

Separate Management Discussion and Analysis

The purpose of the following discussion is to provide the users of SaskCentral's financial statements with an overview of its financial performance and the various measures SaskCentral uses to evaluate its financial results.

This section of the annual report provides the separate results of SaskCentral and should be read in conjunction with the audited separate financial statements and notes as at and for the year ended December 31, 2017. SaskCentral's separate financial statements do not consolidate the activities of its subsidiaries.



Separate Management Discussion and Analysis

The separate 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, 2018 and provides comments regarding SaskCentral's financial and operating results, risk management, capital management and business outlook.

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 and 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, alignment of strategies of potential partners, 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 the liquidity manager and key consulting service supplier for Saskatchewan credit unions. SaskCentral also maintains business relationships with, and investment in, a number of system entities, including Concentra Bank, CUPS Payment Services (CUPS), the Canadian Credit Union Association (CCUA) and CUVentures LP.

Economic Overview

Saskatchewan's economic growth declined in recent years due to a downturn in the resource sector. In 2017, Saskatchewan's resource sector improved. Growth has been modest in 2017 due to the impact of an extended lack of moisture on agricultural output. The labour market stabilized in 2017 and the unemployment rate was 6.3% (2016 – 6.2%).

The 2018 outlook is optimistic, fueled by a continued recovery in the resource sector and related capital spending, and a return to normalized growing conditions in the agricultural sector. Economic growth is expected to increase 2.3% in 2018, above the national forecast of 2.0%. Employment is expected to expand 0.5% in 2018 and the unemployment rate is expected to decline to 5.7%.

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Saskatchewan Credit Union System Performance

SaskCentral manages liquidity on behalf of the credit union system and SaskCentral's financial strength is built upon the financial strength of the credit union system. Saskatchewan credit unions are financially sound.

Credit Union Deposit Guarantee Corporation (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>.

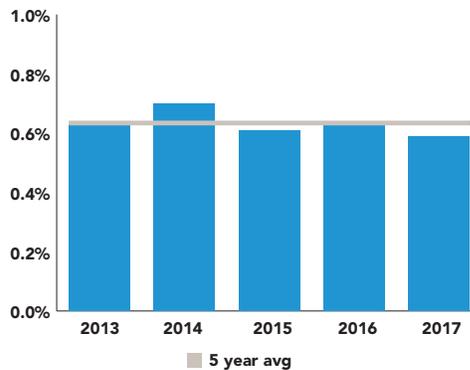
Results Overview

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.

Profitability

In 2017, credit unions reported earnings of \$130 million (2016 - \$136 million) for a return on average assets of 0.59% (2016 - 0.64%). Although Bank of Canada rate increases led to a year-over-year increase in net interest margin, earnings are lower compared to prior year due to an increase in provisions for credit losses and a decrease in non-interest revenue.

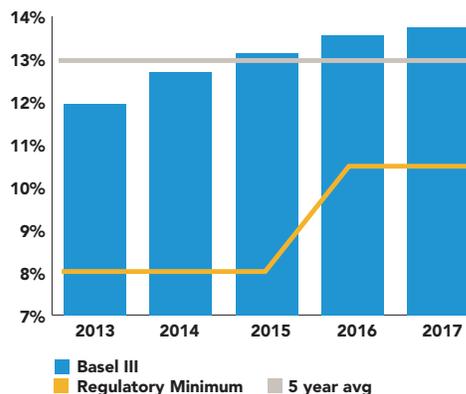
Return on Average Assets



Capital

Capital levels continued to improve in 2017, with credit unions focusing on maintaining costs and managing growth. As a percentage of risk-weighted assets (RWA), eligible capital increased to 13.7% from 13.6% in 2016. This was due to strong profitability and moderate loan growth. Credit union capital is well above the current regulatory minimum of 10.5%.

Basel III Total Eligible Capital (%RWA)



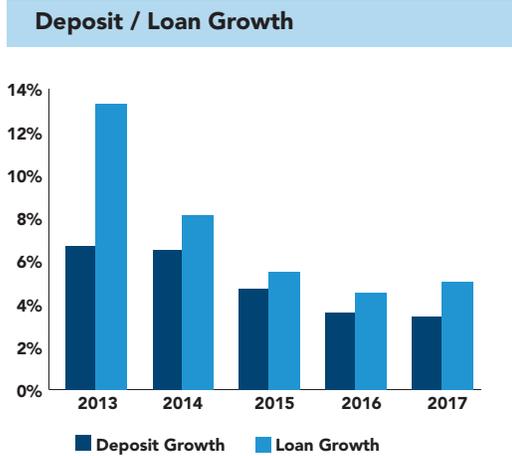
Separate Management Discussion and Analysis

Growth

In 2017, asset and loan growth exceeded levels achieved in 2016, while deposit growth fell slightly below that of 2016. The decrease in deposit growth is consistent with Saskatchewan's recent economic conditions. Assets grew by 3.9% to \$22.4 billion (2016 - \$21.6 billion), behind the five-year average of 5.9%.



Loans grew 5.0% to \$18.2 billion (2016 - \$17.4 billion). Net new loans outpaced net new deposits in 2017. Deposit growth decreased from 2016 to 3.4%, the lowest it has been in the last five years.



Liquidity Risk

Credit unions implemented new liquidity standards in 2017 with positive results. Liquidity increased in 2017 mainly due to lower than expected loan growth and an increase in high quality liquid assets (HQLA).

Credit Risk

Delinquencies in 2017 were 1.0% (2016 - 0.8%), which is above the five-year average of 0.6%. The increase in delinquencies was primarily in commercial loans and mortgages. 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 2017 and was above the five-year average. For a 1% increase in interest rates, the net market value change to assets increased to -0.60% (-0.54% in 2016) and continues to remain within an acceptable range. Credit unions are well capitalized to manage the exposure.

Separate Management Discussion and Analysis

Statistical Review of Credit Unions

	2013	2014	2015	2016	2017
Credit Unions	53	51	49	46	46
Employees	3,467	3,469	3,477	3,427	3,306
Members	490,712	475,201	472,702	474,126	476,638

2017 SaskCentral Separate Financial Performance

Results Overview

SaskCentral's separate financial performance includes results from SaskCentral with its downstream investees accounted for using the equity method of accounting. The financial performance and stability of SaskCentral is summarized according to the following categories: profitability, growth, liquidity, and return on equity (ROE).

Profitability

SaskCentral's profit was \$103.2 million (2016 – \$23.8 million). The significant increase was related to the gain on acquisition of control of Concentra Bank of \$48.3 million and income tax recovery of \$21.6 million.

SaskCentral Profit (in millions)



Separate Management Discussion and Analysis

Net interest income increased to \$11.7 million (2016 – \$11.0 million) primarily due to increased interest earning assets during the year.

Income from dues decreased slightly to \$5.4 million (2016 – \$5.6 million) due to less funding required for system wide research and development activities.

Fee for service revenue decreased to \$11.2 million (2016 – \$11.5 million) primarily due to decreased sales of discretionary products and consulting services provided to credit unions.

The share of profits of associates represents SaskCentral's share of net income from downstream investees such as Concentra Bank, Celero Solutions, CUVentures LP, CUPS and Saskatchewan Entrepreneurial Fund Joint Venture. The share of profits in associates was \$27.4 million (2016 - \$25.1 million). The increase is due to strong earnings from Concentra Bank.

Non-interest expenses represent expenditures incurred to manage liquidity and provide consulting services to Saskatchewan credit unions, as well as general operating expenses such as salary and employee benefits, and occupancy costs. Non-interest expenses decreased to \$22.6 million (2016 – \$23.3 million) due to cost savings in SaskCentral operations. Professional fees for Canadian Credit Union Association (CCUA) cost sharing increased as a

result of the transition of Government Relations, Compliance and Member Experience functions to CCUA. There was an offsetting decrease to the salary and benefits expense.

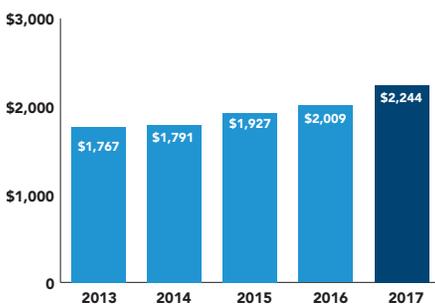
SaskCentral paid a dividend to credit unions in April 2017 of \$5.1 million (2016 – \$8.1 million) based on SaskCentral's 2016 earnings, representing a 3.7% (2016 – 5.8%) return on investment. SaskCentral also distributed to credit unions the dividends received from Concentra Bank of \$9.0 million (2016 – \$5.6 million). Of this \$9.0 million, \$5.6 million related to Concentra Bank's 2016 earnings and was declared and paid in January 2017. The remaining \$3.4 million related to Concentra Bank's 2017 earnings and was declared in December 2017 with payment in January 2018. Concentra Bank's dividends represented a 7.6% return on SaskCentral's investment in Concentra Bank (2016 – 4.8%).

Separate Management Discussion and Analysis

Growth

SaskCentral's deposits increased by 11.7% over prior year (2016 – 4.3%). Deposits are comprised of statutory liquidity deposits and credit union cash balances. Statutory liquidity deposits increased 5.1% and credit union cash balances increased 97.5%. Credit union cash balances can fluctuate substantially year over year. Statutory liquidity deposits comprise 87.2% (2016 - 92.7%) of total deposits.

SaskCentral Deposits (in millions)



Liquidity

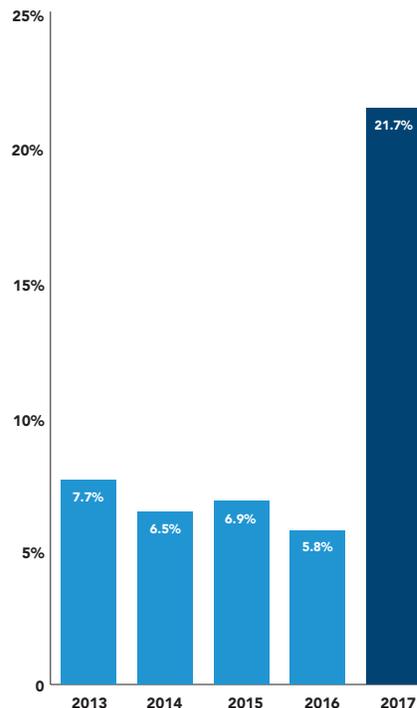
SaskCentral continued to hold a strong liquidity position in 2017. Cash and securities totalled \$2.5 billion, or 86.6% of assets (2016 – \$2.2 billion or 87.1%).

Return on Equity

Equity increased by \$103.5 million over 2016. Another year of strong earnings, along with a fair value gain and recovery of deferred taxes due to the acquisition of control in Concentra

Bank, resulted in an increase in retained earnings of \$92.0 million. Credit unions voluntarily subscribed to \$0.4 million (2016 - \$22.5 million) in membership share capital during the year. For 2017, SaskCentral's ROE was 21.7% (2016 – 5.8%).

SaskCentral Return on Equity



Separate Management Discussion and Analysis

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. SaskCentral's liquidity coverage ratio is modeled after the Liquidity Adequacy Requirements of the Office of the Superintendent of Financial Institutions (OSFI); however, the ratio was modified to recognize SaskCentral's unique attributes. 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 2017. Refer to Note 4 of the separate financial statements for further information.

SaskCentral is supporting CUDGC and credit unions in the implementation of credit union liquidity standards. CUDGC has aligned its liquidity requirements for credit unions with those set by the OSFI for federally regulated financial institutions. *The Standards of Sound Business Practice – Liquidity Adequacy Requirements* were implemented on 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 30 calendar days. A credit 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.

A Change to SaskCentral's Regulator

In February 2014, the Government of Canada announced plans to clarify the federal regulatory regime for credit unions, including cessation of the OSFI Supervision of Provincial Credit Union Centrals through repealing Part XVI of the *Cooperative Credit Associations Act (Canada)*, which allowed 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 on-going prudential regulation of SaskCentral. Under *The Credit Union Central of Saskatchewan Act, 2016* (the Act), which was effective January 15, 2017, each of the Registrar of Credit Unions and CUDGC is responsible for the provision of prudential standards for the operation of SaskCentral. The Financial and Consumer Affairs Authority of

Separate Management Discussion and Analysis

Saskatchewan was assigned the performance of all responsibilities imposed on the registrar and the exercise of all powers given to the registrar by the Act. CUDGC took over regulatory responsibilities for the province effective January 15, 2017. This did not impact SaskCentral's regulatory capital requirements.

Capital Management

Capital management consists of maintaining the capital required to cover risks and comply with the regulatory capital ratios defined by CUDGC. 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 (ERM) 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 CUDGC. 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 6 in the separate financial statements.

Regulatory capital is adjusted for investments in unconsolidated subsidiaries. The investments in Concentra Bank (net of accumulated other comprehensive income) and Celero Solutions are deducted from SaskCentral's capital. This allows CUDGC to monitor the capital strength of SaskCentral's stand-alone operations. Concentra Bank is a federally 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 CUDGC 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. CUDGC 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 CUDGC. 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 CUDGC'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, 2017, the borrowing multiple was 12.2:1 (2016 – 11.9:1).

Regulatory Capital and Ratios

	2017	2016
Tier 1 Capital	519,223	426,795
Total Borrowing Multiple Capital	190,158	175,887
Total Borrowings	2,322,003	2,092,624
Actual Borrowing Multiple	12:2:1	11.9:1
SaskCentral Policy Limit	17.0:1	17.0:1
Tier 1 Regulatory Capital		
Membership shares	161,607	161,161
Retained earnings	361,487	269,505
IFRS related reclassification ¹	(3,871)	(3,871)
Total Tier 1 Capital	519,223	426,795
Tier 2 Regulatory Capital		
Subordinated debt		
IFRS related reclassification ¹	3,871	3,871
Total Tier 2 Capital	3,871	3,871
Total Tier 1 and Tier 2 Capital	523,094	430,666
Deduct:		
Investments in unconsolidated subsidiaries	324,774	253,422
Assets of little or no realizable value	8,162	1,357
Total Tier 1 and Tier 2 Capital	190,158	175,887

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

Separate Management Discussion and Analysis

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 2017, credit unions voluntarily subscribed to \$0.4 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, 2017 credit union membership share capital represented 0.75% of 2016 system assets (0.72% of 2017 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 \$53.6 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 Bank, Celero Solutions, CUPS, Northwest & Ethical Investments LP, Credential Financial Inc., The Co-operators, CCUA and CUVentures Inc.

Excess capital is returned to the credit unions as a dividend. SaskCentral paid a dividend to credit unions in April 2017 of \$5.1 million (2016 – \$8.1 million) based on SaskCentral's 2016 earnings, representing a 3.7% (2016 – 5.8%) return on investment. SaskCentral also paid to credit unions the dividends received from Concentra Bank of \$9.0 million (2016 – \$5.6 million). Of this \$9.0 million, \$5.6 million related to Concentra Bank's 2016 earnings and was declared and paid in January 2017. The remaining \$3.4 million related to Concentra Bank's 2017 earnings and was declared in December 2017 with payment in January 2018. Concentra Bank's dividends represented a 7.6% return on SaskCentral's investment in Concentra Bank (2016 – 4.8%).

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 its capital management strategies to reflect any changes.

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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 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 2017, 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;
- Engage Concentra Bank and Central 1 in exploring development of a single consolidated national wholesale provider;
- Develop a national fee for service product and service model for the small and medium

credit union market;

- Maintain financial strength; and
- Sustain employee engagement and cultural alignment.

Risks are also mapped to the risk categories of credit, market (interest rate, price and foreign exchange), liquidity, strategic and operational, legal and regulatory applicable to all financial institutions. SaskCentral's risk appetites, risk tolerances and key risks are updated annually by the board. Key risks are identified annually through the registry of all identified risks facing the organization. Management reports the status and trending of key risks on a quarterly basis to the board. The status and trending of the remaining risks identified are reported quarterly to the Financial Management Advisory Committee.

SaskCentral has a board-approved conflict of interest policy and a code of conduct that must be followed by all employees and directors. 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

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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 union(s), Concentra Bank, the group clearer and CCUA.

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.

Concentra Bank manages its ERM process independent of SaskCentral. For further information, please refer to Concentra Bank's 2017 annual report.

2018 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 Separate MD&A.*

The credit union landscape continues to rapidly evolve, driven by developments in technology, changes in consumer behaviour, and intense competitive pressures within the financial services sector. This evolution requires transformation of the Centrals and the broader Tier II to more effectively and efficiently service credit unions across Canada.

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

Within the national credit union system there are various views about what Tier II transformation should look like. SaskCentral strives to take a leading role in this transformation. The SaskCentral board believes it is not merely enough to vocalize support for national transformation. SaskCentral needs to actively demonstrate this support in order to bring about transformation.

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SaskCentral focus remains on two strategic goals, national collaboration and credit union experience, through which it will ultimately achieve the vision.

The 2018 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 2018, SaskCentral has identified three critical national objectives that support this goal: demonstrate leadership in the functional integration of the National Tier II; support strategic investees' alignment to the national mandate; and address evolving developments to payments, clearing and settlement.

Credit Union

The goal of the Credit Union focus area is to facilitate wholesale product and service expertise to support credit unions nationally to ensure Saskatchewan credit unions have access to sustainable nationally scalable products and services. In 2018, SaskCentral's objective to support this goal will be focused on broadening the scope of the CU Solutions National Service Delivery.

Financial

The goal of the Financial focus area is to maintain a position of financial strength to enable the achievement of SaskCentral's strategic objectives. SaskCentral's financial focus will be centered on effectively managing the balance sheet, maintaining interest margin, ensuring the transparency of national transition costs, and efficiently managing core earnings to demonstrate SaskCentral's low profit business model.

People

The goal of the People focus area is to maintain a constructive culture and engaged employees with the competencies required to facilitate the achievement of SaskCentral's strategic direction. In 2018, SaskCentral's strategies for sustaining employee engagement and cultural alignment are centered on building employee resilience and agility across the organization.

Accounting Matters

Critical Accounting Estimates and Assumptions

The accompanying separate financial statements have been prepared in accordance with IFRS. The significant accounting policies used in the preparation of the separate financial statements are described in Note 2. The preparation of the separate 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 3 in the separate financial statements.

Subsequent Events

Refer to Note 30 of the separate financial statements for details on a subsequent event.

Management's Responsibility For Financial Reporting

To the Members of Credit Union Central of Saskatchewan

Management has responsibility for preparing the accompanying separate financial statements and ensuring that all information in the annual report is consistent with the separate financial statements. This responsibility includes selecting appropriate accounting principles and making objective judgements and estimates in accordance with International Financial Reporting Standards. The separate financial statements have been prepared, without consolidation, in accordance with the basis of accounting described in Note 2 of the separate financial statements, and consistently applied, using management's best estimates and judgements where appropriate.

In discharging its responsibilities for the integrity and fairness of the separate 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 system of internal controls is further supported by Audit Services staff, who regularly reviews all aspects of SaskCentral's operations. The board of directors and the Audit and Risk Committee are composed entirely of directors who are neither management nor employees of SaskCentral. The Audit and Risk Committee is appointed by the board to review the separate financial statements

in detail with management and to report to the board prior to their approval of the separate financial statements for publication.

Credit Union Deposit Guarantee Corporation of Saskatchewan reviews the activities of SaskCentral to ensure compliance with the *Cooperative Credit Associations Act and the Credit Union Central of Saskatchewan Act, 2016*, to ensure the safety of depositors and members of SaskCentral and to ensure that SaskCentral is in sound financial condition. Their findings are reported directly to management.

External auditors are appointed by the members to audit the separate financial statements and report directly to them; their report is presented separately.



Keith Nixon,
Chief Executive Officer



Sheri Lucas,
Executive Vice-President of Finance / Chief
Financial Officer / Chief Risk Officer
February 27, 2018

Separate Audit and Risk Committee Report to the Members

To the Members of Credit Union Central of Saskatchewan

The purpose of the Audit and Risk Committee is to ensure an independent review of SaskCentral's financial operation in areas deemed necessary to maintain the integrity of financial data, adequacy of internal controls and adherence to sound financial practices.

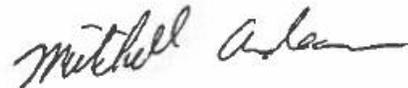
The Audit and Risk Committee, composed of five directors independent of management, meets at least quarterly and provides a report to the board of directors on its activities following every meeting. The Audit and Risk Committee reviews the annual separate financial statements with management and recommends their approval to the board of directors.

The Audit and Risk Committee requires management to implement and maintain appropriate internal control procedures, and reviews, evaluates and approves those procedures. Annually, management prepares amendments to the *Financial Management Policy*, which are reviewed by the Audit and Risk Committee. As part of its mandate, the Audit and Risk Committee monitors management's adherence to the *Financial Management Policy*. In addition, any significant transactions that could affect the well-being of SaskCentral are reviewed by the Audit and Risk Committee.

The Audit and Risk Committee recommends the appointment of the external auditor and reviews

the terms of the external audit engagement, annual fees, audit plans and scope, and management letter recommendations. The Audit and Risk Committee meets with the Chief Auditor to review and approve audit plans and also reviews reports from Audit Services on the effectiveness of the internal control environment. Both the external auditor and Audit Services have free access to, and meet periodically with, the Audit and Risk Committee to discuss their findings.

Management provides the Audit and Risk Committee with certifications on its compliance with the Credit Union Deposit Guarantee Corporation (CUDGC). Also, management letter recommendations received from CUDGC are reviewed by the Audit and Risk Committee.



Mitchell Anderson
Chair, Audit and Risk Committee
February 27, 2018

Independant Auditor's Report



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Independent Auditor's Report

To the Members of Credit Union Central of Saskatchewan

We have audited the accompanying separate financial statements of Credit Union Central of Saskatchewan, which comprise the separate balance sheet as at December 31, 2017 and 2016, and the separate statement of profit or loss, separate statement of comprehensive income or loss, separate statement of changes in equity and separate statement of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of separate 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 separate financial statements based on our audits. We conducted our audits 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 separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate 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 separate 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 separate financial statements.

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

Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of Credit Union Central of Saskatchewan as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Independant Auditor's Report

Other Matters

Credit Union Central of Saskatchewan has prepared a consolidated set of financial statements for the year ended December 31, 2017 in accordance with International Financial Reporting Standards on which we issued an auditor's report to the Members of Credit Union Central of Saskatchewan dated February 27, 2018.

A handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants
Licensed Professional Accountants
February 27, 2018
Regina, Saskatchewan