previous revenue standard (IAS 18 – Revenues), and the related interpretations on revenue recognition. The new standard is a control-based model that focuses on risk and rewards. Under the new standard, revenue is recognized when a customer obtains control of a good or service. The new model applies to all contracts with customers except those that are within the scope of other IFRS standards such as leases, insurance contracts and financial instruments.

In 2016, the IASB issued additional amendments to IFRS 15. These amendments provide additional clarification on the identification of a performance obligation in a contract, determining the principal and agent in an agreement, and determining whether licensing revenues should be recognized at a point in time or over a specific period. The amendments also provide additional practical expedients upon transition to IFRS 15.

As it does not impact revenues associated with financial instruments, we do not currently expect a material impact to our consolidated financial statements as a result of adopting this standard.

IFRS 16 – Leases, which is effective January 1, 2019, sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognise:

- Assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- Depreciation of lease assets separately from interest on lease liabilities in the income statement.

For lessees, the new standard will result in on-balance sheet recognition for many leases that are considered operating leases under IAS 17, which will result in the gross-up of the balance sheet through the recognition of a right-of-use asset and a liability for the lease component of the future payments. Depreciation expense on the right-of-use asset and interest expense on the lease liability will replace the operating lease expense. The accounting for leases by lessors remains mostly unchanged from IAS 17. The impact of implementing this standard has not yet been determined.

5. Risk management

Central has an enterprise-wide approach to the identification, measurement, monitoring and management of risks faced across the organization. Central manages significant risks efficiently and effectively through an Enterprise Risk Management Framework (ERM) which includes a comprehensive infrastructure of policies, procedures, methods, oversight and independent review, designed to reduce the significant risks and to manage those risks within appropriate tolerances for the Company.

Authority for all risk-taking activities rests with the Board of Directors (Board), which approves the Central's Risk Appetite Statement and risk management policies, delegates limits and regularly reviews Management's risk assessments and compliance with approved policies. Qualified professionals throughout the Central manage these risks through comprehensive and integrated control processes and models, including regular review and assessment of risk measurement and reporting processes.

The various processes within Central's risk management framework are designed to ensure that risks in the various business activities are properly identified, measured, stress tested, assessed and controlled. Internal Audit reports independently to the Audit, Risk and Conduct Review Committees of the Board on the effectiveness of the risk management policies and the extent to which internal controls are in place and operating effectively.

Stress testing is a risk measurement technique that examines the potential effects on Central's financial condition resulting from adverse economic, liquidity, credit, and/or financial market conditions. Central's risk management processes include stress testing scenarios including exceptional but plausible adverse events that can impact the Central's financial results and capital requirements, the results of which are used to enhance our understanding of our risk profile, and to support our strategic decision making. Stress testing results are also explicitly incorporated into the Company's Internal Capital Adequacy Assessment Process (ICAAP) and Capital Plan.

The Chief Risk Officer is responsible for the oversight of risk management across the organization and reports quarterly to the Risk Committee and the Board. The Management Finance Committee (MFC) is responsible for the review and evaluation of the financial risks and performance of the Company, including the management of:

- Credit risk
- Liquidity
- Interest rate risk
- Foreign exchange
- Investment portfolio
- Derivatives
- Large exposures
- Capital

The MFC reviews financial risk management policies, recommends changes to policies and procedures as appropriate, and monitors compliance with financial policies.

The Asset Liability Management Committee (ALCO) has been established to ensure the effective and prudent management of Central's financial assets and liabilities. ALCO will achieve this by developing and implementing financial strategies and related processes consistent with the short and long term goals set by the Board.

Central's principal business activities result in a balance sheet that consists primarily of financial instruments. The key risks related to our financial instruments are credit, liquidity and market risk.

Credit risk

Credit risk is the potential for loss due to the failure of a borrower, counterparty, endorser or guarantor to fulfill its payment obligation to the Company. Credit risk arises in Central's direct lending operations and in its funding and investing activities where counterparties have repayment or other obligations to Central. Central has established policies and procedures for credit risk management, including individual counterparty limits and portfolio category limits relating to investment activities.

Management of credit risk requires prudent and conservative underwriting criteria administered by well-trained and experienced personnel. Credit risk management practices also include consistent and timely collection procedures, conservative analysis of property appraisals, and a realistic loan allowance process to provide a regular evaluation of the loan portfolio. Credit policies are reviewed and approved annually by the Board. Management regularly reviews its credit procedures to ensure they provide extensive, up-to-date guidance for the underwriting and administration of all types of loans.

All loans are risk rated at the time of approval, and may be subject to subsequent risk assessment based on factors such as loan type, amount, original risk rating and payment history. Loans with higher risk require more intensive analysis and higher levels of approval. The Credit Committee of the Board reviews all loans above the lending limits of Management.

Central maintains both specific and collective allowances for credit losses. Specific allowances are established based on Management's knowledge of the property and prevailing conditions. Collective allowances are maintained to cover any impairment in the loan portfolio that cannot yet be associated with specific loans. The collective allowance is determined based on Central's risk weighted portfolio and other factors including an assessment of market risk.

The subsidiary utilizes OSFI's Standardized approach for credit risk (Note 15), which includes OSFI-prescribed risk-weights based on factors including counterparty type, product type, collateral, and external credit assessments.

Management regularly monitors Central's credit risk and reports to the Board on a quarterly basis.

Liquidity risk

Liquidity refers to the capacity to generate or obtain sufficient cash or its equivalent in a timely manner at a reasonable price to meet the Central's commitments as they fall due and to fund new business opportunities. Liquidity risk is the potential for losses to be incurred from holding insufficient liquidity to survive a contingent stress event.

Central's primary role is to manage liquidity for the credit union systems in Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland and Labrador. In its role as a credit union service partner, League Savings' primary financial role is to accept deposits from credit unions, their members, and others, and to employ those funds to advance loans and mortgages to credit union members and others.

Central has established policies to ensure that it is able to generate sufficient funds to meet all of its financial commitments in a timely and cost-effective manner. In addition, a liquidity plan is prepared which forecasts the amount of liquidity required and the sources that will be used to fund those requirements. These policies and plans are annually reviewed and approved by the Board.

Central's liquidity management practices include:

- Ensuring the quality of investments acquired for liquidity purposes meet very high standards
- Matching the maturities of assets and liabilities
- Diversifying funding sources
- Establishing and maintaining minimum liquidity reserves
- Monitoring actual cash flows on a daily basis
- Forecasting future cash flow requirements
- Utilizing lines of credit to fund temporary needs and selling or securitizing mortgage pools to meet longer term requirements
- Performing scenario testing and contingency planning

While operating under similar liquidity management frameworks, certain liquidity management practices of the Central and the subsidiary, League Savings, differ due to the specific nature of each organization. While the Central's primary financial role is to manage the liquidity requirements of the Atlantic credit union system, League Savings acts primarily in the mortgage lending and deposit taking industry. In particular, the potential liquidity stresses that are modelled in scenario testing are different.

As the credit unions' system liquidity provider, Central's cash flows are impacted by the liquidity requirements of the individual Atlantic credit unions. As a result, Central's liquidity stress testing assesses the impact of increases in the drawdowns of credit union lines of credit, and decreases in credit union excess liquidity deposits (deposits above the levels that credit unions are required to maintain with the Central).

League Savings' cash flows are most significantly impacted by its credit union corporate deposits. As such, its scenario testing focuses on increases in the redemptions of these deposits.

The matching of the maturities of assets and liabilities are detailed in Note 12.

Management monitors Central's liquidity position daily and reports to the Board on a quarterly basis.

Market risk

Market risk is the risk of loss that results from changes in interest rates, foreign exchange rates, equity prices and commodity prices. Market risk exposures are managed through policies, standards and limits established by the Board, which are formally reviewed and approved annually. This includes limits on the mismatch of foreign currency assets and liabilities, and limits on the amount of equity investments permitted in the securities portfolio. The Company has no exposure to commodity prices.

Central uses a variety of techniques to identify, measure and control market risk. Derivatives may be used only to offset clearly identified risks. Central has developed standards regarding the use of derivative products.

Interest rate risk is the risk that a movement in interest rates will have on the financial condition of the Company. Central's interest rate risk policies include limits on the allowable variation in forecasted financial margin due to interest rate changes. Central manages and controls interest rate risk primarily by managing asset/liability maturities; however, off-balance sheet techniques such as interest rate risk contracts may be used to hedge against specific interest rate exposures.

Central measures interest rate risk through a combination of gap and income simulation analysis on a quarterly basis. Gap analysis measures the difference between the amount of assets and liabilities repricing in specific time periods. Income simulation models are used to measure interest rate exposure under various assumptions about interest rates, products, volumes and pricing. Sensitivity analysis of an interest rate increase and decrease of 100 basis points is disclosed in the table below.

Earnings at risk over the next 12 months as at December 31:

	2017	2016
100 basis point increase	$ (864,600)	$ (517,230)
100 basis point decrease	1,051,100	(116,840)

Management provides quarterly reports to the Board on interest rate risk. The Board has established limits on Central's maximum exposure to interest rate risk, and Central's earnings at risk were within this limit.

6. Investments

	2017 Cost	**2017 Market Value**	2016 Cost	2016 Market Value
Banks (a)	$ 344,139,447	$ 342,710,313	$ 300,041,315	$ 300,238,682
Government debt	76,014,755	75,897,376	57,574,331	58,881,995
Corporate debt	3,399,191	3,414,323	12,892,970	13,027,265
Co-operative deposits	195,078,535	195,069,903	284,811,682	284,819,488
Co-operative equities (b)	5,280,167	18,447,634	5,021,272	5,047,056
Corporate equities	112,461	1,929,960	112,461	1,799,400
	$ 624,024,556	$ 637,469,509	$ 660,454,031	$ 663,813,886

a) Includes cash and cash equivalents utilized in the investments function
b) See Note 12 d) for details on a market value adjustment on investments in Credential Financial Inc. and Northwest & Ethical Investments LP.

7. Loans and mortgages

	Total Loans	Impaired Loans	Total Allowance	Specific Allowance (included in total allowance)	Net Loans
2017					
Insured residential mortgages	$ 390,959,682	$ 18,548	$ 250,701	$ 18,548	$ 390,708,981
Uninsured residential mortgages	96,673,846	–	525,492	–	96,148,354
Loans and non-residential mortgages	149,254,553	759,108	1,326,435	180,102	147,928,118
Co-operatives	11,452,431	–	–	–	11,452,431
Real estate held for sale	845,486	–	–	–	845,486
	649,185,998	777,656	2,102,628	198,650	647,083,370
Less: under administration					
Residential insured	96,945,183	–	–	–	96,945,183
Residential uninsured	10,473,647	–	–	–	10,473,647
	107,418,830	–	–	–	107,418,830
	$ 541,767,168	$ 777,656	$ 2,102,628	$ 198,650	$ 539,664,540

	Total Loans	Impaired Loans	Total Allowance	Specific Allowance (included in total allowance)	Net Loans
2016					
Insured residential mortgages	$ 376,208,944	$ 18,848	$ 268,025	$ 18,848	$ 375,940,919
Uninsured residential mortgages	95,745,308	101,600	506,393	–	95,238,915
Loans and non-residential mortgages	116,196,685	287,153	1,118,095	137,153	115,078,590
Co-operatives	6,146,189	–	–	–	6,146,189
Real estate held for sale	999,822	–	–	–	999,822
	595,296,948	407,601	1,892,513	156,001	593,404,435
Less: under administration					
Residential insured	97,395,982	–	–	–	97,395,982
Residential uninsured	10,866,432	–	–	–	10,866,432
	108,262,414	–	–	–	108,262,414
	$ 487,034,534	$ 407,601	$ 1,892,513	$ 156,001	$ 485,142,021

	2017	2016
Continuity of allowance for loan losses		
Allowance, beginning of year	$ 1,892,513	$ 1,447,309
Write-offs	(8,043)	–
Loan loss provisions (recoveries)	218,158	445,204
Allowance, end of year	$ 2,102,628	$ 1,892,513

The following is an analysis of loans that may become impaired based on the age of repayments outstanding:

	2017	2016
31 to 60 days	$ 1,796,358	$ 964,375
61 to 90 days	2,748	59,088
91 to 180 days	160,087	146,516
Over 180 days	277,482	51,695
	$ 2,236,675	$ 1,221,674

8. Mortgage backed securities

Balances relating to mortgage backed securities under the NHA MBS program are as follows:

a) Transferred assets that do not qualify for derecognition

	2017			2016		
	Market MBS	**CMB**	**Total**	Market MBS	CMB	Total
Carrying value of NHA MBS assets	$ 116,361,097	73,512,156	189,873,254	$ 69,879,039	64,980,386	134,859,425
Carrying value of associated liabilities	116,312,062	73,175,191	189,487,253	69,872,397	64,679,738	134,552,135

b) Transferred assets that have been derecognized

In addition to the mortgage backed securities above, certain mortgages were sold into the CMB program and derecognized. Balances relating to these transferred assets are as follows:

	2017	2016
Mortgages sold	$ 424,327,029	$ 273,969,605
Gains on sales	1,818,091	1,613,000
Related balances at December 31:		
Retained interests	26,199,385	11,995,356
Servicing liabilities	5,853,529	1,880,462

9. Fixed assets

	Land	Buildings and improvements	Furniture and equipment	Total
2017				
Gross carrying amount				
Balance at January 1	$ 351,522	$ 5,525,338	$ 6,506,447	$ 12,383,307
Additions	–	96,568	138,400	234,968
Disposals	–	–	(8,519)	(8,519)
Balance at December 31	351,522	5,621,906	6,636,328	12,609,756
Accumulated depreciation				
Balance at January 1	$ –	$ (3,849,043)	$ (6,198,638)	$ (10,047,681)
Disposals	–	–	8,519	8,519
Depreciation	–	(273,689)	(148,550)	(422,239)
Balance at December 31	–	(4,122,732)	(6,338,669)	(10,461,401)
Carrying amount December 31	$ 351,522	$ 1,499,174	$ 297,659	$ 2,148,355

	Land	Buildings and improvements	Furniture and equipment	Total
2016				
Gross carrying amount				
Balance at January 1	$ 351,522	$ 5,352,045	$ 6,357,531	$ 12,061,098
Additions	–	173,293	204,041	377,334
Disposals	–	–	(55,125)	(55,125)
Balance at December 31	351,522	5,525,338	6,506,447	12,383,307
Accumulated depreciation				
Balance at January 1	$ –	$ (3,575,382)	$ (6,074,382)	$ (9,649,764)
Disposals	–	–	34,913	34,913
Depreciation	–	(273,661)	(159,169)	(432,830)
Balance at December 31	–	(3,849,043)	(6,198,638)	(10,047,681)
Carrying amount December 31	$ 351,522	$ 1,676,295	$ 307,809	$ 2,335,626

10. Capital stock

Authorized capital stock, and the amounts outstanding, is as follows:

				Outstanding			
				2017		2016	
	Par Value	**Redemption Price**	**Authorized**	**Shares**	**Amount**	Shares	Amount
Opening balance				4,561,350	$ 45,613,500	4,164,923	$ 41,649,230
Issued				58,689	586,890	398,252	3,982,520
Redeemed				(45,389)	(453,890)	(1,825)	(18,250)
Common shares	None	None	Unlimited	4,574,650	$ 45,746,500	4,561,350	$ 45,613,500
Opening balance				31,991	$ 32	31,991	$ 32
Issued				–	–	–	–
Redeemed				–	–	–	–
Preferred Shares – Class B	$ 0.001	$ 100	10,000,000	31,991	$ 32	31,991	$ 32
Opening balance				19,964,533	$ 19,964,533	–	$ –
Issued				–	–	19,991,556	19,991,556
Redeemed				–	–	(27,023)	(27,023)
Preferred Shares – Class LSM	$ 1.000	$ 1	10,000,000	19,964,533	19,964,533	19,964,533	19,964,533
Opening balance				26,700	$ 27	26,700	$ 27
Issued				–	–	–	–
Redeemed				–	–	–	–
Preferred Shares – Class NB	$ 0.001	$ 100	10,000,000	26,700	27	26,700	$ 27
Opening balance				4,100	$ 4	4,100	$ 4
Issued				–	–	–	–
Redeemed				–	–	–	–
Preferred Shares – Class NL	$ 0.001	$ 100	10,000,000	4,100	4	4,100	$ 4
Opening balance				59,240	$ 59	59,290	$ 59
Issued				–	–	–	–
Redeemed				–	–	(50)	–
Preferred Shares – Class NS	$ 0.001	$ 100	10,000,000	59,240	59	59,240	$ 59
Opening balance				100	$ –	100	$ –
Issued				–	–	–	–
Redeemed				–	–	–	–
Preferred Shares – Class PEI	$ 0.001	$ 100	10,000,000	100	–	100	–
				24,661,314	$ 65,711,155	24,648,014	$ 65,578,155

Shares are owned by member credit unions, who must maintain Common Shares in amounts proportionate to that member's pro-rata share of system assets. Common Share ownership requirements are determined by the Board. All classes of shares are non-voting. Members hold votes proportionate to their pro-rata share of system assets.

All of the Class B, Class NB, Class NL, Class NS and Class PEI shares were issued as part of the business combination described in Note 1. Central may at any time, upon providing 30 days notice, and subject to any limitations set by applicable legislation or the Office of the Superintendent of Financial Institutions, redeem these shares for the redemption price.

Other than the redemption of shares that would result from the wind-up of a credit union, Central has no plans to redeem any of the remaining Class B, Class NB, Class NL, Class NS or Class PEI shares at this time. The redemption value of the remaining shares is $12,213,100 (2016 – $12,218,100).

Common shareholders have the right to receive any dividends that may be declared out of the ordinary income of the Company. Holders of the Class B, Class NB, Class NL, Class NS and Class PEI shares have the right to receive any dividends that may be declared out of the extraordinary income of the Central on that respective class of shares. Ordinary income refers to income earned in the ordinary course of business after January 1, 2011. Extraordinary income refers to income which does not typically result from normal business activities.

In December 2017, Central transferred $1,000,000 (2016 – $2,250,000) in Retained Earnings to a Special Reserve to be used to fund future Atlantic credit union initiatives. Spending out of the Special Reserve is reported in the Statement of Income in Special Projects (see Note 23).

In 2015 the Company developed a capital restructure plan which would result in the redemption of both subordinated debentures and Class A preferred shares of the Subsidiary. Credit unions would reinvest the proceeds of redemption in a new class of preferred shares of the Central. The Central would, in turn, invest in additional common shares of the Subsidiary. The successful completion of the plan would result in an increase in the Subsidiary's Common Equity Tier 1 – the strongest form of regulatory capital.

The By-law changes required to complete the restructure plan were approved by the shareholders of both Atlantic Central and League Savings in September 2015. In January 2016 OSFI provided its approval for the redemption of the subordinate debentures and the Class A preferred shares by League Savings.

The restructure plan was completed in 2016, with all of the credit unions providing subscription agreements for the investment in the new class of preferred shares of the Central.

11. Deposits

	2017	2016
Current accounts	$ 42,463,479	$ 47,546,842
Cash management	138,779,569	150,744,833
Segregated liquidity	332,608,649	313,436,947
Registered	8,258,979	7,808,988
Other demand	8,992,824	9,005,963
Total demand deposits	531,103,500	528,543,573
Registered	138,019,887	147,190,528
Other term	252,855,985	275,197,508
Total term deposits	390,875,872	422,388,036
	$ 921,979,372	$ 950,931,609

12. Financial instruments

a) Interest rate risk

Central earns and pays interest on certain assets and liabilities. To the extent that the assets, liabilities and financial instruments mature or reprice at different points in time, Central is exposed to interest rate risk. The table below summarizes carrying amounts of balance sheet items by the earlier of the contractual repricing or maturity dates. Non-Interest Sensitive items are those that have no maturity date and do not pay or receive interest.

An estimate of prepayments has been determined by Management and includes the estimated principal portion of regular mortgage payments and full payouts of mortgage loans during their term based upon historical trends for these types of payments.

(Reported in $000's)	Within 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Non-Interest Sensitive	Total	Average Rate
2017							%
Assets							
Cash and investments	$ 241,713	$ 112,397	$ 264,378	$ 5,612	$ 43,858	$ 667,958	1.79
Loans and mortgages	43,514	107,551	381,012	10,000	(2,412)	539,665	3.55
Other assets	–	–	–	–	39,654	39,654	
	$ 285,227	$ 219,948	$ 645,390	$ 15,612	$ 81,100	$ 1,247,277	
Liabilities and equity							
Deposits	$ 346,674	$ 392,559	$ 155,744	–	$ 27,002	$ 921,979	1.33
Other liabilities	–	–	–	–	18,465	18,465	
Mortgage backed securities	1,014	24,404	164,069	–	–	189,487	1.60
Equity	–	–	–	–	117,346	117,346	
	$ 347,688	$ 416,963	$ 319,813	–	$ 162,813	$ 1,247,277	
Subtotal	$ (62,461)	$ (197,015)	$ 325,577	$ 15,612	$ (81,713)	–	
Derivatives	5,000	–	(5,000)	–	–	–	
Prepayment estimate	14,663	43,989	(57,152)	(1,500)	–	–	
Excess (deficiency)	$ (42,798)	$ (153,026)	$ 263,425	$ 14,112	$ (81,713)	–	

(Reported in $000's)	Within 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Non-Interest Sensitive	Total	Average Rate
2016							%
Assets							
Cash and investments	$ 331,476	$ 82,479	$ 239,962	$ 6,557	$ 34,388	$ 694,862	1.43
Loans and mortgages	31,101	74,899	381,254	–	(2,112)	485,142	3.51
Other assets	–	–	–	–	23,844	23,844	
	$ 362,577	$ 157,378	$ 621,216	$ 6,557	$ 56,120	$ 1,203,848	
Liabilities and equity							
Deposits	$ 353,627	$ 405,335	$ 159,810	–	$ 32,160	$ 950,932	1.08
Other liabilities	–	–	–	–	13,977	13,977	
Mortgage backed securities	95	1,426	132,724	–	307	134,552	1.44
Equity	–	–	–	–	104,387	104,387	
	$ 353,722	$ 406,761	$ 292,534	–	$ 150,831	$ 1,203,848	
Subtotal	$ 8,855	$ (249,383)	$ 328,682	$ 6,557	$ (94,711)	–	
Derivatives	25,000	(25,000)	–	–	–	–	
Prepayment estimate	14,297	42,891	(57,188)	–	–	–	
Excess (deficiency)	$ 48,152	$ (231,492)	$ 271,494	$ 6,557	$ (94,711)	–	

b) Interest rate swap agreements

Central may enter into interest rate swap agreements as a component of its overall risk management strategy. These agreements are contractual arrangements between two parties to exchange a series of cash flows. In an interest rate swap agreement, counterparties generally exchange fixed and floating rate interest payments based on a notional value. Typically, the floating rate is reset periodically, and the net interest amount is exchanged between the counterparties at scheduled dates. The primary risks associated with these contracts are the exposure to movements in interest rates and the ability of the counterparties to meet the terms of the contract. Interest rate swap agreements are used to manage interest rate risk by modifying the repricing or maturities of assets and liabilities. Interest rate swap agreements are considered financial derivatives and are recorded at fair value.

Interest rate swap contracts outstanding at December 31 are as follows:

2017

	Notional Value	Rate	Market Value
Pay fixed swaps: Term to maturity			
Within 1 year	–	–	–
1 year to 5 years	$ 5,000,000	1.98%	11,378
	$ 5,000,000		$ 11,378

2016

	Notional Value	Rate	Market Value
Pay fixed swaps: Term to maturity			
Within 1 year	$ 25,000,000	1.10%	(62,024)
1 year to 5 years	–	–	–
	$ 25,000,000		$ (62,024)

Rates represent the weighted average interest rates Central is contractually committed to pay/receive until the swap matures. The floating side of all swaps are based on the three-month Canadian Dealer Offered Rate (CDOR). Market value represents the mark to market value of outstanding contracts – generally, the net amount that would be payable or receivable on the reporting date based on the floating rate at current market rates. There were no "receive fixed" swaps outstanding at December 31, 2017.

Income and expenses on interest rate swap agreements are recognized over the life of the contract as an adjustment to interest expense. Accrued expenses are recorded in accrued interest payable. Mark to market gains (losses) on swaps are recorded in other assets (other liabilities), while the change in market value is recorded in Financial Expense.

c) Index linked deposits

Central offers index linked term deposits, which are non-redeemable three- and five-year term deposits that pay, on maturity, a return to the depositor linked to the performance of a market index. The interest paid to the depositor at maturity is based on the growth in the index over the term of the deposits.

To offset the risk of this variable interest rate, Central enters into agreements, whereby Central pays a fixed rate of interest for the term of each index linked deposit based on the face value of the deposits sold. At the end of the term, Central receives an amount equal to the amount that will be paid to the depositors. At December 31, 2017, the balance of outstanding index linked deposits was $2,370,472 (2016 – $2,647,903)

d) Fair value

The following table presents the fair value of on- and off-balance sheet financial instruments of Central based on the valuation methods and assumptions set out below. Fair value represents the amount at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date under current market conditions, and is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

Fair value is best evidenced by a quoted market price, if one exists. Quoted market prices are not available for a significant portion of Central's financial instruments.

The fair values disclosed exclude the values of assets and liabilities that are not considered financial instruments such as land, buildings and equipment. In addition, items such as the value of intangible assets such as customer relationships which, in Management's opinion add significant value to Central, are not included in the disclosures below.

A three-tier hierarchy is used as a framework for disclosing fair values based on inputs used to value the Central's financial instruments recorded at fair value. Valuation methods used in this framework are categorized under the following fair value hierarchy:

- Level 1 – Quoted prices for active markets for identical financial instruments that the entity can access at the measurement date.
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar financial instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs are not based on observable market data.

The carrying value of cash and cash equivalents approximate their fair value as they are short term in nature or are receivable on demand. For investments, corporate equities are valued using quoted market prices (Level 1); banks, government and corporate debt and co-operative deposit investments are valued using market prices provided by third-party brokers (Level 2); and co-operative equities that don't have a quoted price in an active market, and whose fair value cannot be reliably measured, are carried at cost. There have been no transfers between Level 1 and 2 during the year.

Included in co-operative equities are investments in Credential Financial Inc. (CFI) and Northwest & Ethical Investments LP (NEI). In December 2017, the credit union system announced the merger of CFI (owned jointly by credit union centrals and CUMIS), NEI (owned jointly by credit union centrals and Desjardins) and Qtrade (owned by Desjardins) to form a new co-operative wealth management entity called Aviso Wealth.

With this proposed transaction the merger is expected to close in the first quarter of 2018, subject to regulatory approval and certain closing conditions. As a result of the work leading to this merger the Company determined that the fair value of CFI and NEI could be reliably measured, and accordingly recorded the investments at fair value, with the gain recognized in other comprehensive income.

The fair value measurements were based on Level 3 measurements within the fair value hierarchy. The valuations were based on financial information provided by CFI and NEI, including unaudited balance sheets and assets under management as at June 30, 2017, unaudited financial performance for the twelve month period ended June 30, 2017, and financial forecasts for the calendar years 2017 to 2020.

The valuations utilized a market based approach, using observed trading multiples for various comparable companies and recent precedent transaction data, and an income based approach based on cash flow projections. The valuations performed represent a significant increase in the previously recorded market values:

	Market Value	
	December 31, 2017	December 31, 2016
Investment		
Credential Financial Inc.	$ 7,819,200	$ 330,736
Northwest & Ethical Investments LP	5,659,200	0.245
	13,478,400	$ 330,736

For variable rate loans and deposits the carrying value is also considered to be a reasonable estimate of fair value. For fixed rate loans and mortgages, deposits, and mortgage backed securities, the fair value is calculated using a discounted cash flow model, based on current interest rates and the term to maturity of the instrument (Level 2). The discount rates applied were based on the current market rate offered for the average remaining term to maturity.

The determination of estimated fair values is based on market conditions at a specific point in time and may not be reflective of future fair values.

	2017		2016	
	Cost	**Estimated Fair Value**	Cost	Estimated Fair Value
Assets				
Cash and cash equivalents	$ 30,488,000	$ 30,488,000	$ 31,048,388	$ 31,048,388
Investments	624,024,556	637,469,509	660,454,031	663,813,886
Loans and mortgages	539,664,540	547,309,368	485,142,021	491,582,915
Accrued interest	4,765,176	4,765,176	4,439,224	4,439,224
Liabilities				
Deposits	$ 921,979,372	$ 922,221,012	$ 950,931,609	$ 958,387,637
Accrued interest	2,617,297	2,617,297	3,004,734	3,004,734
Mortgage backed securities	189,487,253	187,489,094	134,552,135	134,642,799
Derivatives	$ –	$ 11,378	$ –	$ (62,024)

13. Commitments and contractual obligations

a) Approved loans and mortgages

At December 31, 2017 Central had approved lines of credit in the amount of $114,252,568 (2016 – $109,076,811), approved mortgages for syndication of $26,791,609 (2016 – $25,394,659) and other approved mortgages in the amount of $14,463,874 (2016 – $13,091,984) which have not been advanced.

b) Clearing and settlement agreement

Central has entered into a contract for clearing, settlement and US Dollar account services. The contract expires in July 2018. Pricing is subject to annual adjustment effective January 1st of each calendar year.

c) Interest rate swap agreements

The Company, as intermediary for certain credit unions, may enter into various interest rate swap agreements in order that the credit unions may manage their exposure to interest rate fluctuations. The terms of the agreements provide that Central pay a fixed interest rate on notional principal amounts due to mature in the future in exchange for variable or short term interest rate returns on these same amounts. In turn, reciprocal interest rate swap agreements would be entered into with the respective credit unions. There were no such matching interest rate swap agreements outstanding at December 31, 2017.

d) Foreign exchange forward agreements

The Company, as intermediary for certain credit unions, may enter into various forward agreements in order that the credit unions may manage their exposure to foreign currency fluctuations. The terms of the agreements provide that Central buy or sell a fixed amount of foreign currency, at a fixed exchange rate, on a specified future date. In turn, a reciprocal agreement is entered into with the credit unions, to sell or buy the same amount of foreign currency on the same dates. There were no forward rate agreements outstanding at December 31, 2017.

e) Rental of premises

Central has entered into operating leases for the rental of premises in Charlottetown. The term of the lease is from January 1, 2011, to December 31, 2017, and there was an option to extend the lease for a further five-year term. The option to extend was not exercised and a new lease is being negotiated.

Central also entered into a sublease to rent a portion of the space to a third party. The term of the sublease was from November 1, 2012, to October 30, 2017, and there was an option to extend the sublease for a further five-year term. The sublease was not extended and will not be renewed.

Lease payments of $56,375 on the premises in Charlottetown were recognized as an expense and sublease payments of $15,000 were recognized as revenue during the year. There were no contingent lease payments.

In 2015 Central entered into an operating lease for the rental of premises in Riverview. The term of the lease is from August 21, 2015, to August 20, 2018, and there is an option to extend the lease for a further three-year term. Lease payments of $65,788 were recognized as an expense during the year, including minimum lease payments of $36,422 and contingent costs of $29,366.

Central has committed to pay annual lease payments as follows:

	2018	2019	2020	2021	2022	After 5 Years
Lease payments	$ 24,281	$ –	$ –	$ –	$ –	$ –
Sublease payments	–	–	–	–	–	–
Net lease payments	$ 24,281	$ –	$ –	$ –	$ –	$ –

f) CCIF Limited Partnership capital contributions

In 2017, in accordance with the terms of a CCIF Limited Partnership Agreement, the Company entered into a subscription agreement to invest in the capital of CCIF Limited Partnership (CCIF). The subscription is for $375,000 in partnership units and $125,000 in partnership loans. As required by the subscription agreement, in 2017 the Company made an initial contribution of 5% of the committed amount – $18,750 in partnership units and $6,250 in partnership loans. The date of the capital call for the remaining committed amount, which is at the discretion of the General Partner of CCIF, has not yet been determined.

14. Income taxes

The components of tax expense are as follows:

		2017		2016
Current tax expense				
Federal and provincial	$	2,368,674	$	1,787,527
Capital and Large Corporate Tax		679,198		575,670
	$	3,047,872		2,363,197
Deferred tax expense				
Origination and reversal of deductible temporary differences		(164,626)		(157,680)
Reduction in tax rate		5,269		7,614
		(159,357)		(150,066)
Total tax expense	$	2,888,515	$	2,213,131

The provision for income taxes differs from the result which would be obtained by applying the combined Canadian Federal and Provincial statutory income tax rates to income before taxes. This difference results from the following:

		2017		2016
Income before income taxes	$	7,736,269	$	6,058,160
Statutory income tax rate		33.21%		31.51%
Expected income tax		2,569,215		1,908,926
Effect on income tax of:				
Non-taxable dividends		(211,558)		(111,534)
Permanent tax differences		26,408		25,825
Capital and Large Corporate Tax		468,647		397,212
Future tax rate increase		(5,269)		(7,614)
Rate difference on loss carryback		41,396		–
Other		(324)		316
Total income tax expense	$	2,888,515	$	2,213,131

The components of the future income tax assets (liabilities) are as follows:

	Balance 2015	Recognized in: Net Income	Recognized in: OCI	Balance 2016	**Recognized in: Net Income**	**Recognized in: OCI**	**Balance 2017**
Deferred tax assets							
Property and equipment	$ 347,018	$ 38,110	$ –	$ 385,128	$ 40,467	$ –	$ 425,595
Allowance for impaired loans	439,999	139,564	–	579,563	55,049	–	634,612
Losses carried forward	155	–	–	155	–	–	155
Net donations carried forward	75,252	(10,332)	–	64,920	16,449	–	81,369
Net capital losses	8,601	154	–	8,755	97	–	8,852
Other	17,543	(17,430)	–	113	47,295	–	47,408
	888,568	150,066	–	1,038,634	159,357	–	1,197,991
Deferred tax liabilities							
Unrealized gains on investments	–	–	–	–	–	2,022,114	2,022,114
Net deferred tax asset (liability)	$ 888,568	$ 150,066	$ –	$ 1,038,634	$ 159,357	$ (2,022,114)	$ (824,123)
Deferred tax asset (liability) attributable to:							
Central	424,924	51,349	$ –	476,273	105,209	(2,022,114)	(1,440,632)
League Savings	463,644	98,717	–	562,361	54,148	–	616,509
	$ 888,568	$ 150,066	$ –	$ 1,038,634	$ 159,357	$ (2,022,114)	$ (824,123)

15. Capital Requirements

Federal Bill C-43, which came into force in December 2014, includes provisions repealing Part XVI of the *Cooperative Credit Associations Act* (CCAA), which permits provincial Centrals to operate with oversight from the federal Office of the Superintendent of Financial Institutions (OSFI). As a result of this change, provincial governments will become exclusively responsible for the oversight of provincial Centrals.

The withdrawal of OSFI supervision of provincial credit union centrals came into effect on January 15, 2017. On that date, the Nova Scotia Office of the Superintendent of Credit Unions became the sole prudential regulator of the Central.

Central continues to manage its capital under the guidelines established by OSFI – which prescribes a liabilities to capital borrowing multiple not to exceed 20 times capital. The Company is also subject to the requirements of the Credit Union Act, which requires the Central to establish and maintain a level of equity that is not less than 5% of its assets.

League Savings is subject to guidelines OSFI has issued based on standards issued by the Bank for International Settlements, Basel Committee of Banking Supervisors (BCBS). OSFI has adopted capital guidelines based on the standards known as Basel II, which became effective for League Savings in 2008. Pillar 1 of the Basel II framework defines minimum capital requirements, while Pillar 2 addresses standards for the management of capital requirements.

Capital requirements are determined based on exposures to credit risk, operational risk, and for entities with significant trading activity, market risk. The standards provide different methodologies for the calculation of risk exposures based on a company's relative size and sophistication. League Savings has implemented the Standardized Approach for credit risk, and the Basic Indicator Approach (BIA) for operational risk. League Savings is not subject to the requirements for market risk.

Pillar 2 of the Basel II framework requires that institutions have a process in place to make an internal assessment of its overall capital position relative to its own unique circumstances and risk profile. This process, referred to as ICAAP, is approved by the League Savings Board. The Company's internal capital requirements have been calculated in accordance with the approved ICAAP. In particular, League Savings sets internal capital limits that are adjusted based on an annual assessment of the Company's risk profile as identified in an Enterprise Risk Management framework. These internal limits provide for capital that is in excess of the regulatory minimums.

In December 2012, OSFI issued its revised guideline for Capital Adequacy Requirements, effective January 2013, based on the Basel II and Basel III framework. Under Basel III, there are three primary regulatory capital ratios used to assess capital adequacy, Common Equity Tier 1, Tier 1 and Total Capital ratios, which are determined by dividing those capital components by risk-weighted assets.

Basel III introduced a new category of capital, Common Equity Tier 1 (CET1), which consists primarily of common shareholders' equity net of regulatory adjustments. These regulatory adjustments include goodwill, intangible assets net of deferred tax liabilities, deferred tax assets that rely on future profitability, defined-benefit pension fund net assets, shortfall of credit provision to expected losses and investments in other financial institutions over certain thresholds.

In addition, new or revised capital components included in common equity are unrealized losses on securities and reduced amounts for non-controlling interests. Transitional requirements result in a five-year phase-in of new deductions and additional capital components to common equity.

OSFI's Basel III capital requirements include rules to implement the BCBS guidance on non-viability contingent capital (NVCC). The NVCC rules require that all capital instruments include loss absorption features. The Subordinate Debentures and Preferred Shares issued by League Savings were considered non-qualifying capital instruments under the Basel III NVCC rules and were therefore subject to a 10% phase-out per year beginning in 2013. These instruments were redeemed in 2016 as a part of the capital restructuring plan, and replaced with $19,991,556 in additional common shares issued to Atlantic Central (see Note 10).

As of January 2019, under the BCBS rules League Savings will be required to meet new minimum requirements of: Common Equity Tier 1 ratio of 4.5% plus a capital conservation buffer of 2.5%, collectively 7%. Including the capital conservation buffer, the minimum Tier 1 ratio will be 8.5%, and the Total Capital ratio will be 10.5%.

OSFI required Canadian deposit-taking institutions to fully implement the 2019 Basel III reforms in 2013, without the transitional phase-in provisions for capital deductions (referred to as "all-in"), and achieve a minimum 7% common equity target, by the first quarter of 2013.

In January 2014, the BCBS released its final paper on "Basel III leverage ratio framework and disclosure requirement", which introduced a simpler, non risk-based Leverage ratio requirement to act as a supplementary measure to its risk-based capital requirements. The Leverage ratio is defined as a ratio of Basel III Tier 1 capital to a Leverage exposure measure which includes on-balance sheet assets and off-balance sheet commitments, derivatives and securities financing.

On October 30, 2014, OSFI issued its final "Leverage Requirements Guideline", which replaced the existing OSFI assets-to-capital multiple with the Basel leverage ratio beginning in January 2015. The regulatory minimum leverage ratio is 3%. Institutions are expected to maintain an operating buffer above the 3% minimum.

The BCBS has published a number of proposals for changes to the existing risk-based capital requirements, and continues to do so with the objective of clarifying and increasing the capital requirements for certain business activities. The BCBS continues to review operational risk capital frameworks to provide an optimal balance between simplicity, comparability, and risk sensitivity. After further consultation with industry participants, BCBS is also considering a new standardized approach which would potentially affect current methods used to calculate operational risk capital. The Company will continue to monitor developments in these areas.

The Company has established internal limits to ensure that it meets its regulatory requirements. Capital is monitored regularly and reported to the Board quarterly. The Capital Management Plan, which forecasts capital requirements and includes contingency plans in the event of unanticipated changes, is reviewed by the Board annually.

Details of the Company's regulatory capital at December 31 were as follows:

	2017	2016
Central:		
Maximum borrowing multiple	20	20
Actual borrowing multiple	10.5	11.4
Minimum equity ratio	5.0%	5.0%
Actual equity ratio	11.3%	10.9%
League Savings and Mortgage Company:		
Risk-weighted assets for:		
Credit risk	$ 187,462,250	$ 150,443,000
Operational risk	18,838,000	17,513,000
Total	$ 206,300,250	$ 167,956,000
Capital elements:		
Common shares	$ 22,102,000	$ 22,102,000
Contributed surplus	1,786,000	1,786,000
Unrealized gain on AFS investments	(42,000)	174,000
Retained earnings	21,121,000	18,880,000
CET1	44,967,000	42,942,000
Total Tier 1	44,967,000	42,942,000
Total regulatory capital	$ 44,967,000	$ 42,942,000
Ratios:		
CET1	21.8%	25.6%
Total Tier 1	21.8%	25.6%
Total capital	21.8%	25.6%
Leverage Ratio	7.8%	8.2%
OSFI targets:		
CET1	7.0%	7.0%
Total Tier 1	8.5%	8.5%
Total capital	10.5%	10.5%
Leverage Ratio	4.0%	4.0%

The Company's capital ratios have been in compliance with the regulatory requirements throughout the year.

16. Related party transactions

Key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company, and include members of the Board of Directors, the President and CEO, and other senior officers of the Company.

The President and CEO, and each of the four other senior officers of the Central earned variable compensation during the year. Central's Total Compensation Program does not include guaranteed bonuses or deferred compensation payments. Variable compensation is earned during the year and paid in cash in the following year.

The components of total compensation received by key management personnel, and balances due to/from key management personnel are as follows:

	2017	2016
Short-term employee benefits	$ 1,160,093	$ 1,096,471
Contributions to a group savings for retirement program	73,207	70,376
Variable compensation	209,064	171,620
Mortgage balances due from key management	341,815	186,119
Deposit balances due to key management	654,026	556,226

Short-term employee benefits include salaries, director remuneration and other benefits. The mortgage and deposit transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

Associates

During the normal course of operations Central and the subsidiary, League Savings, transact business with League Data Limited, a related company by virtue of common ownership. These transactions are measured at the exchange amount and are as follows:

	2017	2016
Income and fees related to the management contract	$ 63,000	$ 63,000
Rental and other income	108,000	108,000
Services and equipment purchases from League Data Limited	553,998	562,579
Term deposits with League Savings	12,000,000	–
Term deposits with Central	3,000,000	5,000,000
Other deposits with Central	4,501,611	4,835,041
Amount receivable from (payable to) League Data Limited	(36,895)	(48,526)
Deferred funding for regional marketing program	90,800	100,000

17. Credit facilities

Central has established an operating line of credit of $35,000,000 with Central 1. The line of credit bears interest at the institution's prime lending rate. As security, Central has provided an assignment of marketable securities having a carrying value of $35,000,000. At December 31, 2017 and 2016, there were no amounts outstanding on this facility.

Central has also established an additional $100,000,000 disruption event credit facility with Central 1, secured by a general assignment of assets, bearing interest at the greater of Central 1's cost of funds plus 0.75 basis points, or 1-month CDOR plus 0.75 basis points. The facility provides liquidity and working capital in a disruption event that impacts Central's ability to function in the ordinary course of business to provide liquidity to its member credit unions.

League Savings has also established a line of credit with Central 1 secured by an assignment of insured residential mortgages, bearing interest at prime, up to an amount of $25,000,000. At December 31, 2017 and 2016, there were no amounts outstanding on this facility.

18. Assets under administration

a) Mortgages under administration

Assets under administration include mortgages under administration, which are not the property of Central and are not reflected in the balance sheet.

b) Syndicated loans

Central provides a loan syndication program for credit unions. These loans, which are under the Central's administration, are not the property of the Central and are not reflected on the balance sheet. Although most of the loan syndications are purchased by credit unions, Central can be a participant if a loan is not fully subscribed to by credit unions.

When Central participates in the loan syndication, the amount is included in loans and mortgages on the balance sheet as "non-residential". Where a fully subscribed loan syndication has not been distributed to credit unions, the undistributed amount is also included in loans and mortgages as "non-residential."

Assets under administration at December 31 were as follows:

	2017	2016
Mortgages under administration	$ 107,418,830	$ 108,262,414
Syndicated loans	221,095,472	86,632,261
Included in non–residential	14,087,146	100,407

19. Subordinated debentures

Subordinated debentures were issued by League Savings. Series B debentures were unsecured and subordinated to all other indebtedness of the Company. The minimum interest rate was equal to 1.5 times the dividend rate on the Preferred A shares. Series B debentures were convertible into Preferred A shares at the option of the holder and redeemable at the option of the Company, subject to the approval of the Office of the Superintendent of Financial Institutions.

In 2015 the Company developed a capital restructure plan which would result in the redemption of both subordinated debentures and Class A preferred shares (see Note 10). The restructure plan was completed in 2016, with all of the subordinated debentures redeemed for cash.

20. Non-interest income

Non-interest income includes the following:

	2017	2016
Banking services fees	$ 5,218,005	$ 5,135,499
Banking services expenses	(3,085,424)	(2,890,114)
Securitization expenses	(309,985)	(592,821)
Lending services fees	2,231,516	1,810,616
Lending services expenses	(826,656)	(1,473,976)
Investment services fees	36,450	33,511
Investment services expenses	(528,529)	(518,040)
Member assessments	5,706,403	6,366,078
Management fees	63,000	63,000
Fee for service	711,553	771,169
Rentals	132,699	136,316
Other	468,245	465,889
	$ 9,817,277	$ 9,307,127

The expenses detailed above include direct expenses only. Salary and staff related costs, and other indirect costs required to provide these services, are reported in operating expenses.

21. Non-controlling interest

The non-controlling interest represented the Preferred A shares of League Savings and Mortgage Company. See note 10 for a description of the Company's capital restructure plan, which was completed in 2016.

22. Compensation

Compensation is a key factor in recruiting, retaining, motivating and rewarding a talented and committed workforce. Pay determination policies and guidelines emphasize continued development of knowledge, expansion of skills, performance and the ability to be flexible and adaptable to change.

The goals of our Total Compensation Program are to provide levels of compensation that are internally equitable, externally competitive, financially feasible, and that will enable Central to attract, retain and reward highly qualified individuals. Total Compensation includes base pay, variable pay (which must be re-earned each year) and employee benefits.

The Executive/HR Committee of the Board is responsible for:

- Establishing an annual performance plan with specific objectives and monitoring and conducting annual performance evaluations of the President and CEO against these objectives.
- Determining and recommending to the Board an appropriate total compensation package (including variable compensation) for the President and CEO.
- Reviewing annually the terms and conditions of the variable compensation plan for employees and recommending adoption by the Board.

The Board has delegated to the President and CEO the responsibility for the implementation and administration of all management or executive policies, including the Total Compensation Program for employees. The variable compensation program is governed by the Performance Sharing Incentive Plan, which is based on the following principles:

- The President and CEO will have the ultimate discretion to determine whether payment occurs and what the payment will be for the year, based on the annual performance of the Company.
- Performance is evaluated based on financial, customer service, and balanced scorecard results.
- The plan is self-funded – if Central does not achieve the designated level of financial performance there will be no payout under the plan.
- Individual performance will determine participation in, and individual payments under the plan. Individual performance is measured against annual individual performance plans.

Compensation to members of the Board of Directors is limited to an annual honorarium. Directors do not participate in any variable compensation programs. Compensation paid to Directors and key management personnel are detailed in Note 16 – related party transactions.

23. Special projects

Included in special projects are the costs of various initiatives relating to transformational change within the Central and the credit union system. In 2017 total spending on special projects was $343,403 (2016 – $856,609).

Corporate Governance

Sound governance and ethical behaviour begins with our Board of Directors, which is accountable to our shareholder members and assumes responsibility for the stewardship of Atlantic Central (Central). The Board of Directors is responsible for overseeing the management of the business and affairs of Central and for providing effective leadership to Central and the credit union system, with an objective of enhancing stakeholder value. Among its many specific duties, the Board of Directors: approves strategic goals and business plans; sets policy to direct the overall operations of Central; provides advice, counsel and oversight to the president and CEO; oversees the ethical, legal, and social conduct of Central; oversees the risk management of Central; and reviews Central's ongoing financial performance. The Board of Directors ensures that appropriate structures and procedures are in place to ensure its independence from management.

Board Composition

The Board of Directors of Central consists of 12 directors as follows:

- Two directors elected at large by delegates representing Central's member credit unions within the New Brunswick Regional Group
- Two directors elected at large by delegates representing Central's member credit unions within the Newfoundland and Labrador Regional Group
- Six directors elected by delegates representing Central's member credit unions within the Nova Scotia Regional Group, as follows:
    a. Three directors elected by delegates representing Central's member credit unions within NS Peer Group A (credit unions with total assets up to and including $100,000,000)
    b. Three directors elected by delegates representing Central's member credit unions within NS Peer Group B (credit unions with total assets over $100,000,000)

- Two directors elected at large by delegates representing Central's member credit unions within the Prince Edward Island Regional Group

The following individuals currently serve on the Board of Directors:

Pat Duffield, Chair
Raymond Surette, Vice-Chair
Martin Gillis
Bernard Keefe
Marc LeClair
Jim MacFarlane
Camille Maillet
Paul Newman
Gary O'Brien
Kurt Peacock
William Timmons
Thomas Vickers

The board and each committee meet at least once each fiscal quarter and the board holds an annual strategic planning session. The board meets at other times when matters requiring its approval or consideration are raised and it is not possible or prudent to wait for the next regularly scheduled meeting. The Board of Directors met 15 times in 2017.

Committees of the Board

The board has established the following standing committees: Audit; Risk; Conduct Review; Co-operative Social Responsibility; Executive/Human Resources; and Governance.

Audit, Risk and Conduct Review Committees

The committees shall consist of at least four directors, none of whom is an employee or officer of Central or League Savings and Mortgage (League Savings). The Audit Committee is responsible to ensure that management has designed and implemented an effective system of financial management and related internal controls. It reviews and reports on the audited financial statements and ensures compliance with certain regulatory and statutory requirements. It is also responsible to meet periodically with internal and external auditors. The Risk Committee is responsible for ensuring that management has developed and maintained an effective Enterprise Risk Management Framework for evaluating the business strategies being used for the allocation of human, capital, and other resources. The Conduct Review Committee is responsible to ensure that Central has developed and adheres to ethical standards and sound business conduct in such areas as conflict of interest and related party procedures.

Committee Members

Marc LeClair (Chair), Martin Gillis, Bernard Keefe, Camille Maillet, and Paul Newman

Co-operative Social Responsibility Committee

The joint Central and League Savings Co-operative Social Responsibility (CSR) Committee is comprised of at least one director from Central and one from League Savings as well as representation from each of the Atlantic provinces. The CSR Committee shall develop and support clear and precise policy statements for consideration by the board that help define our belief in social well-being and sustainability. The committee shall recommend priorities for charitable giving and awards and recognition programs to the board and provide related oversight to these priorities and programs. In addition, the committee shall ensure sustainability and environmental impacts are considered in the management of premises and operations.

(Joint) Committee Members

Gary O'Brien (Chair), Tammy Christopher, Bernard Keefe, Sarah Millar, Kurt Peacock, William Timmons, and Thomas Vickers

Executive/Human Resources Committee

The committee's five members include the board chair, vice-chair, and three members at large elected by the Board as a whole, one of whom shall concurrently be a member of the board of Central's subsidiary, League Savings, serving as an appointee of Central. This committee is responsible for addressing matters between scheduled board meetings that require immediate attention, and acts as a Human Resources Committee. In this capacity, the committee makes recommendations to the board on the president and CEO's compensation and performance evaluation.

Committee Members
Pat Duffield (Chair), Raymond Surette (Vice-Chair), Jim MacFarlane, Gary O'Brien, and William Timmons

Governance Committee

The committee shall consist of at least four directors and is responsible for reviewing and recommending changes, as appropriate, to the governance structure of Central and for ensuring that an effective governance system is in place, including a schedule for regular policy review and compliance. In addition, this committee ensures board decisions and positions are appropriately translated into documented policies. Policies developed by the committee are forwarded to the board for its consideration and approval. The committee oversees the procedures for nominating and electing Central directors to ensure compliance with Central's bylaws and resolves any issues or questions related to this process. The committee is responsible for overseeing the director evaluation process, and for establishing and monitoring the orientation program for new directors, as well as the monitoring of ongoing training and development of board members.

Committee Members
Raymond Surette (Chair), Pat Duffield, Martin Gillis, Jim MacFarlane, and Camille Maillet

Mandate of the Board of Directors

While the board's fundamental responsibility is to oversee the management of the business and affairs of Central, any responsibility that is not specifically delegated to the president and CEO remains with the board. In particular, the board oversees Central's strategic direction to ensure it serves the organization, its member credit unions, employees, and communities of New Brunswick, Newfoundland and Labrador, Nova Scotia, and Prince Edward Island. The board assumes overall stewardship with respect to Central's mission and values, its long-term objectives and the approval of corporate strategies. Specifically, the board is responsible for the following:

- selection, succession, evaluation, compensation and employment conditions of the president and CEO
- establishment and approval of board policies
- oversight of Central's internal control framework
- development and approval of strategic goals and business plans for Central
- provision of advice to the president and CEO
- evaluation of the board's performance and oversight of the ethical, legal, and social conduct of the organization
- review of the financial performance and condition of the organization

Attendance at Board and Committee Meetings

The Board of Directors recognizes the importance of each individual director's participation at board and committee meetings. Every director is expected to attend all board and committee meetings unless adequate cause is given for missing a meeting. The following table sets out the attendance of each board member at board and committee meetings throughout 2017.

Name	Board and Planning Session	Audit, Risk & Conduct Review Committees	Co-operative Social Responsibility Committee	Executive/HR Committee	Governance Committee
Pat Duffield*	14/15			4/4	3/3
Raymond Surette*	15/15			4/4	5/5
Martin Gillis	10/10	3/3			3/3
Bernard Keefe	14/15	3/3	4/4		
Marc LeClair	12/15	4/4			
Jim MacFarlane	15/15			4/4	5/5
Camille Maillet	15/15	3/3			3/3
Paul Newman	14/15	3/4			
Gary O'Brien	15/15		4/4	3/3	
Kurt Peacock	15/15		4/4		
William Timmons	15/15		4/4	3/3	
Thomas Vickers	10/10		3/3		

*Table Officer


Pat Duffield, Chair


Raymond Surette, Vice-Chair


Martin Gillis


Bernard Keefe


Marc LeClair


Jim MacFarlane


Camille Maillet


Paul Newman


Gary O'Brien


Kurt Peacock


William Timmons


Thomas Vickers

Board Evaluations

As part of its commitment to ongoing development and improvement, the Board of Directors conducts an annual self-evaluation. This evaluates the board's effectiveness in the following governance areas: Central's mission and vision; strategic leadership; financial performance; internal controls and oversight, including financial oversight, risk oversight, and human resources oversight; co-operative social responsibility; compliance and accountability; stakeholder relations; board functioning and board and management relations; and learning and development. The results of the evaluation are used to guide the training and development agenda for the board in the upcoming year.

Evolving Governance Processes

At Central, we recognize that our governance standards must evolve to respond to changes in our organization, the credit union system, stakeholder expectations and regulatory requirements, and to ensure that Central and its stakeholders receive the benefit of exceptional governance practices. The board and management continually monitor developments in corporate governance practices and are committed to ongoing training and development to ensure that Central continues to lead the credit union system with its governance practices.

Affiliate and Regulatory Boards

Canadian Credit Union Association (CCUA)

Central is a Class B member of CCUA and is entitled to appoint one director to the CCUA board (the five Class B members consist of five Centrals). Michael Leonard serves on the Board of CCUA as a director from Central (term expires in 2018).

Concentra

Atlantic Central is a minority shareholder of Concentra. Michael Leonard serves as an independent director on the Board of Concentra (term expires in 2018).

Co-operative Enterprise Council of New Brunswick (CECNB)

Central has a share in CECNB, and Kurt Peacock is the Central director currently serving on the CECNB Board (term expires in 2019).

Co-operative Management Education Co-operative (CMEC)

Central holds shares in CMEC. The CMEC Board includes co-op/credit union nominated positions, and the Central representative on the board is Paul Paruch (term expires in 2020).

Credit Union Central of Canada (CUCC)

CUCC transitioned to the Canadian Credit Union Association (CCUA) in 2015; however, a Board of Directors is still in place at CUCC, and Michael Leonard serves as a director.

League Data Limited

The president and CEO of Central has a dedicated seat on the Board of League Data Limited.

League Savings and Mortgage Company (League Savings)

Central is entitled to appoint six members to the board of its subsidiary, League Savings. Currently, the directors appointed by Central to the Board of League Savings are Pat Duffield, Jim MacFarlane, Paul Newman, Gary O'Brien, Willy Robinson, and Raymond Surette.

Northwest & Ethical Investments Inc. (NEI)

Central owns one common voting share of NEI and is entitled to elect one director to the board. The current director for the Atlantic provinces is Bernie O'Neil (term expires 2018).

Nova Scotia Co-operative Council (NSCC)

Central appoints one director to the NSCC Board. Raymond Surette is the Central director serving on the NSCC Board (term expires 2018).

Nova Scotia Credit Union Deposit Insurance Corporation (NS CUDIC)

Three of the seven positions on the NS CUDIC Board are nominated by Central, for appointment by the Executive Council of Nova Scotia. These positions all expired in 2017. Two of the positions are now held by Beverley Cooke (replacing Marion Garlick) and John Armstrong (reappointed) with terms expiring in 2020. The third director position, currently held by Gerard MacKinnon, is still awaiting appointment by the Executive Council.

Prince Edward Island Co-operative Council

Central has a designated seat on the Board of the Prince Edward Island Co-operative Council and the director serves at the pleasure of Central. The Central appointee is Marc LeClair (term expires 2018).

Risk Management Agency (RMA)

In the past, Central appointed two directors to the New Brunswick RMA Board; however, RMA is currently under supervision pending the NB regulatory transition. The current status of RMA is that there are three "board" members and they are acting in an advisory capacity only. The regulators are planning to reconstitute the board to aid in the NB regulatory transition, but that process is ongoing.

The Co-operators

The Atlantic regional delegates elect three directors to The Co-operators' Board to represent the Atlantic Region. In December 2016, Central reappointed Michael MacIsaac (effective April 2017) to serve as director (term expires 2020). Central also appoints two delegates, currently Kurt Peacock and Willy Robinson.

Atlantic Canadian families and businesses are well served by the 49 member credit unions, with 133 locations in our system

NEW BRUNSWICK

Advance Savings Credit Union
Bayview Credit Union
Beaubear Credit Union
Blackville Credit Union
Church River Credit Union
Citizens Credit Union
NBTA Credit Union
OMISTA Credit Union
Progressive Credit Union
The Credit Union

NOVA SCOTIA

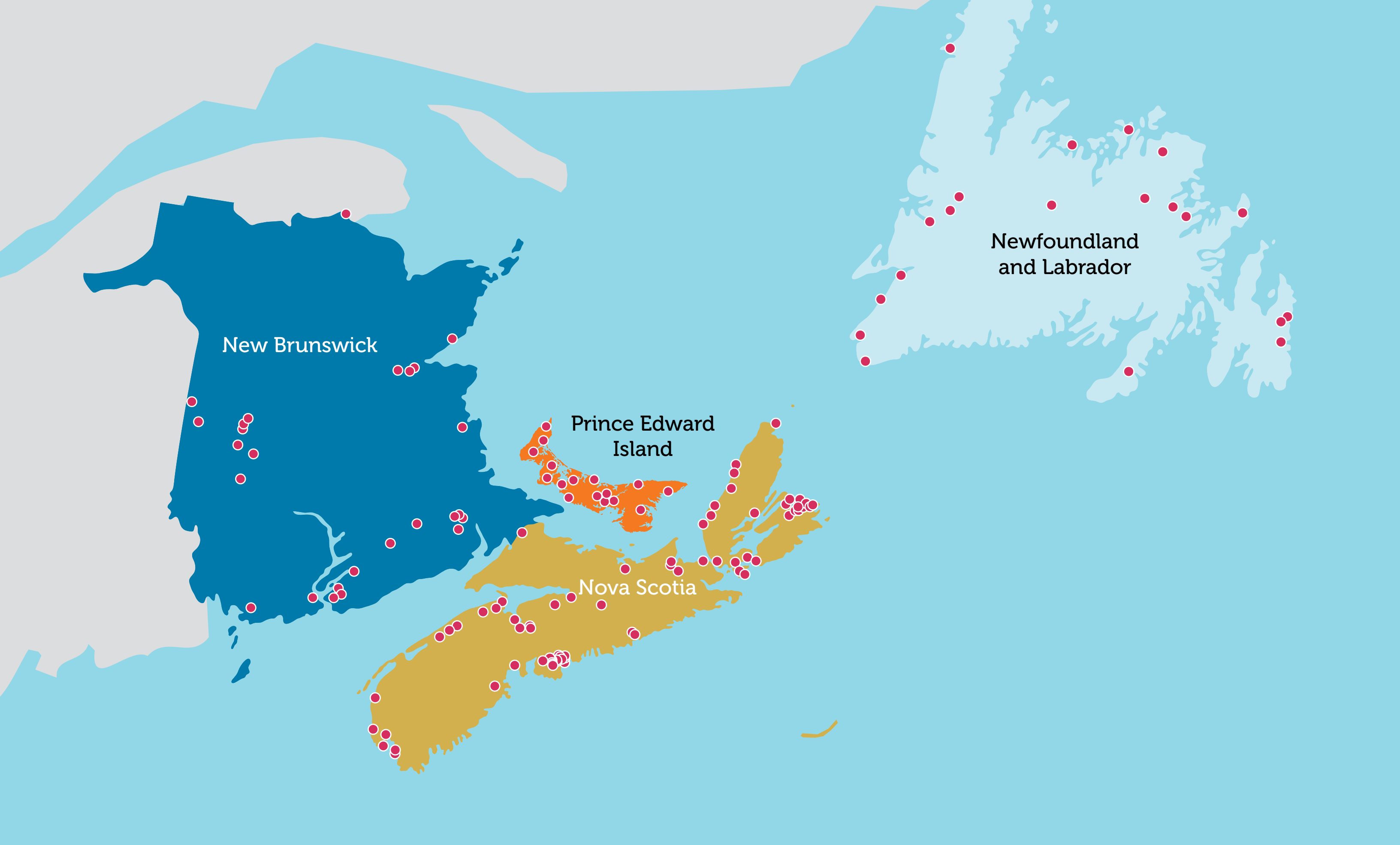
Acadian Credit Union
Bay St. Lawrence Credit Union
Cape Breton Centre Credit Union
Caisse populaire de Clare
Coastal Financial Credit Union
Community Credit Union of Cumberland Colchester
CUA
Dominion Credit Union
East Coast Credit Union
Electragas Credit Union
Glace Bay Central Credit Union
iNova Credit Union
LaHave River Credit Union
New Ross Credit Union
New Waterford Credit Union
North Sydney Credit Union
Princess Credit Union
Provincial Government Employees Credit Union
Public Service Commission Employees Credit Union
St. Joseph's Credit Union
Sydney Credit Union
Teachers Plus Credit Union
Valley Credit Union
Victory Credit Union

PRINCE EDWARD ISLAND

Consolidated Credit Union
Évangéline–Central Credit Union
Malpeque Bay Credit Union
Morell Credit Union
Provincial Credit Union
Souris Credit Union
Tignish Credit Union

NEWFOUNDLAND AND LABRADOR

Community Credit Union
Eagle River Credit Union
EasternEdge Credit Union
Hamilton Sound Credit Union
Leading Edge Credit Union
Public Service Credit Union
Reddy Kilowatt Credit Union
Venture Credit Union



ATLANTIC CENTRAL

Atlantic Central is the regional trade association that provides leadership, advocacy and a range of financial and support services for 49 independent credit unions in all four Atlantic provinces. With assets of more than $5 billion and serving 306,000 Atlantic Canadians, credit unions in Atlantic Canada are co-operative financial institutions, owned by their members. Rooted in the communities they serve, credit unions are an integral part of community life and play a significant role in the economic fabric of Atlantic Canada.

www.atlanticcreditunions.ca