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, 2018. 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 March 6, 2019 and provides comments regarding SaskCentral's financial and operating results, risk management, capital management and business outlook.

Effective January 1, 2018, SaskCentral adopted IFRS 9, *Financial Instruments* (IFRS 9) and IFRS 15, *Revenue from Contracts with Customers* (IFRS 15). SaskCentral has adopted these standards retrospectively using the cumulative effects method, and therefore, comparative information has not been restated.

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, 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. Through strategic leadership, liquidity management and a wide range of products and services, SaskCentral helps Saskatchewan credit unions meet their own targets for success. SaskCentral maintains business relationships with, and investment in, a number of co-operative entities, including Concentra Bank, Credit Union Payment Services (CUPS), CU CUMIS Wealth Holdings LP (CUC Wealth), Celero Solutions, the Canadian Credit Union Association (CCUA) and CUVentures LP.

Economic Overview

Saskatchewan's economy has faced a number of challenges due to a downturn in the resource sector, reduced mining activity, and weaknesses in the agricultural sector. In 2018, Real Gross Domestic Product (GDP) increased 1.7%, employment growth was minimal at 0.3%, and the unemployment rate held steady at 6.3%.

The 2019 outlook remains cautious with production cuts in the uranium sector expected to be partially offset by increased demand for potash. The agricultural sector is expected to see a return to normal growth. In 2019, provincial GDP is forecasted to increase 1.6%, slightly below the national rate of 1.7%. Employment is expected to increase modestly to 0.6%, while the unemployment rate is expected to improve to 6.0%.

Saskatchewan Credit Union System Performance

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

Credit Union Deposit Guarantee Corporation (CUDGC) is the deposit guarantor for Saskatchewan credit unions and the primary regulator for credit unions and SaskCentral (together, Provincially Regulated Financial Institutions). The information provided in the following sections is compiled by CUDGC and is taken from their report 'Saskatchewan Credit Unions Quarterly Highlights'.

CUDGC is charged through provincial legislation, *The Credit Union Act, 1998*, with the main purpose of guaranteeing the full repayment of deposits held in Saskatchewan credit unions. CUDGC was the first deposit guarantor in Canada and has successfully guaranteed deposits since it was established in 1953. By guaranteeing deposits and promoting responsible governance, CUDGC contributes to confidence in Saskatchewan credit unions. For more information, please visit their website: http://www.cudgc.sk.ca.

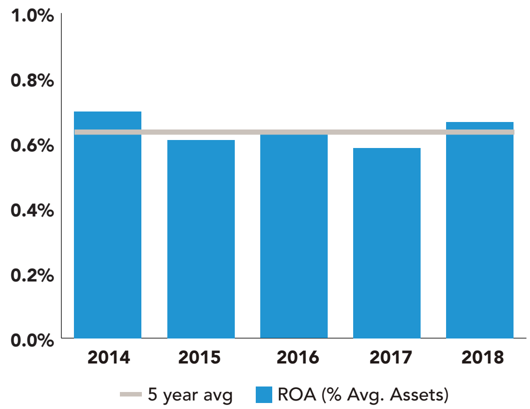
Results Overview

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 2018, credit unions reported earnings of $162 million (2017 - $130 million) for a return on average assets of 0.70% (2017 – 0.59%). Profitability has increased primarily due to improved efficiency and a special dividend paid to credit unions by SaskCentral. The special dividend was the result of tax recovery realized from the consolidation of Concentra Bank in 2017.

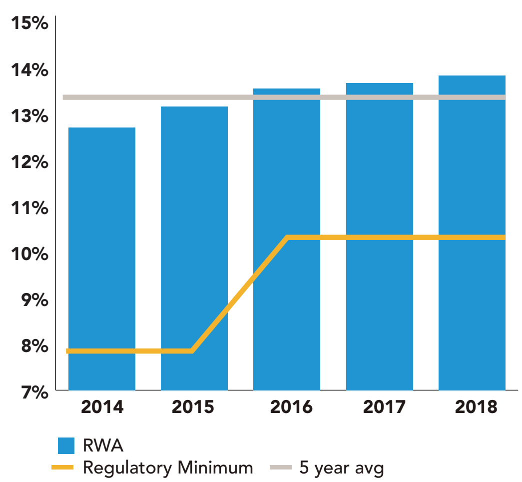
Return on Average Assets



Capital

Capital levels continued to improve in 2018, with credit unions experiencing record earnings and moderate growth. As a percentage of risk-weighted assets (RWA), eligible capital increased to 13.9% from 13.7% in 2017. Credit union capital is well above the current regulatory minimum of 10.5%.

Total Eligible Capital (%RWA)

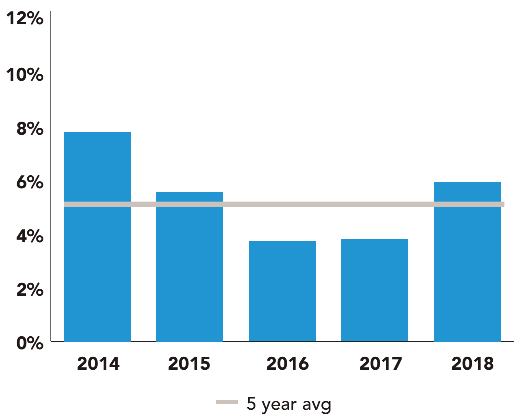


Separate Management Discussion and Analysis

Growth

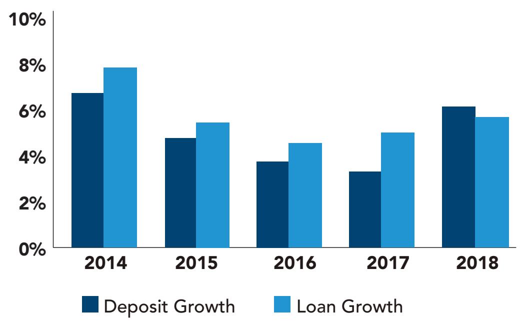
In 2018, asset, loan and deposit growth surpassed levels achieved in 2017. Assets grew by 6.0% to $23.8 billion (2017 - $22.4 billion), exceeding the five-year average of 5.5%.

Asset Growth



Loans grew 5.7% to $19.2 billion (2017 – $18.2 billion). Deposit growth has outpaced loan growth in 2018, which contributed to an increase in liquidity. Deposit growth increased from 2017 to 6.3%, which exceeds the last five years average of 4.9%.

Deposit/Loan Growth



Liquidity Risk

Credit unions were required to meet a new higher minimum liquidity standard in 2018. Credit unions and SaskCentral made efforts to increase liquidity to a record level in 2018. Efforts included strengthening the quality of securities underlying the liquidity pool and collecting more member data to improve the accuracy of reporting net cash flows. High Quality Liquid Assets (HQLA) as a percentage of cash and securities increased in 2018, which indicates the portfolio is more liquid.

Credit Risk

Delinquencies increased slightly in 2018 to 1.2% (2017 – 1.0%). While delinquencies remained above the five year average, credit unions are well capitalized to manage the exposure. The increase in delinquencies was primarily concentrated in commercial loans and mortgages.

Interest Rate Risk

Interest rate risk increased slightly in 2018, exceeding the five-year average. For a 1% increase in interest rates, the net market value change to assets increased to -0.65% (-0.60% in 2017) 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

	2014	2015	2016	2017	**2018**
Credit Unions	51	49	46	46	**44**
Employees	3,469	3,477	3,472	3,306	**3,355**
Members	475,201	472,702	474,126	476,628	**481,124**

2018 SaskCentral Separate Financial Performance

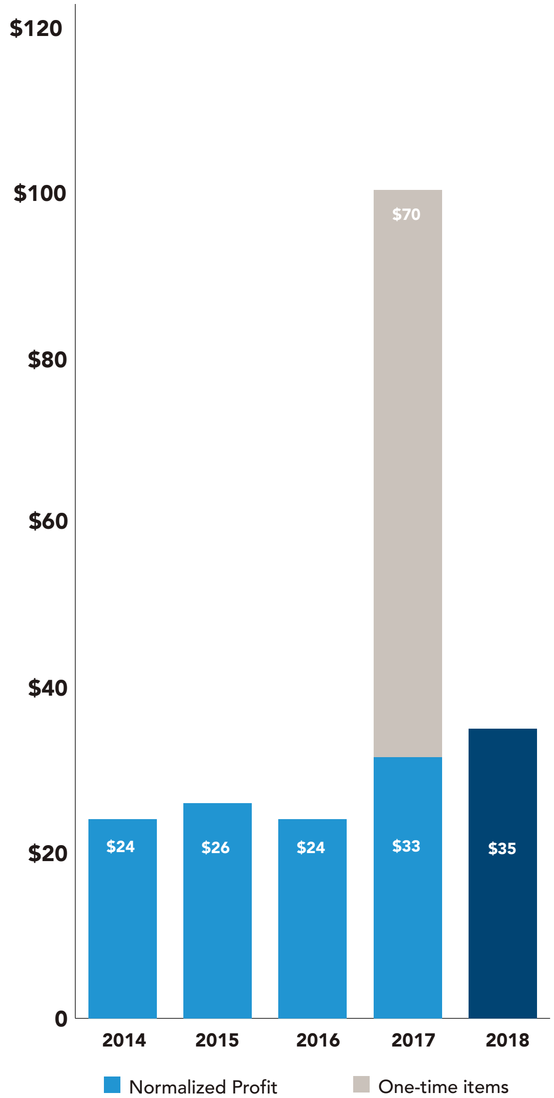
Results Overview

SaskCentral's separate financial performance includes results from SaskCentral and downstream investees, which are reported separately. 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 $34.6 million (2017 – $103.2 million). The decrease was due to the one-time gain on acquisition of control of Concentra Bank of $48.3 million and the one-time income tax recovery of $21.6 million in 2017.

SaskCentral Profit (in millions)



Separate Management Discussion and Analysis

Net interest income decreased to $7.8 million (2017 - $11.7 million) primarily due to elimination of margin on statutory liquidity deposits during the year. The elimination of interest margin was replaced by a liquidity management assessment fee which was introduced in April 2018. The liquidity management assessment fee is reported in fee for service revenue.

Income from dues decreased to $2.8 million (2017 – $5.4 million) primarily as a result of the dues paid to CCUA being netted against the dues collected on behalf of CCUA.

Fee for service revenue increased to $17.5 million (2017 – $11.2 million) primarily due to the introduction of the liquidity management assessment fee in 2018 which replaces the margin on statutory liquidity deposits after April 2018.

The share of profits of associates represents SaskCentral's share of net income from downstream investees, including Concentra Bank, Celero Solutions, CUPS, CUC Wealth, CUVentures LP and Saskatchewan Entrepreneurial Fund Joint Venture. The share of profits in associates was $33.4 million (2017 - $27.4 million). The increase is mainly due to strong earnings from Concentra Bank.

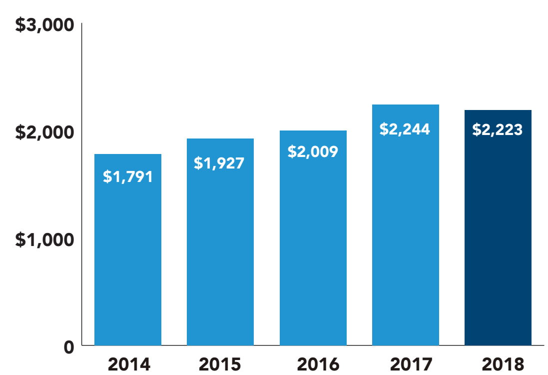
Non-interest expenses represent expenditures incurred to manage liquidity and provide consulting services to Saskatchewan credit unions, as well as general operating expenses such as salary and employee benefits and occupancy costs. Non-interest expenses decreased to $21.8 million (2017 – $22.6 million) due to cost savings in SaskCentral operations.

SaskCentral paid a dividend to credit unions in April 2018 of $30.6 million (2017 – $5.1 million) based on SaskCentral's 2017 earnings, representing an 18.9% (2017 – 3.7%) return on investment. This included a distribution of $23.4 million due to the income tax recovery on the acquisition of control of Concentra Bank in 2017. SaskCentral also distributed to credit unions the dividends received from Concentra Bank of $4.5 million (2017 – $9.0 million). Of this, $1.1 million was declared in December 2018 with payment in January 2019. Concentra Bank's dividends represented a 3.8% return on SaskCentral's investment in Concentra Bank (2017 – 7.6%).

Growth

SaskCentral's deposits decreased by 0.9% over prior year (2017 – 11.7% increase). Deposits are comprised of statutory liquidity deposits and credit union cash balances. Statutory liquidity deposits increased 3.1% and credit union cash balances decreased 29.8%. Credit union cash balances can fluctuate substantially year over year. Statutory liquidity deposits comprise 90.8% (2017 – 87.2%) of total deposits.

SaskCentral Deposits (in millions)



Liquidity

SaskCentral continued to hold a strong liquidity position in 2018. Cash and securities totalled $2.4 billion, or 85.4% of assets (2017 – $2.5 billion or 86.6%).

Return on Equity

Equity increased by $11.6 million over 2017 primarily due to another year of strong earnings from Concentra Bank and other downstream investees. Credit unions voluntarily subscribed to $1.2 million (2017 - $0.4 million) in membership share capital during the year. For 2018, SaskCentral's ROE was 6.4% (2017 – 21.7%). Excluding the one-time gain on acquisition of control of Concentra Bank and one-time income tax recovery in 2017, SaskCentral's normalized ROE in 2017 was 7.0%.

Separate Management Discussion and Analysis

Significant Event

On April 1, 2018, the provincial credit union centrals, The CUMIS Group, and Desjardins completed the merger of Credential Financial Inc., Northwest and Ethical Investments and Qtrade Canada Inc. to form Aviso Wealth Inc. (Aviso). Aviso is jointly owned by Desjardins and CUC Wealth, a limited partnership comprised of the provincial centrals and The CUMIS Group, each holding a 50% interest. Aviso is one of Canada's largest independent financial services providers with over $55 billion in assets under administration and management and more than 500,000 clients across the country. Aviso provides comprehensive wealth management services for credit unions and their members. For more information on this transaction, refer to Notes 4 and 13 of the separate financial statements.

Liquidity Management

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

SaskCentral uses three metrics to monitor liquidity risk: the SaskCentral stand-alone Liquidity Coverage Ratio (LCR), CUDGC's LCR and a liquidity score. The stand-alone LCR is modeled after the 2017 Liquidity Adequacy Requirements (LAR) Guidelines published by the Office of the Superintendent of Financial Institutions (OSFI). This guideline does not apply to SaskCentral; however, SaskCentral has incorporated the LAR principles in the LCR. CUDGC's LCR is based on the balance sheet of all Saskatchewan credit unions and includes their statutory liquidity deposit investments. The liquidity score is an internal rating system calculated on SaskCentral's investment portfolio. All measures are used to assess SaskCentral's liquidity position and all policy requirements have been met in 2018. Refer to Note 5 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 with a three year phase-in period. Key to the framework is the introduction of the LCR 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 level of HQLA and other liquid assets on a 'look-through' basis and in accordance with the investment allocation of the liquidity pool at each level.

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 7 in the separate financial statements.

Regulatory capital is adjusted for investments in unconsolidated subsidiaries. The investments in Concentra Bank, Celero Solutions and CUC Wealth (net of accumulated other comprehensive income) 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.

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 SaskCentral's Board of Directors 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, 2018, the borrowing multiple was 13.5:1 (2017 – 12.2:1).

Separate Management Discussion and Analysis

Regulatory Capital and Ratios

	2018	2017
Tier 1 Capital	**546,499**	519,223
Total Borrowing Multiple Capital	**169,749**	190,158
Total Borrowings	**2,288,421**	2,322,003
Actual Borrowing Multiple	**13:5:1**	12:2:1
SaskCentral Policy Limit	**17.0:1**	17.0:1
Tier 1 Regulatory Capital		
Membership shares	**162,832**	161,607
Retained earnings	**390,294**	361,487
Own credit risk[1]	**(2,756)**	-
IFRS related reclassification[2]	**(3,871)**	(3,871)
Total Tier 1 Captial	**546,499**	519,223
Tier 2 Regulatory Capital		
Subordinated debt	**-**	-
IFRS related reclassification[2]	**3,871**	3,871
Total Tier 2 Capital	**3,871**	3,871
Total Tier 1 and Tier 2 Capital	**550,370**	523,094
Deduct:		
Investments in unconsolidated subsidiaries	**372,550**	324,774
Assets of little or no realizable value	**8,071**	8,162
Total Tier 1 and Tier 2 Capital	**169,749**	190,158

[1] Represents the cumulative impact of SaskCentral's own credit risk on financial liabilities measured at fair value through profit or loss.

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

Capital Management

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 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 2018, credit unions voluntarily subscribed to $1.2 million in additional membership share capital.

At December 31, 2018 credit union membership share capital represented 0.75% of 2018 credit union assets (2017 – 0.72%).

SaskCentral remains well capitalized and able to support Saskatchewan credit unions. Based on the borrowing multiple at the end of 2018, SaskCentral would be able to withstand additional capital shocks of $35.1 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, CUC Wealth, The Co-operators, CCUA and CUVentures Inc.

Excess capital that is not required to manage risk and comply with regulatory requirements is returned to the credit unions as a dividend.

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.

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 to ensure 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 key risks are approved by the SaskCentral Board annually. 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 includes significant investees, including Concentra Bank, in its risk analysis.

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

In 2018, SaskCentral's strategy map outlined the following objectives:

- National Tier II transformation;
- Support strategic investee alignment to the national mandate;
- Address evolving developments to payments, clearing and settlement;
- CU Solutions national service delivery;
- Financial strength; and
- Engaged employees and a constructive culture.

Risks are also mapped to the regulatory 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 (FMAC). FMAC may elevate specific remaining risks to the attention of the Board if changes in risk trending or severity warrant.

SaskCentral has a Board-approved conflict of interest policy and a code of conduct that all employees, directors and delegates must follow. 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 FMAC 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 2018 annual report.

2019 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 financial services sector is evolving at a rapid pace, driven by technology, consumer behavior and competitive pressures. Change promises to continue as technological disruption, more complex regulatory requirements, heightened consumer expectations and intensified competition from traditional financial institutions, big business and start-ups reshape the global financial ecosystem.

SaskCentral aspires to a vision of "a nationally unified and internationally capable co-operative financial network". In pursuit of this, SaskCentral will be guided by its purpose: "we lead and support Tier II services and transformation necessary for vibrant and sustainable credit unions". Supporting credit union success will guide SaskCentral decisions and actions.

Achieving the vision will require transformation of the provincial / regional Centrals and broader Tier II – or wholesale – environment to more effectively and efficiently serve credit unions across Canada. SaskCentral's desired future state would see a shift from Centrals serving credit unions to organizations providing specific business functions directly to credit unions.

SaskCentral remains committed to transformation, with the ultimate goal to ensure vibrant and sustainable credit unions.

SaskCentral has identified six goals that support one or more of its four focus areas – strategic, credit union, financial and people.

Modernized statutory liquidity function with improved efficiency and effectiveness for credit unions

SaskCentral will evaluate the statutory liquidity pool and work toward building understanding of liquidity requirements under a modernized framework.

Effective and efficient clearing and settlement for credit unions

SaskCentral will participate in developing the Payments Canada Modernization policy framework, and share with credit unions the changes and impacts to clearing and settlement functions.

Strategic alignment of downstream investees to optimize capital and value of services

SaskCentral will manage the capital in current investees using a framework to execute plans that ensure direct strategic benefit to credit unions.

National Tier II transformation

Advocating SaskCentral's vision, SaskCentral will continue to champion Tier II transformation that ultimately supports credit union competitiveness and growth.

Member engagement

SaskCentral will engage with credit unions on SaskCentral's services, and those provided by partners and investees, to ensure the needs of credit unions are being met.

Value for member credit unions

SaskCentral will evolve business operations and equip its workforce with the tools needed in order to provide demonstrable value to credit unions.

Accounting Matters

Critical Accounting Policies and Estimates

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 4 in the separate financial statements.

Changes in Accounting Policies

Effective January 1, 2018, SaskCentral adopted IFRS 9, *Financial Instruments* (IFRS 9) and IFRS 15, *Revenue from Contracts with Customers* (IFRS 15). SaskCentral has adopted these standards retrospectively using the cumulative effects method, and therefore, comparative information has not been restated.

The adoption of IFRS 9 resulted in an increase of $21 million to opening retained earnings and a decrease of $13.4 million to opening accumulated other comprehensive income, after-tax. Apart from providing more extensive disclosures on SaskCentral's revenue transactions, the application of IFRS 15 has not had a significant impact on SaskCentral's financial statements. For further details on the impact of the adoption of IFRS 9 and IFRS 15 refer to Notes 2.1(e) and 3 of SaskCentral's separate financial statements.

Future Changes in Accounting Policies

Refer to Note 2.19 of the separate financial statements for details on new standards and interpretations that SaskCentral has not yet adopted as at December 31, 2018. The extent of the impact of adopting new standards and interpretations has not yet been determined.

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
March 6, 2019

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 the audit summary report. 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
March 6, 2019

Independent Auditor's Report

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Independent Auditor's Report

To the Members of
Credit Union Central of Saskatchewan

Opinion

We have audited the separate financial statements of Credit Union Central of Saskatchewan (the "Company"), which comprise the separate balance sheet as at December 31, 2018, 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 year then ended, and notes to the separate financial statements, including a summary of significant accounting policies (collectively referred to as the "separate financial statements").

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Company as at December 31, 2018, and its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Separate Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the separate financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

We issued a separate auditor's report dated March 6, 2019 on the Company's consolidated financial statements for the year ended December 31, 2018 in accordance with IFRS.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with IFRS, 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.

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

Independent Auditor's Report

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte LLP

Chartered Professional Accountants

Regina, Saskatchewan
March 6, 2019