Management Discussion and Analysis

This section of the annual report, providing management's discussion and analysis (MD&A) of the consolidated results of SaskCentral, should be read in conjunction with the audited consolidated financial statements and notes as at and for the year ended December 31, 2016. The consolidated financial statements are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards (IFRS). This MD&A is dated February 27, 2017 and provides comments regarding SaskCentral's financial and operating results, risk management, capital management and business outlook.

Management Discussion and Analysis

Caution Regarding Forward-Looking Statements

From time to time, SaskCentral makes written and verbal forward-looking statements. Statements of this type are included in reports to Saskatchewan credit union shareholders, the annual report, and may be included in filings with Canadian regulators in other communications. Forward-looking statements include, but are not limited to, statements about SaskCentral's objectives and strategies, targeted and expected financial results and the outlook for SaskCentral's business or for the Canadian economy.

By their very nature, forward-looking statements involve numerous assumptions. A variety of factors, many of which are beyond SaskCentral's control, may cause actual results to differ materially from the expectations expressed in the forward-looking statements. These factors include, but are not limited to, changes in economic and political conditions, legislative and regulatory developments, legal developments, the accuracy of and completeness of information SaskCentral receives from counterparties, the ability to attract and retain key personnel and management's ability to anticipate and manage the risks associated with these factors. The preceding list is not exhaustive of possible factors. These and other factors should be considered carefully and readers are cautioned not to place undue reliance on these forward-looking statements. SaskCentral does not undertake to update any forward-looking statements, whether written or verbal, that may be made from time to time by it or on its behalf.

Company Profile

SaskCentral is a financial services co-operative which provides liquidity management, consulting services, research and support to Saskatchewan credit unions. SaskCentral functions as a trade association on behalf of the province's credit unions to provide a unified voice in matters of common interest. The primary services provided to credit unions by SaskCentral are:

- to facilitate clearing and settlement through the Bank of Canada;
- to provide financial products and services that support daily cash flow management at credit unions;
- to provide emergency liquidity funding and centralized coordination in the event of a liquidity crisis;
- to offer consulting services that provide innovative solutions to help credit unions strengthen their competitive positioning;
- to offer democratic governance support to ensure efficient and effective co-operative governance;
- to provide advocacy services, representing Saskatchewan credit unions with the provincial and federal governments and within the Canadian credit union system; and
- to provide strategic investment management through entities that provide key services to credit unions.

As of January 1, 2017, SaskCentral has integrated its trade association functions into Canadian Credit Union Association (CCUA), including Governance and Compliance, Government Relations and Member Experience. This will allow the services to be available locally while coordinated nationally. Work will continue into 2017 to identify other functions that align with CCUA's strategic pillars.

SaskCentral's Role in Liquidity Support

SaskCentral manages system-wide liquidity on behalf of Saskatchewan credit unions directly and through investees.

Through aggregating statutory liquidity deposits, SaskCentral facilitates clearing and settlement, supports daily cash flow management and coordinates emergency liquidity support.

Clearing and Settlement

The movement of funds between financial institutions is known as clearing and settlement. This process occurs daily at three levels – the credit union level, the provincial level and the national level. CUPS manages the daily clearing and settlement operations for credit unions. Settlement operations include processing of paper-based deposits and clearings, cheque and document imaging, and electronic services such as automated funds transfers and wire transfers. Daily balances are cleared through SaskCentral, the net Saskatchewan cash flow is aggregated with other provinces and the Canadian net amount is settled with the Bank of Canada.

At the national level, Payments Canada sets the requirements for accessing the Bank of Canada and outlines roles and responsibilities. Credit union centrals are represented by one central which acts as the Group Clearer. Central 1 is the Group Clearer. A Group Clearing Joint Venture oversees the functioning of the Group Clearer and consists of representatives from Central 1, Alberta Central, SaskCentral and Credit Union Central of Manitoba. Through the Joint Venture, credit unions access the Large Value Transfer System for electronic payments and the Automated Clearing and Settlement System for paper based payments. Centrals pledge collateral to the Bank of Canada and in return the Bank of Canada issues a current account and a line of credit to facilitate the flow of funds to or from financial institutions.

Daily Cash Flow Management

SaskCentral offers several products and services to help credit unions manage daily cash flow requirements, including statutory liquidity deposits, an overnight account, a line of credit, alternate funding sources, and cash services.

By regulation, credit unions hold 10% of their deposits with SaskCentral. These are known as statutory liquidity deposits. Credit unions select from a variety of term options and interest options, including five fixed term options from one to five years, and a variable rate option. Credit unions can invest up to 35% of their statutory deposits in the four and five year products.

SaskCentral has adopted a low profit business model. This means that pricing of products and services is just sufficient to cover operating costs. Statutory liquidity deposit pricing reflects the low profit business model. Deposits are priced so that SaskCentral's interest margin is sufficient to cover the costs of financial administration and regulation.

SaskCentral maximizes deposit rates for credit unions by seeking the best returns on investments backing deposits. This is achieved through accessing wholesale institutional markets and avoiding brokerage fees. SaskCentral has access to wholesale institutional investments due to the large volumes that result from aggregation of statutory liquidity.

SaskCentral provides credit unions a line of credit for normal liquidity needs and bridge financing for unexpected liquidity requirements. In addition, credit unions may access commercial paper markets by leveraging SaskCentral's commercial paper program. SaskCentral's commercial paper program is supported by SaskCentral's investment grade rating of R1-low with DBRS.

SaskCentral funds these products and services by using three funding tools. Repurchase agreements allow SaskCentral to generate cash by selling securities to major Canadian banks with the agreement to repurchase within days. The commercial paper program allows SaskCentral to issue short-term securities to generate cash. Finally, SaskCentral has a line of credit with a major Canadian bank.

Emergency Liquidity Support

SaskCentral provides funding and centralized coordination on an emergency basis. This includes identification of triggers, roles and responsibilities and communication protocols.

Emergency funding is both sufficient and available. Sufficiency is demonstrated through stress testing whereby potential credit union outflows are evaluated against funding sources. In normal times, funding sources include repurchase agreements, the commercial paper program and a secured line of credit. In an emergency, these sources are augmented by SaskCentral's stock of High Quality Liquid Assets (HQLA) and the Inter-Central Liquidity Agreement (ICLA). The ICLA is a lending syndicate between Central 1, Alberta Central, SaskCentral, and Credit Union Central of Manitoba. Each central provides an uncommitted line of credit that may be used by any of the centrals in the event of a liquidity crisis. SaskCentral may access up to $400 million. In accordance with the ICLA, each central is required to maintain 6% of their provincial system assets in eligible investments.

Availability of emergency funding is evaluated by examining the underlying characteristics of HQLA. Fundamental characteristics include credit standing, degree of subordination and duration risk. Market-related characteristics include market breadth, market depth, price volatility and flight to quality. Operational characteristics include freedom from encumbrances, independence from other lines of business and ability of the liquidity manager to control HQLA.

In response to the 2008 financial market disruption, regulatory reform has been underway internationally and in Canada. The goal is to promote a more resilient financial sector by improving the ability to absorb shocks. SaskCentral has adopted a liquidity metric modeled after the Liquidity Adequacy Requirements of the Office of the Superintendent of Financial Institutions of Canada (OSFI). OSFI's liquidity requirements do not apply to SaskCentral; however, SaskCentral has incorporated the OSFI principles in SaskCentral's liquidity metrics.

Credit Union Deposit Guarantee Corporation (CUDGC) has aligned its liquidity requirements with those set by the Basel Committee on Banking Supervision at the international level and OSFI for federally regulated financial institutions in Canada. Standards of Sound Business Practice – Liquidity Adequacy Requirements will be effective January 1, 2017. Key to the framework is the introduction of the Liquidity Coverage Ratio where the stock of HQLA is compared to expected net cash outflows over thirty calendar days. A credit

Management Discussion and Analysis

union's stock of HQLA includes securities held directly as well as those held indirectly in the form of statutory liquidity deposits with SaskCentral. A credit union may allocate the amount of its statutory liquidity deposits to each category of HQLA and other liquid assets on a 'look-through' basis in accordance with the investment allocation of the liquidity pool. SaskCentral is actively supporting CUDGC and credit unions in the implementation of the liquidity requirements.

Economic Overview

In 2016, Saskatchewan's economy faced continuing challenges as reduced global demand for energy and declining oil prices translated to lower investment in the energy sector, reduced employment and government deficits.

Unemployment increased to 6.2% in 2016 (5.0% in 2015). The Saskatchewan labour market remains comparatively strong with unemployment rates below the national average.

Saskatchewan continues to experience population growth with 1,155,393 residents (2015 – 1,138,879). The province has enjoyed ten consecutive years of growth. While much of the population growth was attributed to economic activity in the energy sector, Saskatchewan more recently has attracted workers to the province across industry sectors.

The outlook for 2017 remains optimistic, with expectations of increased activity in the energy sector as oil prices slowly rebound due to increased global demand and reduced supply. Non-energy mining is not expected to recover until 2018 as global demand for potash remains in decline. Agricultural activity is expected to rebound in 2017 after wet conditions and weaker grain prices hampered the 2016 harvest. Saskatchewan GDP is expected to be 1.7% in 2017 and 2.2% in 2018.

Saskatchewan Credit Union System Performance

CUDGC is the primary regulator for Saskatchewan credit unions. The information provided in the following sections is compiled by CUDGC and is taken from their report 'Saskatchewan Credit Unions Quarterly Highlights'.

Credit unions operate within a comprehensive regulatory framework to ensure depositors' funds are fully guaranteed and completely secure. CUDGC establishes standards of sound business practice that are aligned with federal and international regulatory approaches, and monitors credit unions to ensure they are operating according to those standards.

For more information, please visit their website: http://www.cudgc.sk.ca.

Results Overview

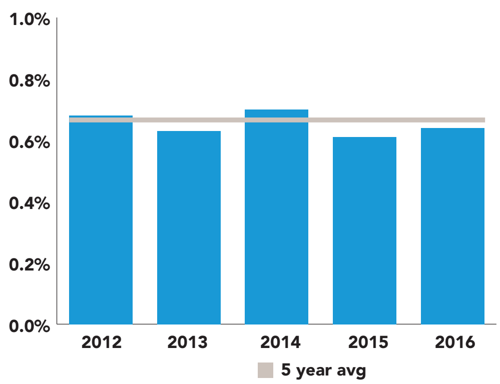
The financial performance of Saskatchewan credit unions is summarized below based on the following key performance indicators: profitability, capital, growth, liquidity risk, credit risk and interest rate risk.

Management Discussion and Analysis

Profitability

In 2016, credit unions reported earnings of $136 million (2015 - $124 million) for a return on average assets of 0.64% (2015 – 0.61%). Despite continued low interest rates and economic conditions, improvements in non-interest revenue and cost containment ensured credit unions achieved strong profitability in 2016.

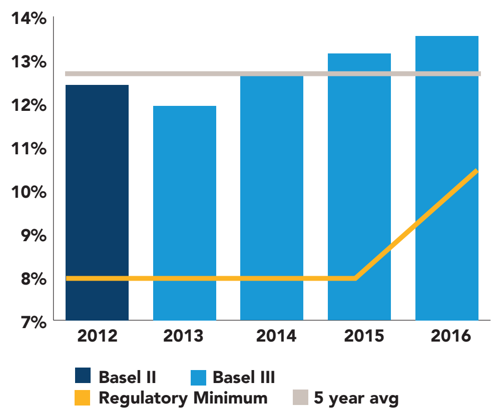
Return on Average Assets



Capital

Capital levels continued to improve in 2016, with credit unions focusing on maintaining costs and managing growth. As a percentage of risk-weighted assets, eligible capital increased to 13.6% from 13.1% in 2015. This was due to strong profitability and lower loan growth. Credit union capital is well above the current regulatory minimum of 10.5% (2015 – 8.0%).

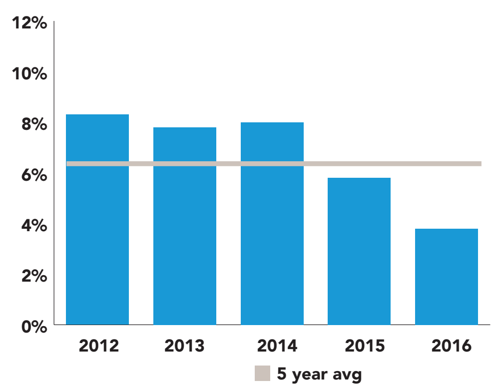
Basel II And Basel III Total Eligible Capital (%RWA)



Growth

Asset, loan and deposit growth decreased from levels achieved in 2015. This was expected and can be attributed to the weakened Saskatchewan economy. Assets grew by 3.8% to $21.6 billion (2015 - $20.8 billion), behind the five year average of 6.7%.

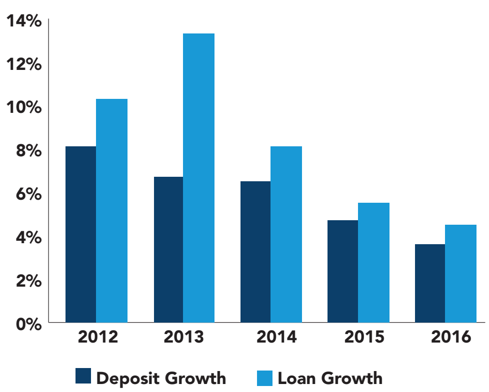
Asset Growth



Management Discussion and Analysis

Loans grew 4.5% to $17.4 billion (2015 – $16.6 billion). Net new loans outpaced net new deposits in 2016. Deposit growth decreased from 2015 to 3.6%, the lowest it has been in the last five years.

Deposit/Loan Growth



Liquidity Risk

Credit unions have made efforts to stabilize liquidity risk. With loan growth outpacing deposit growth, liquidity decreased slightly in 2016.

Credit Risk

Delinquencies in 2016 were 0.8% (2015 – 0.4%), which is above the five year average of 0.5%. The increase in delinquencies was not unexpected given the current economic conditions. Saskatchewan credit unions had historically low delinquency rates in previous years.

Interest Rate Risk

Interest rate risk increased slightly in 2016 and was above the five year average. For a 1% increase in interest rates, the net market value change to assets increased slightly to -0.54% (-0.48% in 2015) and continues to remain within an acceptable range.

Statistical Review of Credit Unions

	2012	2013	2014	2015	**2016**
Credit Unions	60	53	51	49	**46**
Employees	3,479	3,467	3,469	3,477	**3,427**
Members	502,413	490,712	475,201	472,702	**474,126**

2016 SaskCentral Consolidated Financial Performance

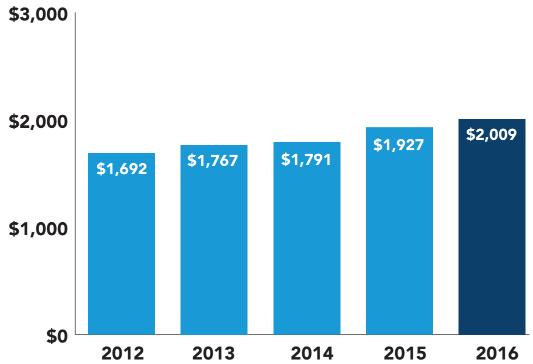
Results Overview

SaskCentral's consolidated financial performance includes results from subsidiaries, associates and joint operations. The financial performance and stability of SaskCentral is summarized according to the following categories: growth, profitability, liquidity, and return on equity (ROE).

Growth

SaskCentral's deposits increased by 4.3% over prior year (2015 – 7.6%). Statutory liquidity deposits comprise 92.7% (2015 - 93.0%) of total deposits.

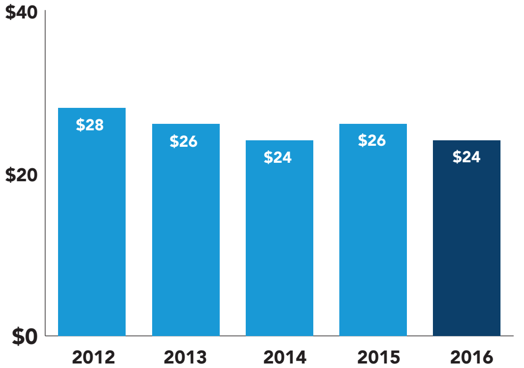
SaskCentral Deposits (in millions)



Profitability

SaskCentral's profit was $23.8 million (2015 – $26.3 million).

SaskCentral Profit (in millions)



Net interest income remained consistent with prior year at $11.0 million (2015 - $11.1 million).

Income from dues increased slightly to $5.6 million (2015 – $5.5 million).

Fee for service revenue decreased to $22.5 million (2015 – $24.2 million) primarily due to decreased sales for discretionary products and services provided to credit unions.

Gains on financial instruments arise from master asset vehicles and from portfolio repositioning for asset/liability management purposes. Gains decreased to $1.0 million (2015 – $2.9 million) as the prior year results include a one-time settlement related to Castor Holdings Ltd. of $1.7 million.

The share of profits of associates represents SaskCentral's share of net income from Concentra Financial, Celero Solutions, and Saskatchewan Entrepreneurial Fund Joint Venture. The share of profits in associates was $24.2 million (2015 – $22.7 million). The increase was due to strong earnings from Concentra Financial. Refer to Note 34 in the consolidated financial statements for details on a subsequent event related to Concentra Financial.

Management Discussion and Analysis

Non-interest expenses represent expenditures incurred to fund dues-related products and generate fee for service revenue, as well as general operating expenses such as salary and employee benefits and occupancy costs. Non-interest expenses decreased to $33.3 million (2015 – $33.8 million) due to cost savings in SaskCentral operations.

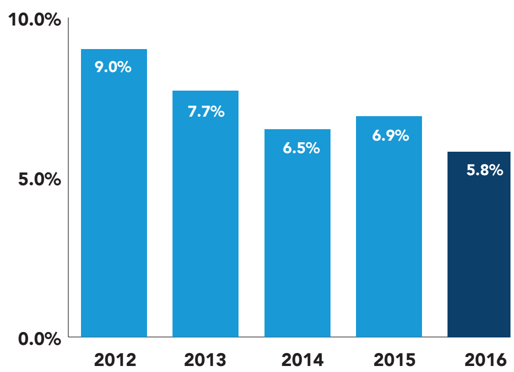
SaskCentral paid a dividend to credit unions in March 2016 of $8.1 million (2015 – $5.4 million), representing a 5.8% (2014 – 4.0%) return on investment. SaskCentral also paid to credit unions the dividend received from Concentra Financial of $5.6 million (2015 – $4.5 million) in June. This dividend represented a 5.0% return on SaskCentral's investment in Concentra Financial (2015 – 4.0%).

In January 2017, SaskCentral paid a dividend of $5.6 million relating to an additional dividend received from Concentra Financial. This dividend represented a 5.0% return on SaskCentral's investment in Concentra Financial.

Liquidity
SaskCentral continued to hold a strong liquidity position in 2016. Consolidated cash and securities totalled $2.2 billion, or 87.2% of assets (2015 – $2.1 billion or 87.3%).

Return on Equity
Equity increased by $31.5 million over 2015. Another year of strong earnings resulted in an increase in retained earnings of $13.8 million. In addition, credit unions voluntarily subscribed to $22.5 million (2015 – $3.1 million) in membership share capital. For 2016, SaskCentral's ROE was 5.8% (2015 – 6.9%).

SaskCentral Return on Equity



Liquidity Management

SaskCentral manages liquidity by evaluating regulatory developments, monitoring liquidity risks, evaluating liquidity sufficiency and providing leadership on emergency liquidity processes.

Two measures are used to monitor SaskCentral's liquidity risk position. First, a liquidity coverage ratio compares liquid assets to potential outflows on a system-wide and stand-alone basis. Second, a liquidity score is calculated on SaskCentral's investment portfolio. Both measures are used to assess SaskCentral's liquidity position and all policy requirements have been met in 2016. Refer to Note 3 for further information.

Capital Management

Capital management consists of maintaining the capital required to cover risks and comply with the regulatory capital ratios defined by OSFI. Policies are developed to set out the principles and practices SaskCentral incorporates into its capital management strategy. These policies also set out the basic criteria SaskCentral adopts to ensure that it has sufficient capital at all times and prudently manages such capital in view of its future capital requirements.

SaskCentral has developed an Internal Capital Adequacy Assessment Process (ICAAP) as an important component of its Enterprise Risk Management framework. ICAAP provides a comprehensive financial analysis of the organization's major risks. This analysis improves the understanding of the issues facing SaskCentral and their financial impact on the organization. The ICAAP allows SaskCentral to make more informed decisions about its strategic initiatives, organizational policies and capital optimization strategies. Doing so assists SaskCentral in meeting its strategic objectives.

SaskCentral actively manages capital to ensure long-term financial stability, balancing the credit unions' desire for return on their investments with the capital requirements necessary to support liquidity functions and maintain an investment-grade credit rating. Capital plans analyze the different strategies that are available to SaskCentral to optimize capital. Specifically, the purpose of capital planning is to ensure SaskCentral has adequate capital to:

- meet regulatory and operational requirements;
- provide flexibility for changes in business plans;
- signal financial strength to stakeholders; and
- provide dividend options.

Regulatory Capital and Capital Ratios

Capital levels are regulated pursuant to guidelines issued by OSFI. Regulatory capital is allocated to two tiers. Tier 1 capital comprises the highest quality capital and is a core measure of SaskCentral's financial strength. It consists of more permanent components of capital, is free of mandatory fixed charges against earnings and has a subordinate legal position to the rights of depositors and other creditors. SaskCentral's Tier 1 capital is comprised of credit union membership shares and retained earnings. Tier 2 capital includes supplementary capital instruments that contribute to the overall strength of SaskCentral as a going concern but fall short of meeting the Tier 1 requirements. Total capital is defined as the sum of Tier 1 and Tier 2 capital. For further details on the terms and conditions of the various capital components, refer to Note 5 in the consolidated financial statements.

Regulatory capital is adjusted for investments in unconsolidated subsidiaries. The investment in Concentra Financial (net of accumulated other comprehensive income) and Celero Solutions is deducted from SaskCentral's capital. This allows OSFI to monitor the capital strength of SaskCentral's stand-alone operations. Concentra Financial is a regulated financial institution — it reports separately to and is regulated directly by OSFI.

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Borrowing Multiple

Regulatory capital adequacy is measured by OSFI through the borrowing multiple. The borrowing multiple is calculated by dividing total borrowings by Tier 1 and Tier 2 regulatory capital. Total borrowings consist of deposits, loans payable, notes payable, and other adjustments. OSFI sets a limit of 20.0:1 that the borrowing multiple must not exceed.

SaskCentral has set its own maximums that are below that of OSFI. The Financial Management Policy sets a limit of 17.0:1, at which point the board must take immediate mitigating action to make certain the borrowing multiple does not exceed OSFI's limit. The Financial Management Policy also describes a management limit of 16.0:1, at which point management will outline actions to assuage the situation. As of December 31, 2016, the borrowing multiple was 11.9:1 (2015 – 13.2:1).

Regulatory Capital and Ratios

	2016	2015
Tier 1 Capital	**426,795**	390,525
Total Borrowing Multiple Capital	**175,887**	151,393
Total Borrowings	**2,092,624**	1,999,440
Actual Borrowing Multiple	**11.9:1**	13.2:1
SaskCentral Policy Limit	**17.0:1**	17.0:1
Tier 1 Regulatory Capital		
Membership shares	**161,161**	138,688
Retained earnings	**269,505**	255,708
IFRS related reclassification[1]	**(3,871)**	(3,871)
Total Tier 1 Capital	**426,795**	390,525
Tier 2 Regulatory Capital		
IFRS related reclassification[1]	**3,871**	3,871
Total Tier 2 Capital	**3,871**	3,871
Total Tier 1 and Tier 2 Capital	**430,666**	394,396
Deduct:		
Investments in unconsolidated subsidiaries	**253,422**	241,837
Assets of little or no realizable value	**1,357**	1,166
Total Tier 1 and Tier 2 Capital	**175,887**	151,393

1 Accumulated net after-tax fair value gain on investment property is reclassified to Tier 2.

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Capital Management

SaskCentral's borrowing multiple is expected to increase due to system growth. SaskCentral's capital plan evaluates projected capital adequacy and considers capital options, including membership share true-up and organic growth of retained earnings.

SaskCentral's bylaws require member credit unions to maintain membership share capital in SaskCentral at 1% of the previous year's system assets. The bylaw gives SaskCentral the discretion to make this annual true-up in whole or in part. It does not prohibit or prevent either a request from SaskCentral for a voluntary share subscription or a credit union from voluntarily subscribing to additional membership share capital. In 2016, credit unions voluntarily subscribed to $22.5 million in additional membership share capital.

SaskCentral would not exercise the authority to require membership share capital subscriptions unless its capital plan indicated a projected borrowing multiple in excess of 16.0:1 in the subsequent year. In that case, SaskCentral would only exercise this authority to the extent that the required subscriptions would bring the projected borrowing multiple to 16.0:1 or to 1.0% of system assets, whichever was first met. At December 31, 2016 credit union membership share capital represented 0.78% of 2015 system assets (0.75% of 2016 system assets).

SaskCentral remains well capitalized and able to support a strong, growing credit union system. Based on the projected borrowing multiple at the end of 2017, SaskCentral would be able to withstand additional capital shocks of $42.0 million before reaching the board policy limit of 17.0:1.

Capital Requirements

The primary purpose of capital is to support clearing and settlement, daily cash flow management and emergency liquidity support. Regulatory limits are established to ensure sufficiency of capital for these purposes.

Uses of Capital

Capital is directed to strategic investments that provide products and services to assist credit unions in servicing their members. These investments include Concentra Financial, Celero Solutions, CUPS, NEI, Credential Financial Inc., The Co-operators, CCUA and CUVentures Inc.

Excess capital is returned to the credit unions as a dividend. In 2016, a dividend of $8.1 million was paid based on SaskCentral's 2015 eligible earnings. In addition, Concentra Financial paid a $5.6 million Class A share dividend to SaskCentral in May based on 2015 earnings and a second dividend of $5.6 million in December based on projected 2016 earnings for a total of $11.2 million (2015 – $4.5 million). Each of these dividends represented a 5% return on SaskCentral's investment in Concentra Financial (2015 – 4.0%).

Future Capital Environment

SaskCentral continues to closely monitor developments in domestic and international regulatory environments to assess the impact on our current and future capital position, and will revise our capital management strategies to reflect any changes.

In February 2014, the Government of Canada announced plans to clarify the federal regulatory regime for credit unions, including cessation of OSFI's Supervision of Provincial Credit Union Centrals through repealing Part

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XVI of the *Cooperative Credit Associations Act (Canada)*, which allows for voluntary registration of provincial centrals under the federal regulatory regime.

As a consequence of this repeal, the Government of Saskatchewan enacted legislation that provided for the ongoing prudential regulation of SaskCentral. Under *The Credit Union Central of Saskatchewan Act, 2016*, which is effective January 15, 2017, each of the Registrar of Credit Unions and CUDGC will be responsible for the provision of prudential standards for the operation of SaskCentral.

The Financial and Consumer Affairs Authority of Saskatchewan (FCAA) is assigned the performance of all responsibilities imposed on the registrar and the exercise of all powers given to the registrar by this Act. CUDGC will take over regulatory responsibilities for the province effective January 15, 2017. SaskCentral does not expect this to impact its regulatory capital requirements.

Enterprise Risk Management

Enterprise Risk Management (ERM) is designed to identify potential events and risks that may significantly affect SaskCentral's ability to achieve its statutory and strategic goals and objectives. The goal of ERM at SaskCentral is not to eliminate risk, but rather to ensure that existing and emerging risks are identified and managed within acceptable risk appetites and tolerances.

The risk framework is closely tied with SaskCentral's strategy and is integrated with SaskCentral's strategy map and balanced scorecard. SaskCentral's strategy and its key risks are approved by the SaskCentral board. Effective management of risk strengthens the ability of the organization to achieve its objectives and meet its obligations. Risk-aware decisions, reflected in strategy and action, optimize opportunity and capacity to create profit for stakeholders.

SaskCentral utilizes a strategy map to represent the major business objectives and improvements that are most critical to the organization's success. These objectives are then used as the major risk categories, facilitating more intense scrutiny of critical areas during risk identification.

In 2016, SaskCentral's strategy map included the following objectives:

- Address evolving regulatory developments to clearing and liquidity structures
- Integrate trade services functions within CCUA
- Support strategic investee's alignment to the national mandate
- Develop a national product and service model for Peer Group 3 credit unions
- Maintain financial strength
- Sustain employee engagement and cultural alignment in support of the strategy

Although risks are managed within the balanced scorecard/strategy map approach, all risks are also mapped to the OSFI risk categories of credit, market (interest rate, price and foreign exchange), liquidity, strategic and operational, legal and regulatory.

SaskCentral has a board-approved conflict of interest policy and a code of conduct that must be followed by all employees, directors and delegates. In addition, SaskCentral has a regulatory compliance framework and anti-money laundering/ anti-terrorist financing framework. The regulatory compliance framework and the anti-money laundering/anti-terrorist financing framework each consist of board-approved policy and procedures, which require the appointment of a Chief Compliance Officer/Chief Anti-Money Laundering Officer to oversee and be responsible for the framework, regular risk assessment and reporting to executive management and the board on legislative and regulatory compliance, and independent review of the framework.

The Financial Management Policy contains policies for capital impairment, annual earnings distribution and the quantity of capital that the organization is required to maintain to comply with regulatory requirements.

As a financial institution, SaskCentral takes on risk to create value for its shareholders. Credit and market risk are undertaken within the risk tolerance levels outlined in the board's policies. These portfolios of risk reflect the organization's competencies and capacities. They are evaluated, managed and priced on the basis of changing business conditions in the competitive environment. SaskCentral's Financial Management Advisory Committee reviews these risks on a quarterly basis.

The ICAAP is an important part of SaskCentral's ERM process. ICAAP provides a comprehensive financial analysis of the organization's major risks and allows SaskCentral to make more informed decisions about its strategic initiatives, organizational policies and capital optimization strategies. The ICAAP is reviewed annually by the Board.

SaskCentral provides centralized coordination of emergency liquidity processes as described in the Liquidity Crisis Management Plan. The plan provides the basis for navigating through a liquidity crisis in a speedy and appropriate manner by outlining triggers, roles and responsibilities and communication protocols. The Liquidity Crisis Management Team is comprised of decision makers from SaskCentral, CUDGC, the affected credit unions and Concentra Financial.

Every organization is vulnerable to loss as a result of business disruption or disasters. SaskCentral is responsible for minimizing the impact on the organization including recovering critical functions for clients and protecting employees and tenants. To minimize the potential impact from these types of events, SaskCentral has developed and maintains a comprehensive Business Continuity Plan which includes an Emergency Preparedness Plan, Disaster Recovery Plan and a Business Resumption Plan. Major risks identified as part of the business continuity planning process are considered for inclusion in the corporate risk register if the impact merits it.

2017 Outlook

The following forward-looking information in this section must be read in conjunction with the ***Caution Regarding Forward-Looking Statements*** *described at the beginning of the MD&A.*

The credit union landscape has changed considerably since its inception. This change has been largely driven by developments in technology, changes in consumer behaviour and intense competitive pressures within the financial services sector. Yet credit unions remain fundamentally the same in the opportunity to offer services through the co-operative business model based on values of

Management Discussion and Analysis

honesty, openness, social responsibility and caring for others. Change at SaskCentral and the broader second tier must keep pace.

SaskCentral aspires to a vision of a nationally unified and internationally capable co-operative financial network. We are aligned with the vision put forward by Credit Union Central of Canada in the formation of the CCUA: a credit union system with one national wholesale financial services supplier and one national trade association serving and representing Canada's credit unions.

SaskCentral's participation in collaborative discussions on national projects with our credit unions, second tier partners and regulatory stakeholders enables us to achieve our vision of a nationally unified, internationally capable, co-operative financial network. Toward this vision, our focus is on our two strategic goals, national collaboration and credit union experience.

The 2017 Business Plan is broken down into four separate focus areas:

Strategic

The goal of the Strategic focus area is to demonstrate leadership in delivering transformational change nationally to position credit unions for success. In 2017, SaskCentral has identified four critical national objectives that support this goal: address evolving developments to clearing and settlement structures; support continued integration with CCUA; support strategic investees' alignment to our national mandate; and develop a National Wholesale Financial Services Provider.

Credit Union

The goal of the Credit Union focus area is to facilitate wholesale product and service expertise to support credit unions nationally. In 2017, SaskCentral's objective to support this goal will be creation and implementation of the CU Solutions Partnership with Central 1. The CU Solutions Partnership is a national fee-for-service model for small and medium credit unions based on a user-pay approach.

Financial

The goal of the Financial focus area is to maintain a position of financial strength to enable the achievement of our strategic objectives. SaskCentral's financial focus will be centered on maintaining interest margin, stable core earnings and efficiency in a rapidly evolving regulatory environment.

People

The goal of the People focus area is to maintain engaged employees and a constructive culture with the competencies required to facilitate the achievement of our strategic direction. SaskCentral's strategies for sustaining employee engagement and cultural alignment are centered on ensuring employees have the tools and support to help them personally manage change, leadership training and development to support employees through organizational change and enhancing both formal and informal retention strategies throughout the organization.

Accounting Matters

Critical Accounting Estimates and Assumptions

The accompanying consolidated financial statements have been prepared in accordance with IFRS. The significant accounting policies used in the preparation of the financial statements are described in Note 2. The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses at year end. Critical accounting estimates and judgments are described in Note 6.

Subsequent Events

Refer to Note 34 for details on a subsequent event.