

Consolidated 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, 2017.

For purposes of SaskCentral's consolidated MD&A, SaskCentral refers to the consolidated entity, including its downstream investees, Concentra Bank (formerly Concentra Financial), CUPS Payment Services (CUPS), Celero Solutions and CUVentures LP.



Consolidated Management Discussion and Analysis

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, 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.

Consolidated Management Discussion and Analysis

SaskCentral's Strategic Partners

SaskCentral maintains business arrangements with, and investments in, a number of financial service organizations. These relationships provide Saskatchewan credit unions with required services and also enable SaskCentral to achieve efficiencies by dealing with key service suppliers on behalf of the entire Saskatchewan credit union system.

A summary of SaskCentral's strategic partners and their classification for accounting purposes is as follows:

Strategic Partner	Accounting Classification
Concentra Bank	Subsidiary
Credit Union Payment Services (CUPS)	Investment in joint operation
Celero Solutions	Investment in associate
CUVentures LP	Subsidiary
Saskatchewan Entrepreneurial Fund Joint Venture	Investment in associate

Of these strategic partners, Concentra Bank is the most significant in term of assets, liabilities, and profit generated. Specific details on Concentra Bank's financial performance consolidated in the results below have not been identified in this report. For further information on Concentra's 2017 financial results, please visit their website at www.concentra.ca.

Consolidated Management Discussion and Analysis

2017 SaskCentral Consolidated Financial Performance

Results Overview

SaskCentral's consolidated financial performance includes results from subsidiaries, associates and joint operations. The following table provides a summary of the key consolidated financial highlights.

Consolidated Financial Highlights

December 31 (in thousands)	2017 \$	2016 \$	2015 \$	2014 \$	2013 \$
Income from continuing operations					
Net interest income after loan impairment charges	99,941	10,999	11,074	10,892	11,197
Non-interest income	97,495	53,256	55,373	52,832	55,260
Non-interest expense	92,210	33,307	33,770	34,651	34,396
Income tax (recovery) expense	(7,911)	7,139	6,374	5,425	6,001
Net income	113,137	23,809	26,303	23,648	26,060
Distribution of income					
Dividends (includes non-controlling interests)	19,894	13,715	9,900	6,669	8,160
Distribution as a % of average share capital	12.3%	9.1%	7.2%	4.9%	6.4%
Financial Position					
Securities	3,077,842	2,131,450	2,054,862	1,906,201	1,927,146
Loans	7,721,935	45,057	37,800	40,636	80,568
Deposits	5,998,315	2,009,060	1,926,524	1,790,716	1,766,974
Equity	711,060	437,327	405,841	383,382	360,563

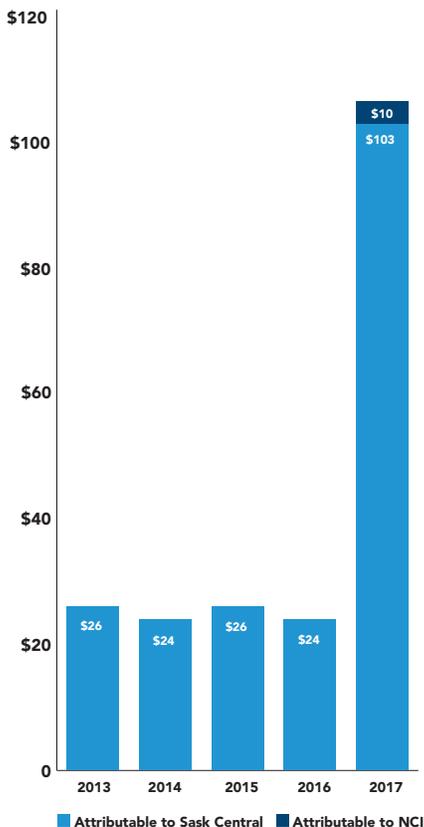
Consolidated Management Discussion and Analysis

Further to the financial highlights above, SaskCentral's consolidated performance is summarized according to the following categories: profitability; growth; and return on equity (ROE).

Profitability

SaskCentral's profit was \$113.1 million (2016 – \$23.8 million), of which \$10.0 million is attributable to non-controlling interest (NCI). The significant increase in 2016 was related to the gain on acquisition of control of Conentra Bank of \$48.3 million. Conentra Bank contributed \$33.6 million to SaskCentral's consolidated profit in 2017.

Consolidated Profit (in millions)

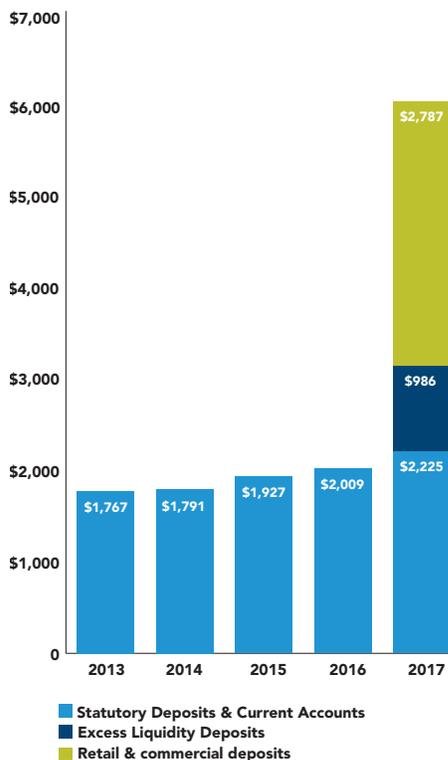


Growth

As a result of consolidation of Conentra Bank, SaskCentral's deposits have increased since 2016. Deposits are comprised of credit union deposits, retail deposits and commercial deposits. The credit union deposits are made up of statutory liquidity deposits and current accounts (credit union cash balances) offered by SaskCentral and the excess liquidity deposits offered by Conentra Bank.

The retail deposits consist of guaranteed investment certificates and registered plan deposits which are primarily sourced from the nominee market by third party brokerage firms. Commercial deposits relate to clients of Conentra Bank retained from its legacy direct banking operations, credit union cash balances and excess liquidity deposits.

Consolidated Deposits (in millions)



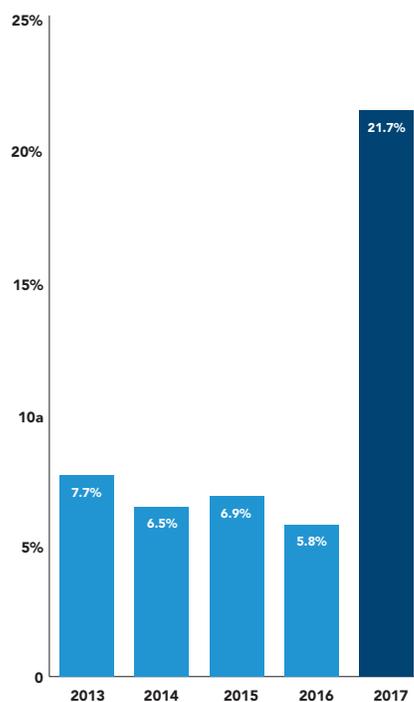
Consolidated Management Discussion and Analysis

SaskCentral's deposits, excluding excess liquidity, retail and commercial deposits increased by 10.8% over prior year (2016 – 4.3%). Statutory liquidity deposits increased 5.1% and credit union cash balances increased by 97.5%. Credit union cash balances can fluctuate substantially year over year.

Return on Equity

Equity attributable to SaskCentral increased by \$103.5 million over 2016. Another year of strong earnings, along with a fair value gain due to the acquisition of control in Concentra Bank, resulted in an increase to 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%). The increase from prior year is attributable to the gain on acquisition of control.

Consolidated Return on Equity



2018 Outlook

Please refer to the Separate MD&A for discussion on SaskCentral's 2018 outlook.

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 consolidated 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 3 of the consolidated financial statements.

Subsequent Events

Refer to Note 35 of the consolidated 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 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 judgements and estimates in accordance with International Financial Reporting Standards.

In discharging its responsibilities 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 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 consolidated financial statements in detail with management and to report to the board prior to their approval of the consolidated 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 consolidated 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

Consolidated 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 consolidated 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 Audit Officer 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