SaskCentral Annual Report

2017

SASKCENTRAL®

CONTENTS

Vision, Mission, Values

Our Vision

The ultimate destination of our company.

A nationally unified, internationally capable, co-operative financial network.

Our Mission

How we plan to get there.

Working with credit unions and their partners, lead and support the changes necessary to create a healthy, relevant and sustainable credit union system.

Our Values

The standards and principles by which our brand lives.

- Honest
- Trustworthy
- Co-operative
- Enterprising

Letter from the President and the CEO

2017 was another busy and successful year for SaskCentral as we progressed toward realizing the two main goals laid out in our Business Plan: *National Collaboration* and *Enhancing the Credit Union Experience*. An increasingly competitive and quickly evolving financial services landscape, along with regulatory changes, continues to drive the need to achieve these objectives, as well as our vision of a "*nationally unified, internationally capable co-operative financial network.*"

Again, our people were a key factor in our success. In an environment of ongoing change, our agile and resilient workforce allowed for the transitions required to work towards our vision. The SaskCentral Human Resources department played a substantial role, consistently encouraging strong employee engagement and equipping people for change, which led the department to be recognized as Team of the Year by the Chartered Professionals in Human Resources Saskatchewan. This award is granted to a human resources team that helps drive the performance and reputation of an organization and is a catalyst for organization-wide change.

It's fair to say that in the past year, the path to achieving our national vision has included some curves and turns along the way. However, with innovation and commitment to our vision, we've continually found new ways of improving and developing long-term solutions in a number of core areas.

A key example is the December 12 announcement of Aviso Wealth, a merger of Credential Financial Inc., Northwest & Ethical Investments LP, and Qtrade Canada Inc.

Aviso Wealth, a vertically-integrated wealth management company, is jointly owned by the five provincial Centrals, on behalf of credit unions, Desjardins Financial and CUMIS. The creation of Aviso Wealth will allow credit unions to offer a complete financial management solution to members, enabling them to remain competitive with the banks. Credit unions will also have ongoing influence over the direction of Aviso Wealth through board seats and participation in an Advisory Council.

In 2017, SaskCentral also continued on its path to accommodate a federal credit union within the provincial system, consistent with our national vision to provide services to all credit unions. A "yes" vote by Innovation Credit Union members in December 2017, in favour of Innovation's intent to become a federal credit union, has expedited this work. SaskCentral is focused on having the necessary legal and financial framework in place by the end of 2018.

Throughout the year we also made progress on the development of a national fee-for-service delivery model. A business plan has been approved by the SaskCentral board and work is continuing to determine formal partnership opportunities.

Letter from the President and the CEO

The dissolution of the CEAMS (Credit Union Electronic Account Management Services) Association took place in 2017 with services being assumed by SaskCentral, National Consulting, on January 1, 2018. This change will better position SaskCentral to offer these services on a national scale. SaskCentral is grateful for the credit unions' ongoing support throughout the assumption process.

In the area of clearing and settlement, we continued preparing for Payments Canada Modernization and participation in a National Payments Strategy, and to support the establishment of provincial Emergency Lending Assistance (ELA). SaskCentral has also engaged with the Centrals of Alberta and Manitoba to consider payments alternatives.

To ensure investee alignment, we have worked to avoid duplication of wholesale financial services to credit unions and streamline governance and decision making processes. There is also an ongoing evaluation of SaskCentral's various strategic investments to ensure they are aligned with our national strategy.

Over the past year, the transition of SaskCentral trade services functions to the Canadian Credit Union Association (CCUA) progressed smoothly. We finalized a support services agreement, including fees for 2018, and began discussions on transitioning other potential services, including research and marketing.

In the area of Government Relations, we have been successful in our efforts to have the Minister of Finance amend the Bank Act to allow credit unions to use "bank/banking" terminology to describe their financial products and services. We thank the CCUA for their work on this issue.

Finally, since the Credit Union Deposit Guarantee Corporation (CUDGC) became the regulator of SaskCentral on January 15, 2017, we have worked closely with CUDGC on the implementation of a regulatory framework. To avoid any conflict of interest, this included reviewing services SaskCentral provides to CUDGC and developing a plan to transition those services either to CUDGC or other service providers.

As you can see, 2017 has been another transformational year for SaskCentral. We continue to see a highly engaged credit union system, with greater participation in our strategic investments and support of our national strategy. And, the work will continue in 2018 as we strive to nurture a business environment where credit unions can thrive.

Russ Siemens,
President

Keith Nixon,
CEO

Corporate 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 also maintains business relationships with, and investments in, a number of co-operative entities on behalf of Saskatchewan credit unions, including Concentra Bank (formerly Concentra Financial), CUPS Payment Services (CUPS), Celero Solutions and CUVentures LP.

Corporate Profile

Liquidity Management

SaskCentral manages system-wide liquidity on behalf of Saskatchewan credit unions directly and through investees. Through aggregating statutory liquidity deposits, SaskCentral facilitates clearing and settlement, supports daily cash flow management and coordinates emergency liquidity support.

Statutory Liquidity Deposits
By regulation, credit unions hold 10% of their deposits with SaskCentral. These are known as statutory liquidity deposits. For investments backing deposits, SaskCentral invests in liquid assets which support clearing and settlement, daily cash flow management and emergency liquidity.

Credit unions select from a variety of term options and interest options for their statutory liquidity deposits. SaskCentral maximizes deposit rates for credit unions by seeking the best returns on investments backing deposits. This is achieved through accessing wholesale institutional markets and avoiding brokerage fees.

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

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

Daily Cash Flow Management
SaskCentral offers several products and services to help credit unions manage daily cash flow requirements, including an overnight account, a line of credit, alternate funding sources and cash services.

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

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

Corporate Profile

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

Emergency funding is both sufficient and available. Sufficiency is demonstrated through stress testing whereby potential credit union outflows are evaluated against funding sources. In normal times, funding sources include repurchase agreements, the commercial paper program and a secured line of credit. In an emergency, these sources are augmented by SaskCentral's stock of High Quality Liquid Assets (HQLA).

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

Concentra Bank
Concentra Bank offers additional products to aid liquidity management, including a line of credit, an overnight account, the ability to sell residential mortgages and commercial loans to other credit unions through Concentra Bank's syndication program, and Concentra Bank provides guidance and administrative support for mortgage securitization.

Credit unions may place excess funds above their statutory liquidity deposits with Concentra Bank. These are referred to as excess deposits.

National Consulting Services

SaskCentral forecasts and fulfills the business advisory service needs of Saskatchewan credit unions and other co-operatives. In doing so, it provides access to a team of highly specialized consultants who support the ability of Saskatchewan credit unions to succeed in their markets.

Strategic Solutions
Strategic Solutions covers a wide range of consulting options to assist credit unions in areas such as enterprise risk management, governance and strategic planning.

Operational Solutions
Operational Solutions gives credit unions the means to improve the effectiveness and efficiency of their business procedures. Examples include management support services, lending and deposit training and operational support, fraud management, anti-money laundering compliance officer support and cash and armoured car services.

Corporate Profile

Assurance Services
These services support credit unions in aligning their business operations with legislated requirements and guidelines. Example services in this category are internal audit and regulatory compliance support.

Collaborative Solutions
With the assumption of CEAMS (Credit Union Electronic Account Management Services) Association functions into National Consulting effective January 1, 2018, a team of resources provides management oversight and consulting in the areas of DNA banking and related services, digital banking, card services and procurement and collaborative services. Through the oversight role, management works with credit unions to enhance services and position credit unions to offer new and innovative services.

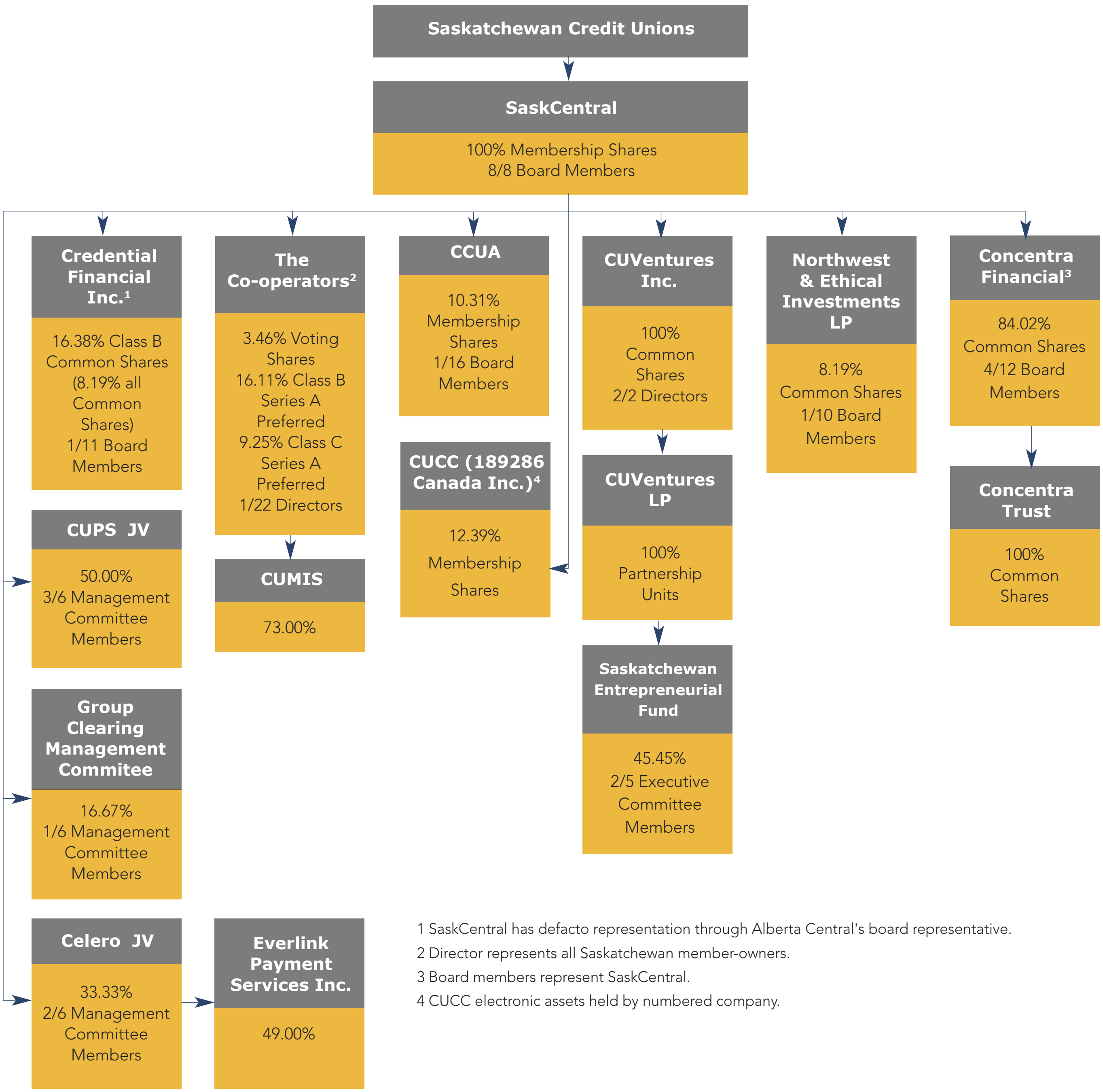
Member Relations

Member Relations acts as the primary point of contact through which credit unions can address strategic and operational topics related to SaskCentral and its investee organizations. Through this contact, the team gathers information on the ongoing needs, interests, challenges and future strategies of credit unions, and then ensures the information is channeled directly to SaskCentral management, executive and board, as well as to SaskCentral's partner companies.

Corporate Profile

Strategic Partners

SaskCentral holds an ownership position in strategic partners as a means of ensuring access to the products and services Saskatchewan credit unions need to provide full service to their members.



1 SaskCentral has defacto representation through Alberta Central's board representative.
2 Director represents all Saskatchewan member-owners.
3 Board members represent SaskCentral.
4 CUCC electronic assets held by numbered company.

Corporate Profile

Concentra Bank
Share ownership by SaskCentral: 84.0%

On January 1, 2017, Concentra Financial ceased operations as an association governed by the *Cooperative Credit Associations Act (Canada)* and continued as Concentra Bank, a Schedule 1 chartered bank governed by the *Bank Act (Canada)*.

Concentra Bank is the wholesale bank and trust company for Canada's credit unions, and Canada's only Schedule 1 chartered bank focused on providing financial services to Canada's credit union system. Concentra partners with credit unions to ensure their 5 million plus members across Canada can choose competitive financial services from their local credit union.

Concentra's suite of business solutions specialize in asset management, treasury needs and trust solutions, focusing on providing credit unions with effective strategies to improve financial performance, manage risk, and grow relationships with their members.

Concentra is owned exclusively by its credit union partners. With deep roots in the co-operative system, Concentra is built on shared values and its commitment to success through serving credit unions from coast to coast.

Credit Union Payment Services (CUPS)
Joint venture participation by SaskCentral: 50.0%

CUPS is a joint venture of SaskCentral and Alberta Central. It provides payment services and related products to credit unions, corporate clients and others in the financial services industry.

Celero Solutions
Share ownership by SaskCentral: 33.3%

Celero Solutions is a joint venture between Alberta Central, Manitoba Central and SaskCentral. Celero delivers reliable, innovative and cost-effective information technology solutions to the joint venture partners, credit unions and other organizations in the areas of switching, telecommunications and banking. Celero owns 49% of Everlink Payment Services Inc.

Group Clearing Joint Venture
Joint venture participation by SaskCentral: 16.7%

Group Clearing is a joint venture of SaskCentral, Central 1, Alberta Central and Credit Union Central of Manitoba that provides governance and oversight to group clearing strategies, activities, and risks on behalf of credit unions across the country.

Canadian Credit Union Association (CCUA)
Share ownership by Saskatchewan Credit Unions (Class A): 17%
Share ownership by SaskCentral (Class B): 10.3%

CCUA is the national trade association for the Canadian credit union system. It represents Canada's credit unions, caisses populaires outside Quebec and provincial credit union central organizations. CCUA is the first national credit union governed organization in Canada and works on behalf of its members in four key areas: advocacy and government relations; national regulatory and network compliance; professional development and education; and national awareness building.

SaskCentral integrated its employees into CCUA, ensuring credit unions can leverage the collective national voice and expertise, avoid duplication of services, and access a broader scope of products and services while retaining a presence in Saskatchewan.

Corporate Profile

189286 Canada Inc. (formerly known as CUCC)
Share ownership by SaskCentral: 12.4%

On January 1, 2016, all assets and liabilities of Credit Union Central of Canada (CUCC) were transferred to CCUA except those related to payments and specific activities in Interac. These were retained by the numbered company.

Credential Financial Inc.
Share ownership by SaskCentral: 8.2%

Credential Financial Inc. is the national wealth management provider founded by the Canadian credit union system. The company offers credit unions and independent investment firms an integrated range of products and services to meet the financial needs of Canadians. Credential Financial Inc. also provides its partners with a full complement of back-office administration and in-branch support.

Northwest & Ethical Investments LP (NEI)
Share ownership by SaskCentral: 8.2%

NEI is a mutual fund company that makes independent portfolio managers accessible to Canadian retail investors through three fund families: NEI Funds, Northwest Funds and Ethical Funds. NEI is a fully Canadian-owned company, owned 50% by Desjardins Group and 50% by the provincial credit union centrals. This backing of experience and support provides the company with stability and the resources to actively pursue business growth through credit unions and independent financial advisors across Canada.

Aviso Wealth
On December 12, 2017, the intent to merge Credential Financial Inc., NEI, and Qtrade Canada Inc. into a single entity called Aviso Wealth was announced. This vertically-integrated wealth management platform will be jointly owned 50/50 by a holding company CU CUMIS Wealth Holdings LP and Desjardins Group. The holding company will be comprised of the five Centrals across Canada, on behalf of the credit unions, and The CUMIS Group Limited. The merger is scheduled to close on March 31, 2018.

The Co-operators Group Limited
Share ownership by SaskCentral: 3.5%

The Co-operators is a 100% Canadian-owned and operated company insuring over two million people Canada-wide. Its member-owners are co-operatives, credit unions and like-minded organizations, representing a variety of sectors and regions across the country. The Co-operators supports and funds the development of community-oriented co-operatives and social enterprises, and works to contribute to communities across Canada.

Along with Central 1, The Co-operators holds joint ownership of CUMIS. CUMIS partners with credit unions to deliver competitive insurance and financial solutions. CUMIS' principal companies are CUMIS Life Insurance Company and CUMIS General Insurance.

CUVentures Inc.
Share ownership by SaskCentral: 100%

CUVentures Inc. invests in the Saskatchewan Entrepreneurial Fund Joint Venture which provides direct investments in small and medium sized enterprises throughout Saskatchewan.

Business Models

Business models of SaskCentral and investees fall on a spectrum from 'low profit' to 'for profit'.

'Low profit' models recognize that profits come from credit unions in the form of lower deposit rates, higher assessments or higher fees. So

Corporate Profile

long as capital and liquidity are adequate, the organization strives to maximize rates paid to credit unions and minimize assessments and fees charged to credit unions. Pricing of products and services is just sufficient to cover operating costs. SaskCentral has adopted a 'low profit' business model.

Governance

Governance processes balance investee needs to operate within their own environment with credit union needs as users and owners. SaskCentral's ability to influence investee strategies is tied to its ownership interest in the investee. Saskatchewan credit unions are represented on Concentra's board and on management committees for CUPS and Celero. In addition, SaskCentral's CEO sits on CUPS and Celero management committees as a representative for SaskCentral, and SaskCentral's executive are engaged with Concentra through regular meetings and participation in joint working groups. This provides opportunities to engage strategic investees where system-wide concerns are identified (e.g. service, profitability).

SaskCentral provides updates to the board on investee's financial and non-financial measures through the quarterly Strategic Investment Management (SIM) Portfolio Report. Occasionally, investees present to the SaskCentral board at quarterly board meetings.

How Investee Earnings Are Distributed to Credit Unions

CUPS – Net earnings are settled with SaskCentral in February following year-end. CUPS earnings are included in income available for distribution in SaskCentral's dividend.

Co-operators Group Limited – Patronage dividends based on credit union usage are paid to SaskCentral and are included in income available for distribution in SaskCentral's dividend. Preferred Class B Series A shares pay 5.0% and are received annually. Preferred Class C Series A shares pay 3.0% and are received semi-annually. The member loyalty payment is received annually and can fluctuate significantly, based on the earnings of Co-operators.

CUVentures LP – CUVentures LP cash earnings are included in income available for distribution in SaskCentral's dividend.

Concentra Bank – Net earnings or losses are retained by SaskCentral through an equity positon and are not distributed to credit unions. Concentra's cash dividend is flowed through to credit unions when received.

Celero Solutions – Net earnings or losses, excluding Everlink, are settled with SaskCentral following year-end. Celero's earnings or losses are flowed through to credit unions through a distribution model based on usage, and are not included in SaskCentral's dividend.

NEI – The Credit Union Centrals own partnership units on behalf of credit unions. Partnership distributions received from NEI are distributed to credit unions based on a formula determined by NEI. SaskCentral will report the distributions for tax purposes and will pass the distributions to credit unions as patronage dividends.

Credential Financial Inc. – SaskCentral has invested $2 million in subordinated debt with Credential for the purpose of providing support for Credential's core business operations. Subordinated debt interest is included in income from core operations.

Central 1 – SaskCentral has invested $7 million in subordinated debt with Central 1 for the purpose of capitalizing the Group Clearing Joint Venture to support clearing and settlement activities. Subordinated debt interest is included in income from core operations.

Corporate Profile

Executive Team

Keith Nixon, CEO

- Joined SaskCentral: 1987
- Time in the credit union system: 37 years
- Fellows designation for the Credit Union Institute of Canada
- Certificate in Administration, University of Regina
- Board member: Canadian Credit Union Association; Sherwood Co-operative Association Limited

Debbie Lane, EVP and Chief People Officer

- Joined SaskCentral: 1992
- Certified Human Resource Professional (CHRP) designation
- Member: Saskatchewan Association of Human Resource Professionals (SAHRP)
- Member: Northwest & Ethical Investments LP (NEI) board; Credit Union National Benefits Board (chair); Children's Wish Foundation of Saskatchewan Advisory Board (chair)

Sheri Lucas, EVP Finance, CFO, CRO

- Joined SaskCentral: 2007
- CPA, CA: Office of the Provincial Auditor, Saskatchewan
- Past employers: Saskatchewan Wheat Pool; Crown Investments Corporation of Saskatchewan
- Award: 100 Most Powerful Women in Canada for 2012
- Board member: Canadian Cancer Society, Saskatchewan Division

Saskatchewan System Performance

SaskCentral is owned by Saskatchewan's credit unions. As their liquidity manager and key consulting service provider, SaskCentral helps Saskatchewan credit unions meet their own targets for success.

Through their work to help meet the financial services needs of Saskatchewan businesses, consumers and agriculture producers, credit unions have a significant impact on the provincial economy. They also help advance the well-being of their members by returning profits with patronage, and contribute to the community through donations, scholarships and other initiatives.

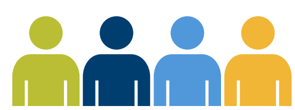
Saskatchewan System Performance

System Facts

- As of January 1, 2018, there were 44 credit unions in Saskatchewan serving 219 communities through 250 service outlets.
- Out of 1.168 million people (estimated at October 1, 2017) in Saskatchewan, more than 476,000 are members of a credit union, with an additional 96,000 non-members doing business with a credit union, which combined is just over 49%.
- In 2017, Saskatchewan credit unions had assets of more than $22.4 billion with revenue of more than $933 million. For every $1 million gross output, credit unions create a total of 14.5 jobs compared with 8.4 jobs created by banks.
- Credit unions contribute $600 million in economic impact to Saskatchewan annually and in 2017, employed more than 3,300 people providing salaries and benefits of more than $298 million.
- In 2017, credit union lending amounts were $18.2 billion. Credit unions maintain approximately 50% of the SME market and are a critical source of loans and mortgages for small and medium sized business.
- In 2017, Saskatchewan credit unions returned over $8.1 million to their members in the form of patronage equity contribution and dividends.
- Each year, credit unions donate approximately 4% of pre-tax profits (more than $7.3 million in 2016) to local community organizations, which is well above the recognized banking industry standard of 1%.
- In the annual 2017 Ipsos® Best Banking Awards program, credit unions were ranked 1st among all financial institutions in providing Customer Service Excellence for the 13th year in a row.

Out of 1.168 million people in Saskatchewan more than 476,000 are members of a credit union

In 2017, Credit Union lending amounts were $18.2 billion



Each year, Credit Unions donate approximately 4% of pre-tax profits to local community organizations

Strategy

Working toward clear, verifiable objectives is a key part of SaskCentral's planning and evaluation process. SaskCentral's business plan identifies strategic objectives, measures and targets for each of four strategic focus areas: Strategic, Credit Union, Financial and People. Where applicable, SaskCentral implements specific initiatives under these focus areas. The following reflects initiatives that contribute towards achievement of the strategic objectives within each focus area.

Strategic

Demonstrate leadership in delivering transformational change nationally to position credit unions for success.

Objective: Address evolving developments to clearing and settlement structures

In 2017, SaskCentral supported several clearing and settlement workstreams: Payments Canada Modernization; Bank of Canada Emergency Lending Assistance (ELA); restructure of the balance sheet; group clearing enhancements; and transition from federal to provincial regulatory oversight.

The payments landscape is changing and so are the needs of Canadians. Payments Canada is working to modernize Canada's payment systems. The Modernization roadmap includes five pillars: build a new core clearing and settlement system; establish real-time capability; enhance automated funds transfer; align with global regulatory standards; and modernize the rules framework. The entire roadmap is expected to take through 2021 and beyond to implement. SaskCentral is working with our strategic partners to support this initiative.

The ELA is a collateralized loan from the Bank of Canada to an eligible financial institution experiencing an idiosyncratic liquidity shock. It is a last resort liquidity support mechanism to return the financial institution to long-term viability or facilitate its orderly liquidation. SaskCentral has engaged with the Credit Union Deposit Guarantee Corporation (CUDGC) to support a project with the Bank of Canada to formalize an ELA.

In 2017, SaskCentral initiated a project to restructure the balance sheet so that Statutory Liquidity Deposits are better aligned to the liquidity requirements of credit unions and Payments Canada. As a part of this project, SaskCentral is optimizing its risk/return profile within risk appetite and risk tolerance limits. All provincial centrals worked together to enhance risk management associated with group clearing, improve the liquidity monitoring framework and develop a risk-based collateralization model.

On January 15, 2017, regulatory oversight transitioned from the federal regulatory regime. *The Credit Union Central of Saskatchewan Act, 2016* appoints CUDGC as the supervisor of SaskCentral, and assigns responsibility for oversight of CUDGC to the Financial and Consumer Affairs Authority's Registrar of Credit Unions. During 2017, SaskCentral supported the transition to provincial oversight.

Objective: CCUA integration

Integration of SaskCentral's trade association services into the Canadian Credit Union Association (CCUA) ensures our credit unions are able to leverage the collective national voice and expertise, avoid duplication of services, and access a broader scope of products and services while retaining a presence in Saskatchewan.

In 2017, we successfully transitioned Government Relations, Compliance and Member Experience functions to the CCUA, finalized a support services agreement, and began discussions on transitioning other potential services. In 2017, credit union feedback confirmed the quality of service from those areas that transitioned remained high.

Objective: Support strategic investee's alignment to the national mandate

On January 1, 2017, Concentra Financial ceased operations as an association governed by the *Cooperative Credit Associations Act (Canada)* and continued as Concentra Bank, a

Strategy

Schedule 1 chartered bank governed by the *Bank Act (Canada)*. Concentra is now well positioned to provide wholesale financing, capital markets and trust services to credit unions across Canada.

Concentra's continuance had significant governance, accounting and capital implications for SaskCentral. From a governance perspective, the Concentra board was restructured and SaskCentral appointed four directors. From an accounting perspective, SaskCentral now has the ability to control Concentra for accounting purposes, which means that SaskCentral must consolidate Concentra as a subsidiary in the financial statements. Further information on the consolidation can be found in Note 33 of the Consolidated Financial Statements.

On December 12, 2017, the intent to merge Credential Financial Inc., Northwest & Ethical Investments, and Qtrade Canada Inc. into a single entity called Aviso Wealth was announced. This integrates wealth management functions across Canada, simplifying governance and decision making and eliminating duplication. The merger is scheduled to close on March 31, 2018.

Objective: National Wholesale Financial Services Provider (WholeCo)

In early 2017, discussions were initiated with Central 1 and Concentra Bank on the concept of a national wholesale financial services provider. However, conversations were deferred when other projects took priority. With the appointment of Don Coulter, President and CEO of Concentra Bank in March 2018, SaskCentral will re-engage in these discussions with Concentra Bank and other potential partners.

Credit Union

Facilitate wholesale product and service expertise to support credit unions nationally.

Objective: CU Solutions Partnership with Central 1

In 2017, work was done on the development of a national fee for service delivery model with Central 1. Due to a shift in Central 1 priorities, Central 1 has decided a formal partnership with SaskCentral will not be pursued. SaskCentral remains committed in 2018 to advancing the work on a fee for service delivery model to serve credit unions on a national basis.

The dissolution of the CEAMS (Credit Union Electronic Account Management Services) organization took place in 2017 with services assumed by SaskCentral, National Consulting, on January 1, 2018.

Financial

Maintain a position of financial strength to enable the achievement of our strategic objectives.

Objective: Financial strength

Financial strength is achieved through maintaining interest margin and core earnings in a rapidly evolving regulatory environment. SaskCentral continues to efficiently manage the balance sheet.

Core Earnings
Core earnings target was $3.0-$4.0 million. Actual for 2017 was $5.3 million.

Interest Margin
Interest margin target was 0.45%-0.52%. Actual for 2017 was 0.49%.

Operating Expenses
Operating expenses target was $20.1-$19.3 million. Actual for 2017 was $17.7 million.

People

Maintain an engaged workforce with the competencies required to facilitate the achievement of our strategic direction.

Objective: Engaged employees and a constructive culture

SaskCentral undertook a number of proactive human resource activities such as workforce planning to support the structural changes required to achieve its long-term national strategic objectives.

The delivery of a customized change and career management program to all management and employees that was initiated in 2016 was completed in 2017. The program provides foundational change support tools and information, addresses how individuals can best prepare personally for change, and supports SaskCentral through change using career management.

In 2017, the SaskCentral Human Resources department was granted the Team of the Year Award by the Chartered Professionals in Human Resources Saskatchewan, recognizing its work to drive the performance and reputation of the company, support organization-wide change, and serve as trusted advisors on organizational strategy.

GREAT PLACE TO WORK® Best Workplaces 2017 Canada

In 2017, SaskCentral was again named as one of the Best Workplaces in Canada by the Great Place to Work® Institute Canada, coming in with an overall ranking of #13 for medium-sized businesses, up from #23 in 2016. At the same time, the company was also recognized as one of Canada's top 3 Best Places to Work for Women, one of The Best Workplaces for Celebrating Success, one of The Best Workplaces for Learning and Development and one of The Best Workplaces In Financial Services and Insurance.

The annual Organizational Effectiveness Inventory (OEI) survey measuring employee engagement was completed by 89% of employees and resulted in an overall score of 85.2%. In 2017, we also completed the bi-annual Organizational Culture Inventory (OCI), which resulted in an overall culture score of 85.5%.

Corporate Governance

SaskCentral corporate governance is anchored in the co-operative principle of democratic member control. Our governance model and co-operative structure differentiates the credit union system from other financial service organizations. Dedicated to our co-operative values, we work to ensure SaskCentral has effective, ethical and transparent governance practices.

Corporate Governance

Board of Directors

SaskCentral has an eight-person board elected by Saskatchewan credit unions. The board is responsible for providing strategic oversight to SaskCentral, overall governance, monitoring progress toward business plan objectives and for representing the interests of our province's credit unions based on size, geography and credit union membership. All are independent directors.

(left to right)
Kevin Lukey, Gilles Colbert, Wayne Kabatoff, Eric Dillon, Russ Siemens, Tim Goddard, Mark Lane, Mitchell Anderson

Corporate Governance

Mitchell Anderson

Elected to SaskCentral Board of Directors in 2014. Director, Affinity Credit Union.
Term expires: 2019

Gilles Colbert

Elected to SaskCentral Board of Directors in 2009. Retired Manager, Unity Credit Union Limited. Director, The Co-operators.
Term expires: 2020

Eric Dillon

Elected to SaskCentral Board of Directors in 2014. CEO, Conexus Credit Union.
Term expires: 2019

Tim Goddard

Elected to SaskCentral Board of Directors in 2014. Past CEO, Rockglen-Killdeer Credit Union.
Term expires: 2018

Wayne Kabatoff

Elected to SaskCentral Board of Directors in 2016. Director, Conexus Credit Union.
Term expires: 2018

Mark Lane

Elected to SaskCentral Board of Directors in 2013. CEO, Affinity Credit Union.
Term expires: 2020

Kevin Lukey

Elected to the SaskCentral Board of Directors in 2014. Retired CEO, Cornerstone Credit Union.
Term expires: 2020

Russ Siemens, President

Elected to SaskCentral Board of Directors in 2014. Director, Innovation Credit Union. Director, Concentra Financial.
Term expires: 2018

Corporate Governance

Board Charter and Director Profile

The SaskCentral board maintains written descriptions of the mandate and key responsibility areas for the board as a whole and for the individual director. The descriptions serve as a basis for director orientation, functioning, evaluation and development planning.

Compensation

Director compensation is paid according to policy which is periodically benchmarked against that of other like organizations. All payments are subject to review by the chair of the board and SaskCentral Internal Audit. Chair compensation is subject to review by the vice-chair and is also subject to review by Internal Audit.

Director	Per Diem[1]	Per Diem Paid to Organization	Honorarium	Honorarium Paid to Organization	Total
Mitchell Anderson	8,019	–	8,100	–	16,119
Gilles Colbert	11,825	–	8,100	–	19,925
Eric Dillon	–	6,500	–	8,100	14,600
Tim Goddard	8,553	–	8,100	–	16,653
Wayne Kabatoff	11,425	–	8,100	–	19,525
Mark Lane	–	–	–	8,100	8,100
Kevin Lukey	9,613	–	8,100	–	17,713
Russell Siemens[2]	35,338	–	33,000	–	68,338
Total:	$ 84,773	$ 6,500	$ 73,500	$ 16,200	$ 180,973

[1] As a consequence of being on the SaskCentral board, SaskCentral directors may be nominated to serve as directors for a number of other co-operative organizations. To the extent that those other organizations do not provide compensation for board service, SaskCentral policy provides remuneration to its directors for time spent in these alternate duties.

[2] Chairman of the Board.

Corporate Governance

Board Attendance	Meetings Attended
Mitchell Anderson	10/11
Gilles Colbert	10/11
Eric Dillon	10/11
Tim Goddard	11/11
Wayne Kabatoff	8/11
Mark Lane	9/11
Kevin Lukey	10/11
Russ Siemens	11/11

Board Evaluation

Evaluations are periodically conducted to ensure board operations are efficient and adhere to the highest standards of integrity. In late 2016, the board performed a comprehensive peer evaluation. This evaluation was compiled in February 2017 and the results were shared with individual directors and the chair of the board and will be used to inform individual director development plans. The board maintains a director development policy aimed at providing resources to support ongoing personal development.

Code of Conduct

A written code of ethical business conduct has been adopted by the board to guide director and employee activities and ensure accountability. All directors and employees of SaskCentral are required annually to sign a statement that they have read and will abide by this code. The code of conduct is reviewed every two years by the board and corporate counsel.

Whistle Blower Policy

A SaskCentral whistle blower policy states that all SaskCentral employees and directors are responsible for reporting actual or potential unethical conduct. The intent of this policy is to provide individuals with a mechanism or channel by which they can report incidents of actual or potential improper or unethical conduct without fear of reprisal or unwarranted negative consequences. The whistle blower policy is periodically reviewed by the board and corporate counsel every two years.

CEO Position Description

The SaskCentral board maintains a written description of the position of the CEO, outlining the role, accountabilities and challenges of the position and providing a reference point for the development of the CEO's annual performance plan. The CEO position profile was reviewed and updated in 2017. A CEO performance plan is developed and evaluated based on the position description, business plan and balanced scorecard.

Committees

Audit and Risk Committee

Role:

- Ensures 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 business practices.
- Oversees the effectiveness of the governance and management control environment within SaskCentral.
- Ensures SaskCentral's enterprise risk management framework is appropriate to optimize liquidity, market, credit, legal and regulatory, operational and strategic risk for the protection and creation of shareholder value.

	Meetings Attended
Mitchell Anderson — Chair	4/4
Gilles Colbert	4/4
Mark Lane	4/4
Kevin Lukey	4/4
Russ Siemens	4/4

Governance and Conduct Review Committee

Role:

- Monitors and oversees governance practices and processes used to support the board in carrying out its governance mandate, which is to direct and control the business affairs of SaskCentral.
- Ensures related party transactions are identified, reviewed and dealt with in accordance with prudent business practices.
- Promotes ethical behaviours through SaskCentral's code of conduct.

	Meetings Attended
Eric Dillon	2/4
Tim Goddard	4/4
Kevin Lukey — Chair	4/4
Russ Siemens	4/4

Public Policy Committee

Role:

- Identifies public policy, ensures credit union input around policy positions and recommends policy decisions to the SaskCentral Board of Directors.

	Meetings Attended
Wayne Kabatoff	4/4
Mark Lane — Chair	3/4
Russ Siemens	3/4

Co-operative Social Responsibility

Co-operative social responsibility (CSR) is of growing importance to SaskCentral and to credit unions. With its emphasis on organizational behavior that benefits society, the economy and the environment, CSR is a natural fit with SaskCentral as a financial co-operative.

SaskCentral conducts CSR activities under its own It All Adds Up logo. Our CSR strategy links to our corporate values and business plan, and more importantly, aligns with the plans and priorities of our key stakeholders – credit unions, employees and the community.

Co-operative Social Responsibility

Credit Unions

Stakeholder engagement is a key component of CSR. SaskCentral believes in engaging with credit unions, listening to their concerns and responding to these concerns by providing the best total solution.

In 2017, we continued to provide value to credit unions by managing our operating expenses to ensure the ongoing stability of operations. This included encouraging employees to recycle and reuse office supplies, print double-sided and carpool to corporate meetings.

Employees

SaskCentral engages employees to gather their input on CSR initiatives. In 2017, the focus was on volunteerism, with 60% of our employees taking advantage of a company policy which allows up to three paid days per year served in volunteer activities. SaskCentral also committed to volunteering 400 hours in support of CCUA's Canada 150 Volunteer Challenge and exceeded our goal achieving 407 hours.

Creating a safe, comfortable and environmentally friendly workplace is also a priority. In 2017, SaskCentral continued to make building improvements as part of the recertification process to retain our BOMA BEST gold designation.

BOMA BEST® CERTIFIED GOLD BUILDING ENVIRONMENTAL STANDARDS™

Community

As a co-operative, SaskCentral upholds the principle of giving back to the community. In 2017, the organization donated $149,577 to local charities and non-profit organizations through financial contributions, volunteer hours and in-kind donations.

Employees were also encouraged to take advantage of SaskCentral's Building Communities Grant program which allows each employee to name a charity or non-profit of their choice to receive a donation of $200. In 2017, 97% of employees took advantage of the program to donate a total of $14,200 among 40 Saskatchewan community organizations.

Sponsorships Managed by SaskCentral

SaskCentral manages a number of sponsorships that credit unions support collectively. In addition, credit unions donate locally to their own communities.

In 2016, Saskatchewan credit unions contributed more than $7.3 million to growing communities.

Fundraising efforts brought in more than $186,000 for causes like the Jim Pattison Children's Hospital Foundation of Saskatchewan, Red Cross Disaster Relief and Telemiracle. Credit union employees logged more than 27,000 hours of volunteer time for community organizations.

Understanding SaskCentral's Financial Statements

SaskCentral previously only prepared consolidated financial statements. In 2017, SaskCentral has prepared both separate financial statements and consolidated financial statements.

Prior to 2017, the consolidated financial statements accounted for Concentra Bank using the equity method of accounting. Due to Concentra Bank's continuance under the Bank Act (Canada) and its new bylaws, SaskCentral has the ability to control Concentra for accounting purposes and must consolidate Concentra Bank as a subsidiary in its financial statements effective January 1, 2017.

Understanding SaskCentral's Financial Statements

Changes to SaskCentral's Financial Statements

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SaskCentral's Separate Financial Statements

In order to enhance transparency of its operations and to support accountability, SaskCentral has prepared separate financial statements. The purpose of the separate financial statements is to isolate SaskCentral's earnings, assets, liabilities and cash flows from those of its subsidiaries. The separate financial statements do not consolidate its subsidiaries, Concentra Bank and CUVentures LP. Instead, these statements account for all SaskCentral's downstream investees using the equity method of accounting.

SaskCentral's Consolidated Financial Statements

These statements illustrate SaskCentral's results consolidated with results of its subsidiary corporations. The financial statements are prepared in accordance with International Financial Reporting Standards and include:

- Financial results of subsidiaries (Concentra Bank and CUVentures LP)
- Financial results of SaskCentral's investments in associates using the equity method of accounting (Celero Solutions and Saskatchewan Entrepreneurial Fund Joint Venture)
- The proportionate financial results of SaskCentral's joint operation (CUPS Payment Services)

Consolidated earnings represent the total earnings of SaskCentral, taking into consideration the elimination of all inter-entity transactions (i.e. revenues and expenses between SaskCentral and its subsidiaries and dividends paid by SaskCentral's investees to SaskCentral).

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%.

Separate Management Discussion and Analysis

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'.

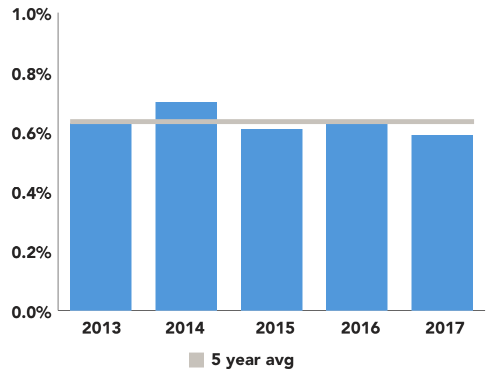
Credit unions operate within a comprehensive regulatory framework to ensure depositors' funds are fully guaranteed and completely secure. CUDGC establishes standards of sound business practice that are aligned with federal and international regulatory approaches, and monitors credit unions to ensure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

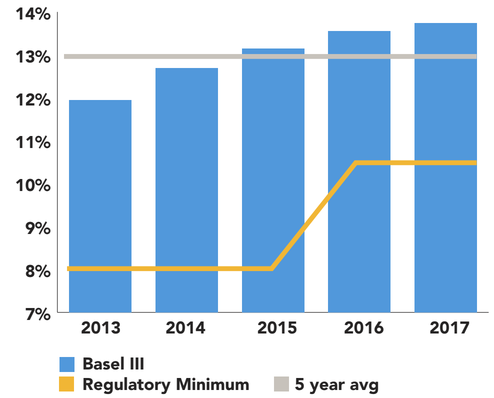
Profitability
In 2017, credit unions reported earnings of $130 million (2016 - $136 million) for a return on average assets of 0.59% (2016 – 0.64%). Although Bank of Canada rate increases led to a year-over-year increase in net interest margin, earnings are lower compared to prior year due to an increase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

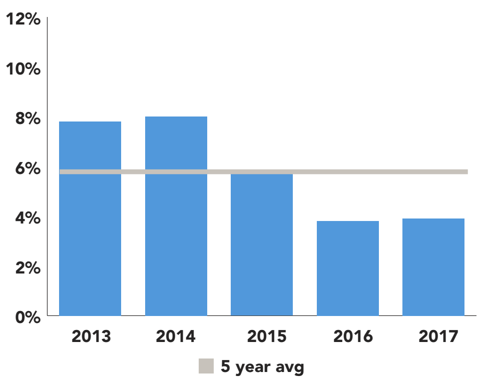
Basel III Total Eligible Capital (%RWA)



Growth

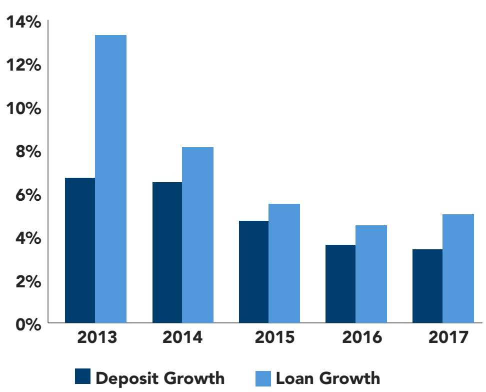
In 2017, asset and loan growth exceeded levels achieved in 2016, while deposit growth fell slightly below that of 2016. The decrease in deposit growth is consistent with Saskatchewan's recent economic conditions. Assets grew by 3.9% to $22.4 billion (2016 - $21.6 billion), behind the five-year average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

Asset Growth



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.

Deposit / Loan Growth



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

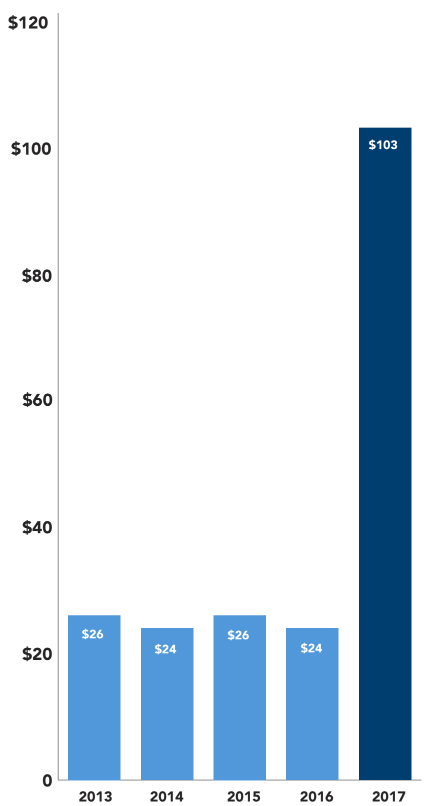
Results Overview

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.

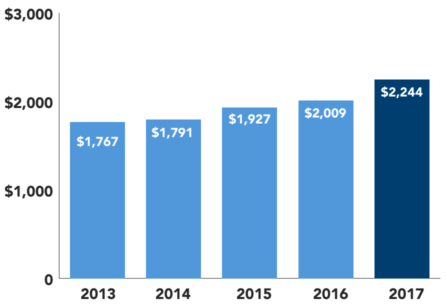
SaskCentral paid a dividend to credit unions in April 2017 of $5.1 million (2016 – $8.1 million) based on SaskCentral's 2016 earnings, representing a 3.7% (2016 – 5.8%) return on investment. SaskCentral also distributed to credit unions the dividends received from Concentra Bank of $9.0 million (2016 – $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)



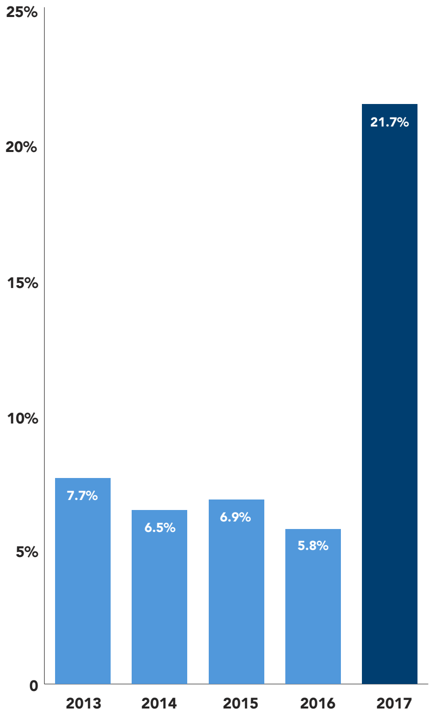
Liquidity

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



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

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.

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.

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

Separate Management Discussion and Analysis

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.

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

Deloitte.

Deloitte LLP
2103 - 11th Avenue
Mezzanine Level
Bank of Montreal Building
Regina SK S4P 3Z8
Canada

Tel: 306-565-5200
Fax: 306-757-4753
www.deloitte.ca

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.

Deloitte LLP

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

Credit Union Central of Saskatchewan

SEPARATE BALANCE SHEET

[in thousands of Canadian dollars]

As at December 31

	2017	2016
	$	$
Assets		
Cash and cash equivalents [note 7]	**256,352**	104,667
Securities [note 8]	**2,237,325**	2,130,961
Derivative assets [note 9]	**9,399**	11,122
Loans [note 10]	**31,169**	45,057
Trade and other receivables	**365**	424
Other assets	**543**	325
Investments in subsidiaries, associates and joint operations [note 11]	**326,492**	257,143
Property, plant and equipment [note 12]	**5,785**	5,934
Investment property [note 13]	**9,586**	9,786
Intangible assets [note 14]	**27**	138
Deferred income tax assets [note 15]	**3,402**	-
	2,880,445	2,565,557
Liabilities		
Deposits [note 16]	**2,244,264**	2,009,060
Derivative liabilities [note 9]	**9,399**	11,122
Loans payable [note 17]	**45,755**	58,573
Notes payable [note 18]	**31,984**	24,991
Trade and other payables	**8,056**	4,991
Other liabilities	**602**	111
Deferred income tax liabilities [note 15]	**-**	19,871
	2,340,060	2,128,719
Equity		
Share capital [note 19]	**161,607**	161,161
Retained earnings	**361,487**	269,505
Accumulated other comprehensive income	**17,291**	6,172
Total equity	**540,385**	436,838
	2,880,445	2,565,557

See accompanying notes

On behalf of the Board:

Director

Director

Credit Union Central of Saskatchewan

SEPARATE STATEMENT OF PROFIT OR LOSS

[in thousands of Canadian dollars]

Year ended December 31

	2017 $	2016 $
Interest income		
Securities	**34,559**	32,374
Loans	**657**	804
	35,216	33,178
Interest expense		
Deposits	**22,624**	21,454
Loans and notes	**880**	687
	23,504	22,141
Net interest income	**11,712**	11,037
Non-interest income		
Dues [note 21]	**5,375**	5,600
Fee for service [note 22]	**11,197**	11,522
Gain on financial instruments [note 25]	**198**	960
Share of profits of subsidiaries, associates and joint operations [note 11]	**27,424**	25,173
Gain on acquisition of control [note 28]	**48,297**	-
	92,491	43,255
Net interest and non-interest income	**104,203**	54,292
Non-interest expense		
Salary and employee benefits [note 23]	**10,072**	10,780
Professional and advisory services [note 24]	**6,590**	5,994
Computer and office equipment	**1,406**	1,631
Occupancy	**2,461**	2,556
General business	**2,042**	2,383
	22,571	23,344
Profit for the year before income taxes	**81,632**	30,948
Income tax (recovery) expense [note 15]	**(21,616)**	7,139
Profit for the year	**103,248**	23,809

See accompanying notes

Credit Union Central of Saskatchewan

SEPARATE STATEMENT OF COMPREHENSIVE INCOME OR LOSS

[in thousands of Canadian dollars]

Year ended December 31

	2017 $	2016 $
Profit for the year	**103,248**	23,809
Other comprehensive income (loss)		
Items that may be reclassified subsequently to profit or loss:		
Net unrealized gains (losses) on available-for-sale securities during the year	**13,662**	(3,476)
Reclassification of losses (gains) on available-for-sale securities disposed of in the year	**115**	(497)
Share of other comprehensive loss of subsidiaries, associates and joint operations [note 11]	**(1,436)**	(1,614)
Income tax relating to items that may be reclassified subsequently [note 15]	**(1,222)**	1,291
Other comprehensive income (loss) for the year, net of tax	**11,119**	(4,296)
Total comprehensive income for the year	**114,367**	19,513

See accompanying notes

Credit Union Central of Saskatchewan

SEPARATE STATEMENT OF CHANGES IN EQUITY

[In thousands of Canadian dollars]

Year ended December 31

	Share capital	Retained earnings	Accumulated other comprehensive income	Total
Balance as at December 31, 2015	138,688	255,708	10,468	404,864
Profit for the year	-	23,809	-	23,809
Other comprehensive loss for the year, net of tax	-	-	(4,296)	(4,296)
Increase in share capital	22,473	-	-	22,473
Dividends [note 20]	-	(13,715)	-	(13,715)
Reduction in income taxes [note 15]	-	3,703	-	3,703
Balance as at December 31, 2016	161,161	269,505	6,172	436,838
Profit for the year	**-**	**103,248**	**-**	**103,248**
Other comprehensive income for the year, net of tax	**-**	**-**	**11,119**	**11,119**
Increase in share capital	**446**	**-**	**-**	**446**
Dividends [note 20]	**-**	**(14,145)**	**-**	**(14,145)**
Reduction in income taxes [note 15]	**-**	**2,879**	**-**	**2,879**
Balance as at December 31, 2017	**161,607**	**361,487**	**17,291**	**540,385**

See accompanying notes

Credit Union Central of Saskatchewan

SEPARATE STATEMENT OF CASH FLOWS

[in thousands of Canadian dollars]

Year ended December 31

	2017	2016
	$	$
Cash flows from operating activities		
Profit for the year	**103,248**	23,809
Adjustments to determine net cash used in operating activities:		
Depreciation of property, plant and equipment and investment property [note 12/13]	**831**	886
Other amortization	**10,673**	10,212
Gain on financial instruments	**(198)**	(960)
Net interest income	**(11,712)**	(11,037)
Share of profits in subsidiaries, associates and joint operations, net of losses	**(27,424)**	(25,173)
Gain on acquisition of control	**(48,297)**	-
Income tax (recovery) expense	**(21,616)**	7,139
Changes in operating assets and liabilities:		
Loans, net of repayments	**13,861**	(7,238)
Trade and other receivables (payables)	**3,124**	440
Other assets	**(218)**	(25)
Deposits, net of withdrawals	**235,278**	82,635
Loans payable, net of repayments	**(12,824)**	663
Notes payable, net of repayments	**6,984**	9,991
Other liabilities	**491**	(325)
Interest received	**34,327**	32,862
Dividends received	**587**	613
Interest paid	**(23,562)**	(22,235)
Cash flows provided by operating activities	**263,553**	102,257
Cash flows from financing activities		
Proceeds from issuance of share capital	**446**	22,473
Dividends paid to members [note 20]	**(14,145)**	(13,715)
Cash flows (used in) provided by financing activities	**(13,699)**	8,758
Cash flows from investing activities		
Purchase of securities	**(5,594,108)**	(3,315,639)
Proceeds from sales of securities	**5,491,485**	3,225,138
Distributions from investments in subsidiaries, associates and joint operations [note 11]	**4,936**	13,667
Property, plant and equipment [note 12]	**(482)**	(524)
Intangible assets [note 14]	**-**	(14)
Cash flows used in investing activities	**(98,169)**	(77,372)
Net increase in cash and cash equivalents	**151,685**	33,643
Cash and cash equivalents, beginning of year	**104,667**	71,024
Cash and cash equivalents, end of year	**256,352**	104,667

See accompanying notes

Notes to the Separate Financial Statements

December 31, 2017
in thousands of Canadian dollars

1. REPORTING ENTITY

Credit Union Central of Saskatchewan (SaskCentral) is a company domiciled in Canada. The address of SaskCentral's registered office is 2055 Albert Street, Regina, Saskatchewan, S4P 3G8. SaskCentral is incorporated under *The Credit Union Central of Saskatchewan Act, 2016* (the Act). Under the Act, Credit Union Deposit Guarantee Corporation of Saskatchewan (CUDGC) took over regulatory responsibilities for SaskCentral effective January 15, 2017. Prior to January 15, 2017, SaskCentral was regulated by the Office of the Superintendent of Financial Institutions (OSFI).

SaskCentral functions as a liquidity manager and key service supplier on behalf of and for Saskatchewan credit unions. SaskCentral also maintains business relationships with, and investments in, a number of co-operative entities on behalf of Saskatchewan credit unions, including Concentra Bank (formerly Concentra Financial), CUPS Payment Services (CUPS), Celero Solutions and CUVentures LP as described in note 11.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these separate financial statements. SaskCentral's separate financial statements do not consolidate the activities of its subsidiaries or joint operations. Other than this exception, the accounting policies have been consistently applied by SaskCentral's subsidiaries and joint operations. SaskCentral prepares separate financial statements to enhance accountability and the transparency of its operations.

2.1 Basis of presentation

(a) Statement of compliance

These separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

These separate financial statements were authorized for issue by the Board on February 27, 2018.

SaskCentral prepares audited consolidated financial statements in accordance with IFRS 10, *Consolidated Financial Statements.* The audited consolidated financial statements were authorized for issue by the Board on February 27, 2018. SaskCentral's audited consolidated financial statements should be referenced for further information.

(b) Basis of measurement

The separate financial statements have been prepared on the historical cost basis except for available-for-sale financial assets and financial assets and liabilities held at fair value through profit or loss (FVTPL), which have been measured at fair value, including all derivative contracts.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, SaskCentral takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these separate financial statements is determined on such a basis, and measurements that have some similarities to fair value, but are not fair value, such as value in use on impairment.

December 31, 2017
in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of presentation (continued)

(b) Basis of measurement (continued)

SaskCentral follows a fair value hierarchy to categorize the inputs used to measure fair value into Level 1, 2 or 3 based on the degree to which inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

(c) Functional and presentation currency

These separate financial statements are presented in Canadian dollars, which is SaskCentral's functional currency. Except as otherwise indicated, financial information presented in Canadian dollars has been rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of the separate financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates thereby impacting the separate financial statements. Management believes that the underlying assumptions are appropriate and that SaskCentral's separate financial statements therefore present the financial position and results fairly.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information about key sources of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effects on the amounts recognized in the separate financial statements are described in note 3.

2.2 Investments in subsidiaries

A subsidiary is an entity over which SaskCentral has control. Control is achieved when SaskCentral (a) has power over the investee; (b) is exposed, or has rights, to variable returns from its involvement with the investee; and (c) has the ability to use its power to affect its returns.

For the purposes of these separate financial statements, all subsidiaries have been accounted for using the equity method. Under the equity method, an entity is initially recognized in the separate balance sheet at cost and adjusted thereafter to recognize SaskCentral's share of the profit or loss and other comprehensive income (OCI) of the entity. When SaskCentral's share of losses of an entity exceeds SaskCentral's interest in that entity, SaskCentral discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that SaskCentral has incurred legal or constructive obligations or made payments on behalf of the entity.

2.3 Investments in associates

An associate is an entity over which SaskCentral has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results of associates are incorporated in these separate financial statements using the equity method.

December 31, 2017
in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

For the purposes of these separate financial statements, all joint operations have been accounted for using the equity method.

2.5 Sale and repurchase agreements

Securities sold subject to repurchase agreements are treated as collateralized borrowing transactions when the transferee has the right by contract or custom to sell or repledge the collateral and are classified as available-for-sale and recorded at fair value. Obligations related to assets sold under repurchase agreements are recorded in loans payable (note 17). Interest incurred on repurchase agreements is included in loans and notes interest expense.

2.6 Financial instruments

All financial assets and financial liabilities are recognized in the separate balance sheet and measured in accordance with their assigned classification. Financial assets and financial liabilities are recognized when SaskCentral becomes a party to the contractual provisions of the instruments.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

(a) Financial assets

SaskCentral classifies financial assets to the following specified categories: FVTPL; available-for-sale; and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of the initial recognition.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held-for-trading or is designated as FVTPL.

A financial asset is classified as held-for-trading if:

- it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or
- on initial recognition, it is part of a portfolio of identified financial instruments that are managed together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the separate statement of profit or loss and is reported as gains on financial instruments. Gains and losses arising from SaskCentral's foreign exchange contracts are classified as held-for-trading and are included in the separate statement of profit or loss and are reported as fee for service. Fair value is determined in the manner described in note 5.

December 31, 2017
in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables or financial assets at FVTPL. Available-for-sale financial assets are initially recognized at fair value and measured subsequently at fair value with gains and losses being recognized in OCI in the separate statement of comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognized. Fair value is determined in the manner described in note 5.

Available-for-sale financial assets are assessed for impairment at the end of each reporting period. If an available-for-sale financial asset is determined to be impaired, the cumulative gains or losses previously recognized in OCI in the separate statement of comprehensive income are recognized in the separate statement of profit or loss. Interest is calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognized in the separate statement of profit or loss.

Purchase premiums or discounts on available-for-sale securities are amortized over the life of the security using the effective interest method and are recognized in securities interest income. Interest income accruing on available-for-sale securities is recorded in securities interest income. Dividends on available-for-sale equity instruments are recognized in the separate statement of profit or loss in securities interest income when SaskCentral's right to receive payment is established. Gains and losses realized on disposal of available-for-sale securities are included in gains on financial instruments.

Investments in equity instruments of co-operative enterprises classified as available-for-sale that do not have a quoted market price in an active market are measured at cost.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortized cost using the effective interest method less any impairment.

(b) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For available-for-sale equity securities, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

December 31, 2017
in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

(b) Impairment of financial assets (continued)

For certain categories of financial assets, such as trade and other receivables, assets are assessed for impairment on a collective basis even if they are assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include SaskCentral's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of thirty days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of the estimated cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

For financial assets that are carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. When a trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance are recognized in profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in OCI are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date of the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of available-for-sale equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in OCI. In respect of available-for-sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

(c) Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities measured at amortized cost. Management determines the classification of its financial liabilities at initial recognition.

Financial liabilities at FVTPL

Financial liabilities are classified at FVTPL when the financial liability is either held-for-trading or it is designated as FVTPL. A financial liability is classified as held-for-trading if:

- it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or
- on initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

(c) Financial liabilities (continued)

Financial liabilities at FVTPL are stated at fair value, with any gains and losses arising from re-measurement recognized in profit or loss. Fair value is determined in the manner described in note 5.

Other financial liabilities

Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

d) Derecognition of financial assets or liabilities

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have expired or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred. SaskCentral tests control to ensure that continuing involvement on the basis of any retained powers of control do not prevent derecognition. When financial assets are derecognized in full, a gain or loss is recognized in profit or loss for an amount equal to the difference between the carrying amount of the asset and the value of the consideration received.

SaskCentral derecognizes financial liabilities when, and only when, SaskCentral's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

e) Categories of financial instruments

SaskCentral classifies their financial instruments into categories that reflect characteristics of the financial instruments. The classification made can be seen in the table below:

	Classification as defined by IAS 39	Type of financial instrument
Financial assets	FVTPL	Held-for trading • Certain debt securities • Derivative assets
	Available-for-sale	Certain debt securities Equity securities
	Loans and receivables	Cash and cash equivalents Certain debt securities Loans Trade and other receivables
Financial liabilities	FVTPL	Held-for-trading • Derivative liabilities
	Other financial liabilities	Deposits Loans payable Notes payable Trade and other payables

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognized within interest income and interest expense in the separate statement of profit or loss using the effective interest method, except for short-term receivables and payables when the effect of discounting is immaterial. The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments and receipts through the expected life of the financial instrument (or, when appropriate, a shorter period) to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, SaskCentral estimates future cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and basis points paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Transaction costs are incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income on held-for-trading securities is presented together with securities interest income in the separate statement of profit or loss.

2.8 Fee for service

Fee for service revenues are recognized over the period in which the related service is rendered.

2.9 Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid securities with a short maturity from the date of acquisition. They are subject to insignificant risk of changes in fair value and are used to manage short-term cash commitments.

2.10 Derivative financial instruments

SaskCentral enters into derivative transactions on an intermediary basis on behalf of credit unions. These derivatives are carried at fair value on a gross basis as derivative assets and liabilities. Further details of derivative financial instruments are disclosed in note 9.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured at their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Property, plant and equipment

Property, plant and equipment are reported at cost less accumulated depreciation and impairment losses. Land is not amortized.

Depreciation is recognized using the straight-line method over the estimated useful life of the item of property, plant and equipment. Depreciation is discontinued when the residual value is equal to or greater than the net carrying value of a depreciable asset. The residual value of an asset is the estimated amount that would be currently obtained from the disposal of the asset, after deducting the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

The applicable depreciation periods are as follows:

Building	40 years
Building improvements	5 to 35 years
Furniture and equipment	3 to 20 years

Depreciation methods, residual values and estimates of useful lives are reviewed at the end of each reporting period, with the effect of any changes being accounted for on a prospective basis.

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to SaskCentral and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. Day-to-day servicing costs of property, plant and equipment are recognized in profit or loss as incurred.

Gains and losses arising from disposal of property, plant and equipment are measured as the difference between the disposal proceeds and the carrying amount of the asset and are recognized in profit or loss.

2.12 Investment property

Investment property is property held for long-term rental income or for capital appreciation or both, and that is not occupied by SaskCentral. Investment property may be partially occupied by SaskCentral with the remainder being held for rental income or capital appreciation. If the part of the property held for rental income can be sold separately, SaskCentral accounts for the portions separately. The portion that is owner-occupied is accounted for as property, plant and equipment and the portion that is held for rental income is accounted for as an investment property. In order to determine the percentage of the portions, SaskCentral uses the size of the property measured in square feet.

Investment property is carried at its cost less any accumulated depreciation and accumulated impairment losses. Depreciation is recognized using the straight-line method over forty years, which is the estimated useful life of the investment property. Depreciation is discontinued when the residual value is equal to or greater than the net carrying value of a depreciable asset. Depreciation methods, residual values and estimates of useful lives are reviewed at the end of each reporting period, with the effect of any changes being accounted for on a prospective basis.

2.13 Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives ranging from two to five years.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Intangible assets (continued)

Amortization methods and estimates of useful lives are reviewed at the end of each reporting period, with the effect of any changes being accounted for on a prospective basis.

An intangible asset is derecognized on disposal, or when no further economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognized in profit or loss when the asset is derecognized.

2.14 Impairment of non-financial assets

Non-financial assets such as property, plant and equipment, investment property and intangible assets are reviewed to determine whether an impairment loss has occurred on the assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

If an impairment loss is presumed to exist, a recoverable amount is estimated for the asset to determine the extent of the impairment loss. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is assessed as the estimated future cash flows discounted to present value using a discount rate reflecting current market assessments of the time value of money and risks specific to the asset where future cash flows have not been adjusted. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

If the estimated recoverable amount is less than the carrying amount, the carrying amount is reduced to the estimated recoverable amount. The difference between the recoverable and carrying amount is the impairment loss and the loss is recognized in profit or loss immediately.

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date and when there is an indication that reversal of the impairment may have occurred. Upon reversal of an impairment loss the carrying amount is increased to the revised recoverable amount and the revised recoverable amount does not exceed the carrying amount had the impairment loss not been recognized in prior years. The reversal is recognized in profit or loss immediately. No non-financial assets were impaired in 2017 or 2016.

2.15 Taxation

Income tax expense represents current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in OCI.

(a) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit for the year before income taxes as reported in the separate statement of profit or loss because of items of income and expense that are taxable or deductible in other years and items that are never taxable or deductible. SaskCentral's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

(b) Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the separate financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the date of the separate balance sheet and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. The principal temporary differences arise from depreciation of property, plant and equipment, effective interest method and carry-forward losses.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Taxation (continued)

(b) Deferred tax (continued)

Deferred income tax is not recognized for the following: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income, and differences relating to investments in subsidiaries to the extent SaskCentral is able to control the timing of the reversal of the temporary difference and to the extent that it is probable that the temporary differences will not reverse in the foreseeable future.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. A deferred tax asset is recognized for differences relating to investments in subsidiaries to the extent that it is probable that the temporary differences will reverse in the future and that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

A deferred tax liability is recognized when income taxes are payable in future periods as a result of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred tax related to fair value re-measurement of available-for-sale securities, which are recognized in OCI, is also recognized in OCI and subsequently in the separate statement of profit or loss together with the deferred gains or losses.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but SaskCentral intends to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

2.16 Employee benefits

(a) Pension benefits

A defined contribution plan is a post-employment benefit plan under which SaskCentral pays fixed contributions into a separate entity. SaskCentral has no legal or constructive obligations to pay further contributions if the plan does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The contributions are recognized as employee benefit expense when they are due in respect of service rendered before the end of the reporting period. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available. Contributions to a defined contribution plan that are due more than twelve months after the end of the reporting period in which the employees rendered the service are discounted to their present value at the reporting date.

(b) Short-term employee benefits

Short-term employee benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under SaskCentral's annual incentive compensation plan if SaskCentral has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Provisions

Provisions are recognized if, as a result of a past event, SaskCentral has a present legal or constructive obligation that can be estimated reliably, and it is probable that SaskCentral will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

2.18 Dividends

SaskCentral records dividends to shareholders as a reduction in retained earnings, in the year in which they are declared.

2.19 New standards and interpretations not yet adopted

At December 31, 2017 a number of standards and interpretations, and amendments thereto have been issued by the International Accounting Standards Board (IASB), which are not effective for these separate financial statements. Those which could have an impact on SaskCentral's separate financial statements are discussed below.

(a) Financial instruments

On July 24, 2014 the IASB issued the final version of IFRS 9, *Financial Instruments* (IFRS 9). IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

Key requirements of IFRS 9:

All recognized financial assets that are within the scope of IAS 39 are to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt investments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely of principal and interest on the principal amount outstanding, are generally measured at fair value through OCI (FVTOCI). All other debt investments and equity investments are measured at fair value through profit or loss. Although, entities may make an irrevocable election to present subsequent changes in the fair value of an equity instrument (that is not held-for-trading) in OCI, with only dividend income generally recognized in profit or loss.

With regard to the measurement of financial liabilities designated as at FVTPL, IFRS 9 requires that the amount of change in the fair value of the financial liability, that is attributable to changes in the credit risk of that liability, is presented in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. Changes in the fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

The standard expands the scope of hedged items and hedging items to which hedge accounting can be applied and aims to better align the accounting with risk management activities. SaskCentral is permitted to adopt the hedge accounting requirements of IFRS 9 concurrently or to defer the adoption to a future period and continue to apply the hedge accounting requirements of IAS 39. However, the hedging disclosure requirements of IFRS 9 will continue to apply to SaskCentral regardless of the choice made.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 New standards and interpretations not yet adopted (continued)

(a) Financial instruments (continued)

SaskCentral

Based on the preliminary assessment, SaskCentral has concluded that the following changes will be made to the classification and measurement of SaskCentral's financial assets and liabilities:

Type of financial instrument	Classification under IAS 39	Classification under IFRS 9
Financial assets		
Cash and cash equivalents	Loans and receivables	Amortized cost
Federal, Provincial, and Municipal debt securities	Available-for-sale	FVTOCI (certain securities designated at FVTPL)
Corporate and chartered bank debt securities	Available-for-sale	FVTOCI (certain securities designated at FVTPL)
Co-operative securities	Available-for-sale	FVTPL
Master asset vehicle	FVTPL	FVTPL
Derivative assets	FVTPL	FVTPL
Loans	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Financial liabilities		
Deposits	Other financial liabilities	Amortized cost (certain deposits designated at FVTPL)
Derivative liabilities	FVTPL	FVTPL
Loans payable	Other financial liabilities	Amortized cost
Notes payable	Other financial liabilities	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost

Based on the classification and measurement changes above, the estimated increase to SaskCentral's January 1, 2018 opening retained earnings is $24,133. SaskCentral's preliminary assessment of the expected credit loss required under IFRS 9 is estimated to be $43, which causes a decrease to opening retained earnings.

(b) Revenue from contracts with customers

IFRS 15, Revenue from Contracts with Customers (IFRS 15), is a new standard that addresses the recognition of revenue from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18, Revenue (IAS 18), IAS 11, Construction Contracts and the related Interpretations when it becomes effective. Under IFRS 15, a customer of an entity is a party that has contracted with the entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. Unlike the scope of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity instruments are no longer within the scope of IFRS 15. Instead they are within the scope of IAS 39 (or IFRS 9, once adopted).

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 New standards and interpretations not yet adopted (continued)

(b) Revenue from contracts with customers (continued)

The core principle of the new standard is the recognition of revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the entity expects to be entitled in the exchange for those goods or services. Specifically, IFRS 15 introduces a five-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied (i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customer). Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

IFRS 15 was initially effective for annual periods beginning on or after January 1, 2017. In July 2015, the IASB approved the deferral of the effective date of IFRS 15. IFRS 15 is now effective for annual periods beginning on or after January 1, 2018. SaskCentral is currently evaluating the impact of the new standard on its separate financial statements.

(c) Leases

The IASB has published a new standard, IFRS 16, *Leases* (IFRS 16). The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting has remained largely unchanged. IFRS 16 supersedes IAS 17, *Leases* and related Interpretations and is effective for periods beginning on or after January 1, 2019. SaskCentral is currently evaluating the impact of the new standard on its financial statements.

SaskCentral did not early adopt any new or amended standards in 2017.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the separate financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, profits and losses during the reporting period. Accordingly, actual results may differ from those estimates. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgments are evaluated on a continuous basis, and are based on historical experience and other factors, including expectations with regard to future events. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Critical judgments in applying accounting policies

The following are the critical judgments that management have made in the process of applying SaskCentral's accounting policies and that have the most significant effect on the amounts recognized in the separate financial statements.

Allowances for impairment

SaskCentral reviews its asset portfolio to assess impairment on an annual basis. In determining whether an impairment loss should be recorded in the separate statement of profit or loss, SaskCentral makes judgments as to whether there is any observable evidence to suggest impairment may exist before the decrease can be identified in the asset portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the portfolios. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when forecasting its future cash flows.

Control of Concentra Bank

As of January 1, 2017, Concentra Bank is a subsidiary of SaskCentral as a result of SaskCentral's ability to call a special resolution vote on any matter or Board decision related to Concentra Bank and its 84.0% (2016 - 84.0%) voting interest in Concentra Bank. In addition, SaskCentral has the power to appoint and remove four out of the twelve directors of Concentra Bank. Management has concluded that SaskCentral acquired control on January 1, 2017 due to SaskCentral's ability to call a special resolution on any matter and its power to appoint and remove directors of Concentra Bank. Prior to January 1, 2017, SaskCentral did not control Concentra Financial. Concentra Financial was considered an associate of SaskCentral due to SaskCentral's lack of substantive rights to power. For the purposes of these separate financial statements, SaskCentral accounts for Concentra Bank using the equity method.

Significant influence over Celero Solutions

SaskCentral has significant influence over Celero Solutions by virtue of its 33.3% (2016 – 33.3%) interest in Celero Solutions. SaskCentral has the right to appoint two out of six (33.3%) members of the Celero Solutions Management Committee. Management has concluded that due to the lack of unanimous consent required to make decisions regarding relevant activities, SaskCentral does not have joint control over Celero Solutions. However, since SaskCentral has 33.3% of the voting power of Celero Solutions, management has concluded that SaskCentral has significant influence over Celero Solutions.

Significant influence over Saskatchewan Entrepreneurial Fund Joint Venture

CUVentures LP has 100% ownership of Saskatchewan Entrepreneurial Fund Limited Partnership (SEF LP), which has a 45.45% share in Saskatchewan Entrepreneurial Fund Joint Venture (SEF JV). SaskCentral has significant influence over SEF JV by virtue of SEF LP's 45.45% (2016 – 45.45%) interest in SEF JV. SaskCentral has the ability to appoint two out of five members (40%) to the Executive Committee of SEF JV. Management has concluded that due to the lack of unanimous consent required to make decisions, SaskCentral does not have joint control of SEF JV. However, since SaskCentral has 40% of the voting power of SEF, through CUVentures LP, management has concluded that SaskCentral has significant influence over SEF.

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3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Critical judgments in applying accounting policies (continued)

Classification of CUPS Payment Services as a joint operation

SaskCentral owns 50% interest in CUPS Payment Services (CUPS) in which unanimous consent is required for decision making. The remaining 50% interest in CUPS is owned by Alberta Central. CUPS is an unincorporated joint operation structured through a separate vehicle with a contractual arrangement. This separate vehicle is an unincorporated joint venture and is not seen as a separate entity under law. An unincorporated joint venture does not offer limited liability and the assets and liabilities held in the separate vehicle are regarded legally as the assets and liabilities of SaskCentral and Alberta Central based on their proportionate share in the joint operation. The legal form of the contractual arrangement gives SaskCentral and Alberta Central rights to the assets and obligations for the liabilities, in proportion to their proportionate share in the joint operation. The contractual agreement between SaskCentral and Alberta Central states that the gross revenues, expenses, income and losses of the joint operation shall belong to, be owned by and borne exclusively by SaskCentral and Alberta Central in proportion to their proportionate share in the joint operation. For the purposes of these separate financial statements, SaskCentral accounts for CUPS using the equity method.

Business combination

SaskCentral used significant judgement in assessing whether the continuance of Concentra Bank was considered a business combination under IFRS 3 – *Business Combinations.* In assessing the transaction, SaskCentral reviewed the bylaw changes of Concentra Bank and considered the legal structure changes resulting from Concentra Bank's continuance. Management concluded that due to the change in the legal structure of Concentra Bank, SaskCentral was considered to have obtained control of Concentra Bank effective January 1, 2017 through a step-acquisition.

Key sources of estimation uncertainty

The following are key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair value measurements and valuation processes

Some of SaskCentral's financial assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or liability, SaskCentral uses market-observable data to the extent it is available. Where Level 1 inputs are not available, SaskCentral utilizes valuation techniques, such as discounted cash flow models, or observable data from sources such as Bloomberg, to calculate the fair value of assets and liabilities. Where valuation techniques such as models are used to determine fair values, they are validated and periodically reviewed. Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities is disclosed in notes 5 and 13.

Valuation of Concentra Bank

As a result of acquisition of control of Concentra Bank, SaskCentral performed a valuation of Concentra Bank effective January 1, 2017. In performing the valuation, SaskCentral used discounted cash flow models and income approaches, or observable data from sources to calculate the value of Concentra Bank. Information about the valuation techniques and inputs used in determining the fair value of Concentra Bank is disclosed in note 28.

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3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Key sources of estimation uncertainty (continued)

Income taxes

The deferred income tax liability recognized at December 31, 2017 is based on future profitability assumptions within the foreseeable future. SaskCentral has determined that it is not probable that the temporary differences relating to Concentra Bank will reverse in the foreseeable future. Therefore, no deferred tax liability has been recorded on the temporary differences related to Concentra Bank. In the event of changes to these profitability assumptions, the deferred income tax liability recognized may be adjusted.

4. FINANCIAL RISK MANAGEMENT

The *Financial Management Policy* outlines risk management activities that support the maintenance of sufficient liquidity while ensuring capital adequacy. As a financial institution, SaskCentral is exposed to the following risks as a result of holding financial instruments: credit risk, market risk, and liquidity risk. The following is a description of these risks and how they are managed.

Credit risk

Credit risk arises from a counterparty's inability or unwillingness to fully meet its contractual obligations. The credit risk on securities and loans relates to principal and interest amounts. For derivatives, credit risk is the contract's replacement cost as opposed to its notional value.

SaskCentral manages credit risk by:

- Restricting the concentration of credit to issuer, issuer group, and industry;
- Establishing prudent loan structuring, credit review and authorization processes;
- Monitoring the quality of the credit portfolio ensuring conservative valuation and timely recognition of losses through specific loan impairment charges and securities write downs;
- Providing new and annual reviews of issuers and industries for credit quality;
- Limiting credit union loans; and
- Limiting the use of derivatives.

SaskCentral's Board is responsible for approving the credit risk tolerances in the *Financial Management Policy* upon the recommendation of the Audit and Risk Committee. Compliance to this policy is presented to the Audit and Risk Committee on a quarterly basis.

The Credit Committee, established by the Board and comprised of members of executive and senior management, has the authority to approve large loans. The Financial Management Advisory Committee, established by the Board and comprised of members of executive and senior management, has the authority to set credit risk strategies for the security portfolio within the risk tolerances in the *Financial Management Policy.*

The following reports, related to the management of credit risk, are provided to the SaskCentral Board:

- Monitored and Non-Productive Assets Report
- Large Lending Credit Report

The SaskCentral credit risk objectives, policies, and methodologies have not changed materially from December 31, 2016.

SaskCentral assumes credit risk in both the security and loan portfolios. In the securities portfolio, SaskCentral supplements its internal credit analysis with industry recognized rating agency data (DBRS, Standard and Poor's, and Moody's). In the loans portfolio, SaskCentral places primary reliance on internal risk ratings and a comprehensive review of the credit worthiness of the borrower. SaskCentral does not transact in credit derivatives.

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4. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

SaskCentral is exposed to credit related losses in the event of non-performance by the counterparties to derivative contracts. In determining the credit quality of derivative instruments both SaskCentral's own credit risk and the risk of the counterparty are considered elements of the credit quality.

Credit risk is measured by using a credit equivalent amount. The credit equivalent amount is derived from the sum of the positive replacement cost and the potential credit risk exposure which reflects the potential change in replacement cost in relation to the remaining term to maturity of the contract. Potential credit risk exposure is calculated in accordance with the capital adequacy guidelines as prescribed by CUDGC.

SaskCentral's maximum exposure to credit risk, including undrawn commitments, without taking account of any collateral held or other credit enhancements is:

		2017 $	
	Amount outstanding	**Undrawn commitments**	**Total**
Cash and cash equivalents	**256,352**	**-**	**256,352**
Securities	**2,237,325**	**-**	**2,237,325**
Derivative assets	**8,364**	**-**	**8,364**
Loans	**31,169**	**512,031**	**543,200**
Investments in subsidiaries, associates and joint operations	**326,492**	**-**	**326,492**
Total Exposure	**2,859,702**	**512,031**	**3,371,733**

		2016 $	
	Amount outstanding	**Undrawn commitments**	**Total**
Cash and cash equivalents	104,667		104,667
Securities	2,130,961		2,130,961
Derivative assets	8,490		8,490
Loans	45,057	469,136	514,193
Investments in subsidiaries, associates and joint operations	257,143	-	257,143
Letters of credit and financial guarantees	36	-	36
Total Exposure	2,546,354	469,136	3,015,490

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4. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

The following table summarizes the authorized credit exposures based on SaskCentral's internal risk rating for loans.

	2017 $	2016 $
Low risk		
Risk rating 1	**534,279**	502,759
Risk rating 2	**1,000**	1,000
Standard monitoring		
Risk rating 3	**-**	-
Risk rating 4	**7,711**	8,161
Special monitoring		
Risk rating 5	**-**	-
Default		
Risk rating 6	**-**	-
Risk rating 7	**-**	-
Total Exposure	**542,990**	511,920

The following table summarizes the risk rating based on recognized rating agency data for FVTPL securities at carrying value.

	2017 $	2016 $
A	**-**	14,823
Unrated	**467**	447
Total Exposure	**467**	15,270

The following table summarizes the risk rating based on recognized rating agency data for available-for-sale securities at carrying value.

	2017 $	2016 $
AAA/R1H	**824,329**	743,022
AA/R1M	**305,242**	574,408
A/R1L	**1,014,052**	721,157
BBB/R2H	**44,377**	56,609
Co-operatives	**33,460**	5,420
Total Exposure	**2,221,460**	2,100,616

Refer to note 8 for information on the credit quality performance of the security portfolio and note 10 for information on the credit quality performance of the loan portfolio.

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4. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Concentrations of credit risk indicate relative sensitivity of performance to developments affecting a particular industry or geographic region. The following table summarizes the authorized credit exposures associated with financial instruments by industry.

Credit risk exposure by industry:

	2017 $	2016 $
Automobile financing	**50,584**	58,619
Banking (Schedule 1)	**771,344**	886,600
Banking (Schedule 2 and Schedule 3)	**-**	1,501
Credit card issuing/financing	**32,287**	32,848
Diversified holdings	**1,000**	1,000
Information	**15,139**	9,826
Insurance carriers and related activities	**1,797**	1,797
Local credit union	**443,963**	413,337
Manufacturing	**59,435**	50,951
MAV	**467**	15,270
Mining & oil and gas extraction	**1,358**	4,993
Other non-depository (co-operatives)	**677,335**	448,241
Public administration (federal, provincial, and municipal government)	**1,190,800**	968,400
Real estate	**39,150**	31,007
Rental & leasing services	**-**	2,773
Residential mortgages (conventional)	**1,184**	-
Retail trade	**11,886**	10,186
Transportation and warehousing	**60,083**	45,311
Utilities	**12,904**	23,366
Wholesale trade	**1,017**	9,464
Total Exposure	**3,371,733**	3,015,490

Market risk

Market risk arises from three components:

- Interest rate risk which results from movements in interest rates. This risk primarily results from timing differences in the re-pricing of assets and liabilities as they mature or are contractually re-priced;
- Price risk which results from changes in the market price of an asset or liability; and
- Foreign exchange risk which results from movements in foreign exchange rates.

SaskCentral manages market risk by:

- Acquiring assets which are marketable with minimal risk of price fluctuation;
- Establishing market risk limits;
- Monitoring exposure and simulating the impact of interest rate changes;
- Monitoring exposure to changes in foreign exchange rates; and
- Undertaking stress testing.

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4. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

SaskCentral's Board is responsible for approving the market risk tolerances in the *Financial Management Policy* upon the recommendation of the Audit and Risk Committee. Compliance to these policies is presented to the Audit and Risk Committee on a quarterly basis. These policies outline maximum limits for the exposure of net interest income and the economic value of equity to market risk.

The Financial Management Advisory Committee has the authority to set market risk strategies for the balance sheet within the risk tolerances in the *Financial Management Policy*. In addition, management monitors the monthly simulation of the impact of interest rate changes to ensure market risk levels remain within policy and strategy parameters, and reviews derivative holdings.

The SaskCentral market risk objectives and methodologies have not changed materially from December 31, 2016.

The market risk position is measured on a monthly basis. Measurement of risk is based upon key assumptions such as future interest rate movements, asset growth, and funding mix. The short term (next 12 months) risk position is assessed by measuring both the impact of an immediate 100 basis points (bp) shock and a 30% rate ramp scenario on the adjusted net interest income which is the net interest income adjusted for realized gains and losses on derivatives. The long term risk position is assessed by measuring both the impact of an immediate 100 bp shock and a 30% rate ramp scenario on the economic value of equity.

The following represents the SaskCentral market risk position:

	2017 $		2016 $	
	Adjusted net interest income	**Economic value of equity**	**Adjusted net interest income**	**Economic value of equity**
Impact of:				
100 bp increase in rates	**7.1%**	**(0.4%)**	7.6%	(0.6%)
100 bp decrease in rates	**(8.1%)**	**0.4%**	(3.8%)	0.3%
Impact of:				
30% rate ramp increase	**1.9%**	**(0.6%)**	1.7%	(0.1%)
30% rate ramp decrease	**(3.9%)**	**0.4%**	(1.2%)	0.2%

(a) Interest rate risk

SaskCentral's exposure to interest rate risk is the risk of capital volatility due to changes in interest rates. This arises when assets and liabilities have different maturity profiles. Interest rate risk has the potential to affect capital strength. Capital volatility is managed by matching asset duration or cash flows to liability duration or cash flows. Interest rate derivatives may be used to manage the duration or cash flow mismatch. SaskCentral monitors interest rate changes monthly on a forecasted basis.

SaskCentral evaluates interest rate risk by determining the financial impact under a variety of scenarios. SaskCentral limits the impact of interest rate changes so that an immediate 100 bp change in the interest rate will not negatively affect the economic value of equity by more than 10% or projected annual net interest income by more than 10% and a 30% rate ramp scenario will not negatively affect the economic value of equity by more than 10% one year forward or projected annual net interest income by more than 10%.

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4. FINANCIAL RISK MANAGEMENT (continued)

(a) Interest rate risk (continued)

SaskCentral's interest rate sensitivity to a 100 bp fluctuation in interest rates over the next 12 months would be as outlined in the following table:

	2017 $		2016 $	
	Profit (loss) for the year	Other comprehensive (loss) income	Profit (loss) for the year	Other comprehensive (loss) income
Impact of:				
100 bp increase in rates	**13,802**	**(3,005)**	12,576	(3,073)
100 bp decrease in rates	**11,845**	**2,945**	11,250	3,012

(b) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument, including derivatives, will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. SaskCentral's most significant other price risk relates to its holdings of asset-backed commercial paper (ABCP) as described in note 8. SaskCentral manages its other price risk by adhering to the *Financial Management Policy*.

Liquidity risk

Liquidity risk arises from the inability to generate or obtain necessary cash or cash equivalents in a timely manner, at a reasonable price, to meet commitments as they become due, without incurring unacceptable losses.

Liquidity risk specific to the role of SaskCentral as operating liquidity manager is managed by:

- Investing in a stock of high quality liquid assets (HQLA);
- Ensuring liquidity funding sources are sufficient to meet the requirements for normal operating mode, emergency operating mode, and bridge operations;
- Complying with the requirements arising from the Group Clearing Agreement;
- Maintaining a Liquidity Crisis Management Plan, including funding plans, and disseminating to credit unions;
- Undertaking stress testing to assist in identifying, measuring and controlling liquidity risks and assessing liquidity sufficiency in case of both internal and market-wide stress events; and
- Maintaining an investment grade rating of R1-low.

The assessment of the liquidity position reflects management's estimates, assumptions, and judgments relative to current and future company specific operations and market conditions.

The SaskCentral Board is responsible for approving the liquidity risk tolerances in the *Financial Management Policy* upon the recommendation of the Audit and Risk Committee. Compliance to these policies is presented to the Audit and Risk Committee on a quarterly basis.

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4. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

The Financial Management Advisory Committee has the authority to set liquidity risk strategies for the balance sheet within the risk tolerances in the *Financial Management Policy*. In addition, this committee reviews compliance to mandatory liquidity requirements and monitors the liquidity position and projections, including the results of stress testing.

In the normal course of business SaskCentral enters into contracts that give rise to commitments of future minimum payments which affect liquidity.

The following table provides a summary of the SaskCentral primary future contractual funding commitments.

	2017 $				
	Within 3 months	**Over 3 months to 1 year**	**Over 1 year to 5 years**	**Over 5 years**	**Total**
Loans payable	**45,755**	-	-	-	**45,755**
Notes payable	**31,984**	-	-	-	**31,984**
Total Exposure	**77,739**	-	-	-	**77,739**

	2016 $				
	Within 3 months	**Over 3 months to 1 year**	**Over 1 year to 5 years**	**Over 5 years**	**Total**
Loans payable	58,573	-	-	-	58,573
Notes payable	24,991	-	-	-	24,991
Total Exposure	83,564	-	-	-	83,564

SaskCentral uses two metrics to monitor liquidity risk: the Liquidity Coverage Ratio (LCR) and a liquidity score. The LCR is modeled after the 2017 Liquidity Adequacy Requirements (LAR) Guidelines published by OSFI. This guideline does not apply to SaskCentral; however, SaskCentral has incorporated the LAR principles in the LCR. The LCR is the ratio of liquid assets over potential outflows over five days. SaskCentral calculates the LCR on a stand-alone basis and on a combined view of Saskatchewan credit unions and SaskCentral (system-wide).

	2017 $		2016 $	
	System-wide LCR	**Stand-alone LCR**	**System-wide LCR**	**Stand-alone LCR**
Policy limit	**120%**	**110%**	120%	110%
Actual	**214%**	**136%**	171%	124%

SaskCentral also evaluates liquidity quality of investments using the liquidity score. The liquidity score is an internal rating system developed by all Group Clearing participants. Ratings range from 0 to 4 with 0 indicating the investment is illiquid and 4 indicating the investment can be sold immediately to any dealer. The policy limit describes a liquidity score of 3.0 or better. The liquidity score was 3.4 at December 31, 2017 (2016 – 3.3).

SaskCentral's liquidity risk objectives and policies have not changed materially from December 31, 2016.

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5. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Some of SaskCentral's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table provides information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Fair value of financial assets and financial liabilities measured at fair value on recurring basis

Instrument	Fair value as at 2017 $	Fair value as at 2016 $	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Financial assets					
Available-for-sale [(1)]					
Government					
Federal	**707,597**	617,656	Level 2	Market comparable prices using quoted bid prices obtained from Bloomberg, or dealer quoted prices where applicable.	N/A
Provincial	**462,717**	348,434	Level 2	Market comparable prices using quoted bid prices obtained from Bloomberg, or dealer quoted prices where applicable.	N/A
Municipal	**4,352**	4,535	Level 2	Market comparable prices using quoted bid prices obtained from Bloomberg, or dealer quoted prices where applicable.	N/A
Corporate					
Corporate debt	**285,029**	279,344	Level 2	Market comparable prices using quoted bid prices obtained from Bloomberg, or dealer quoted prices where applicable.	N/A
Credential Financial subordinated debentures	**574**	572	Level 2	Discounted cash flow. Future cash flows are determined based on a fixed coupon rate of 5.13%. Discount rate of 5.06%, estimated using market comparable rates from Bloomberg.	N/A
Credential Securities subordinated debentures	**658**	658	Level 2	Discounted cash flow. Future cash flows are determined based on a fixed coupon rate of 3.65%. Discount rate of 3.76%, estimated using market comparable rates from Bloomberg.	N/A
Credential Financial partnership units	**16,380**	626	Level 3	Combined multiplier approach using comparable entities and precedent transactions and discounted cash flow. Prior year value equal to cost because a quoted price in an active market was not available and the fair value could not be reliably measured.	Earnings multipliers ranging from 7.0 to 13.5 and assets under administration multipliers ranging from 1.0% to 2.0%.

[(1)] Certain co-operative securities with a carrying value at December 31, 2017 of $3,563 (2016 - $3,544) are not included in this note as these securities are carried at cost because a quoted price in an active market is not available and the fair value cannot be reliably measured.

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5. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Fair value of financial assets and financial liabilities measured at fair value on recurring basis (continued)

Instrument	Fair value as at 2017 $	Fair value as at 2016 $	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Financial assets (continued)					
Available-for-sale securities (continued)					
Northwest and Ethical Investments partnership units	**12,285**	20	Level 3	Combined multiplier approach using comparable entities and precedent transactions and discounted cash flow. Prior year value equal to cost because a quoted price in an active market was not available and the fair value could not be reliably measured.	Earnings multipliers ranging from 8.0 to 10.0 and assets under administration multipliers ranging from 2.5% to 3.5%.
Chartered banks	**728,305**	845,227	Level 2	Market comparable prices using quoted bid prices obtained from Bloomberg, or dealer quoted prices where applicable.	N/A
FVTPL securities					
MAVII	-	14,823	Level 3	Discounted cash flow. Future cash flows based on a coupon rate of 0.82% that reflects a CDOR and a CDX rate with similar maturity dates and similar characteristics.	Discount rate of 3.11% calculated using the coupon rate plus a credit spread and liquidity discount. The higher the discount rate, the lower the fair value.
MAVIII	467	447	Level 2	Market comparable prices using dealer quoted prices.	N/A
Derivative assets					
Index-linked term deposits	**9,399**	11,122	Level 2	Discounted cash flow. Future cash flows are estimated based on observable market inputs (third party quotes, pricing on trading venues and prices for comparable transactions) and a discount rate derived from relevant market inputs for each asset class.	N/A

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5. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Fair value of financial assets and financial liabilities measured at fair value on recurring basis (continued)

Instrument	Fair value as at 2017 $	Fair value as at 2016 $	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Financial liabilities					
Derivative liabilities					
Index-linked term deposits	**9,399**	11,122	Level 2	Discounted cash flow. Future cash flows are estimated based on observable market inputs (third party quotes, pricing on trading venues and prices for comparable transactions) and a discount rate derived from relevant market inputs for each asset class.	N/A

SaskCentral's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

During the year, the valuation method of MAV securities was changed from a discounted cash flow method to using a market comparable approach using broker-quoted prices. As a result, SaskCentral transferred MAV securities with a carrying value of $447 at the date of transfer from Level 3 to Level 2. During the year, SaskCentral also obtained a fair value for the Credential Financial and Northwest and Ethical Investments partnership units. The method of valuation was considered Level 3 with unobservable inputs. In prior year, the fair value was equal to cost because a quoted price in an active market was not available and the fair value could not be reliably measured. As a result, SaskCentral transferred the partnership units with a carrying value of $646 at the date of transfer from Level 2 to Level 3. There have been no transfers between Level 1 and 2.

Reconciliation of Level 3 fair value measurements

	2017 $	2016 $
Level 3, beginning of year	**15,270**	23,932
Realized gains in profit or loss	**21**	497
Unrealized gains in OCI	**28,019**	-
Principal payments	**(14,844)**	(9,159)
Transfer in (out) of Level 3	**199**	-
Level 3, end of year	**28,665**	15,270
Total gains for the period included in profit or loss for assets held at the end of the reporting period	**21**	497

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5. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Fair value of financial assets and liabilities not measured at fair value on recurring basis (but fair value disclosures are required)

Except as detailed in the following table, SaskCentral considers that the carrying amounts of financial assets and financial liabilities recognized in the separate financial statements approximate their fair value.

	Carrying value as at		Fair value as at			
	2017 $	2016 $	2017 $	2016 $	Fair value hierarchy	Valuation technique(s)
Financial assets						
Credit union loans – fixed interest rate(1)	**11,982**	29,955	**12,004**	29,943	Level 2	Discounted cash flows based on current market rates of interest for similar lending.
Commercial loans	**2,719**	3,169	**3,169**	3,175	Level 2	
Central 1 subordinated debt	**7,000**	7,000	**6,537**	6,331	Level 2	
Financial liabilities						
Deposits	**2,244,264**	2,009,060	**2,234,813**	2,021,432	Level 2	Discounted cash flows based on current market rates of interest for similar maturities.
Loans payable	**45,755**	58,573	**45,743**	58,567	Level 2	
Notes payable	**31,984**	24,991	**31,984**	24,991	Level 2	

(1) *The fair value of variable interest rate credit union loans approximates the carrying value of $16,468 (2016 - $11,933).*

6. CAPITAL MANAGEMENT

SaskCentral manages and monitors capital from several perspectives, including regulatory capital requirements and operational capital requirements.

SaskCentral manages its capital by monitoring, on a quarterly basis, a number of regulatory requirements as prescribed by CUDGC and by internal Board and operational policies. The regulatory capital ratio (Borrowing Multiple) calculation is specified in the CUDGC *Capital Adequacy Requirements Prudential Standard 2017-02* for SaskCentral. Annually, SaskCentral develops a five-year capital plan that is reviewed with the Audit and Risk Committee. This capital plan discusses the components of capital, the assumptions and risk factors, the capital and financial position, and provides alternatives to support organizational growth.

The Borrowing Multiple is an important measure for SaskCentral as it determines the level of borrowings to total regulatory capital in the organization. Total borrowings are comprised of total deposits, notes payable, loans payable and liabilities related to derivative contracts, excluding index-linked term deposits. The Borrowing Multiple is not to exceed 20.0 times total borrowings as prescribed by CUDGC. Internal board policy for this ratio is set at 17.0 times. Operationally, management targets a maximum ratio of 16.0 times.

Regulatory capital is allocated to two tiers: Tier 1 and Tier 2. Tier 1 regulatory capital comprises the more permanent components of capital and consists of share capital and retained earnings, excluding accumulated other comprehensive income (AOCI) and goodwill. Tier 2 regulatory capital consists of subordinated debentures, less any amortization on the subordinated debentures as required by CUDGC. Total regulatory capital is defined as the sum of Tier 1 and Tier 2 regulatory capital, less substantial investments and assets of little or no realizable value.

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6. CAPITAL MANAGEMENT (continued)

CUDGC also prescribes an internal capital adequacy assessment process (ICAAP) to address SaskCentral's unique conditions. ICAAP is an integrated process that evaluates capital adequacy, and is used to establish capital targets that take into consideration the strategic direction and risk appetite of SaskCentral. ICAAP seeks to identify the material risks requiring capital and quantify the amount of capital that should be held in relation to those risks.

Throughout the year, SaskCentral has been in compliance with CUDGC prescribed capital adequacy requirements, board policy capital requirements, and internally imposed operational capital targets.

	2017 $	2016 $
Capital		
Tier 1 and Tier 2 regulatory capital	**523,094**	430,666
Less deductions:		
Substantial investments	**324,774**	253,422
Assets of little value	**8,162**	1,357
Total borrowing multiple capital	**190,158**	175,887
Borrowing multiple	**12.2:1**	11.9:1

7. CASH AND CASH EQUIVALENTS

	2017 $	2016 $
Cash and balances with Central 1	**200,396**	68,263
Cash and balances with banks	**5,962**	4,976
Cash equivalents	**49,994**	31,428
	256,352	104,667

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8. SECURITIES

SaskCentral's securities portfolio is comprised of a large number of securities carrying a variety of terms and conditions. Approximately 73.2% (2016 – 75.9%) of the portfolio bears interest at fixed rates and pays interest semi-annually and/or upon maturity. The remainder of the portfolio earns interest at variable rates and pays interest monthly or quarterly, provides a return of dividends over varying periods of time or provides an index-linked return. The maturity dates and weighted average effective interest rates for the securities portfolio are as follows:

2017
$

	Term to maturity					
	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	No fixed maturity	Total
Available-for-sale						
Government						
Federal						
Fair value	2,140	233,615	471,842	-	-	707,597
Amortized cost	2,140	233,616	473,325	-	-	709,081
Yield [1]	1.01%	1.27%	1.45%			1.39%
Provincial						
Fair value	61,630	244,150	156,937	-	-	462,717
Amortized cost	61,651	244,035	156,507	-	-	462,193
Yield [1]	1.03%	1.37%	1.52%			1.42%
Municipal						
Fair value	-	-	4,352	-	-	4,352
Amortized cost	-	-	4,376	-	-	4,376
Yield [1]			1.80%			1.80%
Corporate						
Corporate debt [2]						
Fair value	13,519	100,818	170,692	-	-	285,029
Amortized cost	13,520	100,829	172,065	-	-	286,414
Yield [1]	1.56%	1.64%	1.93%			1.81%
Chartered banks						
Fair value	34,304	248,680	434,572	-	10,749	728,305
Amortized cost	34,305	248,283	438,015	-	10,707	731,310
Yield [1]	1.74%	1.93%	1.91%		3.20%	1.93%
Co-operatives						
Fair value	-	658	574	-	32,228	33,460
Amortized cost	-	656	573	-	4,211	5,440
Total fair value	111,593	827,921	1,238,969	-	42,977	2,221,460
Total amortized cost	111,616	827,419	1,244,861	-	14,918	2,198,814
FVTPL						
MAV						
Fair value	-	-	-	467	-	467
Loans and receivables						
Central 1 subordinated debentures						
Amortized cost	-	-	-	7,000	-	7,000
Yield [1]				1.55%		1.55%
Total carrying value						2,228,927
Accrued interest						8,398
						2,237,325

[1] *represents weighted average effective interest rates based on year-end carrying values*
[2] *corporate debt includes: commercial paper and medium-term notes*

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8. SECURITIES (continued)

	2016 $					
	Term to maturity					
	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	No fixed maturity	Total
Available-for-sale						
Government						
Federal						
Fair value	-	129,151	483,502	5,003	-	617,656
Amortized cost	-	128,692	481,883	5,000	-	615,575
Yield [(1)]		1.16%	1.16%	1.08%		1.16%
Provincial						
Fair value	25,023	81,596	241,815	-	-	348,434
Amortized cost	25,027	81,353	241,445	-	-	347,825
Yield [(1)]	0.59%	1.11%	1.12%			1.08%
Municipal						
Fair value	-	3,620	915	-	-	4,535
Amortized cost	-	3,603	919	-	-	4,522
Yield [(1)]		1.53%	1.18%			1.46%
Corporate						
Corporate debt [(2)]						
Fair value	7,336	76,992	193,495	1,521	-	279,344
Amortized cost	7,328	76,720	192,475	1,532	-	278,055
Yield [(1)]	1.73%	1.69%	1.87%	1.79%		1.82%
Chartered banks						
Fair value	101,470	171,628	572,129	-	-	845,227
Amortized cost	101,460	170,973	567,919	-	-	840,352
Yield [(1)]	1.20%	1.68%	1.97%			1.82%
Co-operatives						
Fair value	-	658	572	-	4,190	5,420
Amortized cost	-	656	573	-	4,190	5,419
Total fair value	133,829	463,645	1,492,428	6,524	4,190	2,100,616
Total amortized cost	133,815	461,997	1,485,214	6,532	4,190	2,091,748
FVTPL						
MAV						
Fair value	14,823	447	-	-	-	15,270
Loans and receivables						
Central 1 subordinated debentures						
Amortized cost	-	-	-	7,000	-	7,000
Yield [(1)]				0.96%		0.96%
Total carrying value						2,122,886
Accrued interest						8,075
						2,130,961

[(1)] represents weighted average effective interest rates based on year-end carrying values
[(2)] corporate debt includes: commercial paper, medium-term notes

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8. SECURITIES (continued)

Unrealized gains and losses on available-for-sale securities

	2017 $			
	Amortized cost	**Unrealized gains**	**Unrealized losses**	**Fair value**
Government	**1,175,650**	**2,132**	**(3,116)**	**1,174,666**
Corporate	**1,023,164**	**29,353**	**(5,723)**	**1,046,794**
	2,198,814	**31,485**	**(8,839)**	**2,221,460**

	2016 $			
	Amortized cost	**Unrealized gains**	**Unrealized losses**	**Fair value**
Government	967,922	3,701	(998)	970,625
Corporate	1,123,826	7,338	(1,173)	1,129,991
	2,091,748	11,039	(2,171)	2,100,616

MAV, which consist of pools of assets, issued notes on January 19, 2009, to replace non-bank sponsored or third party ABCP which had experienced a liquidity event or market disruption in 2007. During the year SaskCentral received $14,915 (2016 - $9,298) of principal and interest payments on the MAV notes held. The fair value of MAV notes held at December 31, 2017 is $467 (2016 - $15,270).

9. DERIVATIVE ASSETS AND LIABILITIES

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity instrument or index.

Derivative contracts are expressed in notional amounts. The notional amounts, which are off-balance sheet, do not represent amounts exchanged and, thus, are not a measure of SaskCentral's exposure through the use of derivatives. The notional amount is the reference amount used to determine the payment required by contract and is a common measure of business volume.

Index-linked term deposits are contractual agreements between SaskCentral and participating credit unions, where credit union member's returns are linked to an underlying basket of stocks or indices. The return is generated through the use of a derivative specific to each product offering. SaskCentral is party to these transactions by facilitating the transactions, providing treasury expertise, and directing settlement with each participating credit union.

Derivatives currently held or issued are for non-trading purposes. These derivatives are used in managing SaskCentral's asset/liability activities and include investing and hedging activities.

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9. DERIVATIVE ASSETS AND LIABILITIES (continued)

Notional amounts and term to maturity

	2017 $				
	Within 3 months	**Over 3 months to 1 year**	**Over 1 year to 5 years**	**Over 5 years**	**Total**
Index-linked term deposits	**10,532**	**8,260**	**90,461**	**-**	**109,253**

	2016 $				
	Within 3 months	**Over 3 months to 1 year**	**Over 1 year to 5 years**	**Over 5 years**	**Total**
Index-linked term deposits	16,195	14,431	83,153	-	113,779

Fair value of derivative instruments

	2017 $		2016 $	
	Positive	**Negative**	**Positive**	**Negative**
Index-linked term deposits	**9,399**	**9,399**	11,122	11,122

Amounts expected to be recovered or settled

	2017 $		2016 $	
	Positive	**Negative**	**Positive**	**Negative**
Within 12 months	**1,839**	**1,839**	5,145	5,145
After 12 months	**7,560**	**7,560**	5,977	5,977
	9,399	**9,399**	11,122	11,122

SaskCentral does not make any representations as to the derivative transactions related to the manufacturing of the index-linked term deposits, or the return of the derivative. SaskCentral has no payment obligation beyond that which it receives on the derivative, and is not responsible should any loss occur.

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10. LOANS

	2017	2016
	$	$
Credit union	28,449	41,859
Commercial loans	2,711	3,162
	31,160	45,021
Accrued interest	9	36
	31,169	45,057

The repricing dates, which approximate maturity dates, and weighted average effective interest rates for the loan portfolio are as follows:

2017	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Credit union					
Amortized cost ($)	**28,449**	-	-	-	**28,449**
Rate (%)	**2.33%**				**2.33%**
Commercial loans					
Amortized cost ($)	**2,711**	-	-	-	**2,711**
Rate (%)	**3.20%**				**3.20%**
Amortized cost	**31,160**	-	-	-	**31,160**

2016	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Credit union					
Amortized cost ($)	41,859	-	-	-	41,859
Rate (%)	1.77%				1.77%
Commercial loans					
Amortized cost ($)	3,162	-	-	-	3,162
Rate (%)	2.70%				2.70%
Amortized cost	45,021	-	-	-	45,021

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11. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT OPERATIONS

Concentra Bank

On January 1, 2017, Concentra Financial ceased operations as an association governed by the CCAA and continued as a Schedule 1 chartered bank governed by the *Bank Act (Canada).* On this date, Concentra Financial's legal name changed to Concentra Bank. Prior to the bank continuance, SaskCentral held 84.0% of the non-voting Class A shares and 47.1% of the voting membership shares of Concentra Financial and was limited to one vote out of 235 member votes on ordinary resolutions brought to members. Effective January 1, 2017, SaskCentral holds 84.0% of the voting common shares of Concentra Bank. Concentra Bank provides financial intermediation and trust services to Canadian credit unions and associated commercial and retail customers. Concentra Bank's registered place of business is Saskatoon, Saskatchewan.

Celero Solutions

At December 31, 2017, SaskCentral has a 33.3% (2016 – 33.3%) interest in Celero Solutions, an arrangement between SaskCentral, Alberta Central and Credit Union Central of Manitoba for the purpose of providing information technology (IT) services including developing new IT services and providing technology-based products. Celero Solutions' registered place of business is Calgary, Alberta.

SEF JV

At December 31, 2017, SaskCentral has a 45.45% (2016 – 45.45%) interest in SEF JV, which was created to undertake and carry out the investment and deployment of capital to small and mid-sized businesses in Saskatchewan requiring less than $1 million in capital. SEF JV's principal place of business is Regina, Saskatchewan.

SaskCentral owns SEF JV through its 100% (2016 – 81.22%) ownership of the partnership units of CUVentures LP. Through its 100% ownership of CUVentures Inc., SaskCentral has control over CUVentures LP. CUVentures LP's principal place of business is Regina, Saskatchewan.

CUPS

SaskCentral has a 50% share in the ownership interest of CUPS. The remaining 50% interest is owned by Alberta Central. The CUPS joint operation was created to provide payment and support services to its members, specifically, services relating to the clearing and settlement of any payment items and services relating to the handling of foreign non-cash payment items. SaskCentral's earnings participation in CUPS is based upon the volume of Saskatchewan credit union payment activity as a percentage of the overall payment activity of CUPS. Capital contributions are shared equally with Alberta Central. CUPS' principal place of business is Calgary, Alberta.

For the purposes of these separate financial statements, SaskCentral accounts for the above as investments using the equity method. Related party transactions for these investees, if any, are disclosed in note 26.

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11. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT OPERATIONS (continued)

Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by SaskCentral is as follows:

2017
$

	Assets	Liabilities	Revenue	Profit (loss)	Other comprehensive (loss) income	Total comprehensive income (loss)
Concentra Bank	**9,126,672**	**8,669,729**	**267,776**	**33,647**	**(1,764)**	**31,883**
Celero Solutions	**33,943**	**20,459**	**76,099**	**3,485**	**-**	**3,485**
CUPS	**5,213**	**3,924**	**23,476**	**1,289**	**-**	**1,289**
SEF JV	**2,805**	**163**	**15**	**14**	**-**	**14**
	9,168,633	**8,694,275**	**367,366**	**38,435**	**(1,764)**	**36,671**

2016
$

	Assets	Liabilities	Revenue	Profit (loss)	Other comprehensive (loss) income	Total comprehensive income (loss)
Concentra Financial	9,436,734	9,002,541	257,951	28,859	(1,914)	26,945
Celero Solutions	35,391	23,742	79,210	3,573	-	3,573
CUPS	7,487	5,501	18,430	1,986	-	1,986
SEF JV	1,868	123	37	(140)	-	(140)
	9,481,480	9,031,907	355,628	34,278	(1,914)	32,364

Notes to the Separate Financial Statements

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11. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT OPERATIONS (continued)

A reconciliation of Concentra Bank's financial information to the carrying amount of SaskCentral's interest in Concentra Bank recognized in these separate financial statements is provided below.

2017	**Concentra Bank equity components**		**SaskCentral's carrying amount**
	$	**%**	**$**
Ending share capital	**245,239**		
Concentra shares held by other common shareholders	**(16,192)**		
Concentra shares held by Class A preferred shareholders	**(110,987)**		
SaskCentral's portion of share capital	**118,060**		**118,060**
Ending retained earnings	**213,127**		
Accumulated other comprehensive income	**(1,423)**		
Retained earnings at date of asset transfer (January 1, 2005) [(1)]	**(22,628)**	**55.76%**	**12,617**
Dividend on 2005 earnings [(1)]	**2,579**	**55.76%**	**(1,438)**
Retained earnings prior to continuance	**(168,905)**	**84.30%**	**142,387**
Retained earnings attributable to common shareholders	**22,750**	**84.02%**	**19,115**
			290,741
Goodwill			**(19,248)**
Fair value increase as result of change in control (note 28)			**48,343**
Other adjustments			**237**
Carrying amount of SaskCentral's investment in Concentra Bank			**320,073**

[(1)] On January 1, 2005, a significant portion of SaskCentral's financial assets and financial liabilities were transferred to Concentra Financial. In exchange for net assets transferred, SaskCentral received additional non-voting Class A shares. As a result, in 2005, SaskCentral's ownership interest at January 1, 2005 was 55.76%. SaskCentral's portion of non-voting Class A dividend received from Concentra Financial in 2005 was 55.76%, or $1,438.

2016	**Concentra Financial equity components**		**SaskCentral's carrying amount**
	$	**%**	**$**
Ending share capital	245,239		
Concentra shares held by other Class A shareholders	(16,174)		
Concentra shares held by Class D shareholders	(110,987)		
Concentra shares held by other member shareholders	(18)		
SaskCentral's portion of share capital	118,060		118,060
Ending retained earnings	188,613		
Accumulated other comprehensive income	341		
Retained earnings at date of asset transfer (January 1, 2005) [(1)]	(22,628)	55.76%	12,617
Dividend on 2005 earnings [(1)]	2,579	55.76%	(1,438)
Retained earnings attributable to Class A shareholders	168,905	84.30%	142,387
			271,626
Goodwill			(19,248)
Other adjustments			(936)
Carrying amount of SaskCentral's investment in Concentra Financial			251,442

[(1)] On January 1, 2005, a significant portion of SaskCentral's financial assets and financial liabilities were transferred to Concentra Financial). In exchange for net assets transferred, SaskCentral received additional non-voting Class A shares. As a result, in 2005, SaskCentral's ownership interest at January 1, 2005 was 55.76%. SaskCentral's portion of non-voting Class A dividend received from Concentra Financial in 2005 was 55.76%, or $1,438.

Notes to the Separate Financial Statements

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11. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT OPERATIONS (continued)

A reconciliation of Celero Solutions, CUPS and SEF JV's financial information to the carrying amount of SaskCentral's interest in these investments recognized in the separate financial statements is provided below.

	2017 $		
	Celero Solutions	**CUPS**	**SEF JV**
Net assets of the associates and joint operations	**13,484**	**1,289**	**2,642**
Proportion of SaskCentral's ownership interest	**33.3%**	**50.0%**	**45.45%**
	4,495	**645**	**1,201**
Other adjustments	**23**	**55**	**-**
Carrying amount of SaskCentral's interest in associates and joint operations	**4,518**	**700**	**1,201**

	2016 $		
	Celero Solutions	**CUPS**	**SEF JV**
Net assets of the associates and joint operations	11,649	1,986	1,745
Proportion of SaskCentral's ownership interest	33.3%	50.0%	45.45%
	3,883	993	793
Other adjustments	22	10	-
Carrying amount of SaskCentral's interest in associates and joint operations	3,905	1,003	793

During the period, SaskCentral received the following distributions from its investments in subsidiaries, associates and joint operations:

	2017 $	2016 $
Concentra Bank (formerly Concentra Financial)	**3,383**	11,231
Celero Solutions	**550**	1,168
CUPS	**1,003**	1,071
SEF JV	**-**	197
	4,936	13,667

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12. PROPERTY, PLANT AND EQUIPMENT

2017
$

	Land	Building	Furniture and equipment	Total
Cost				
Balance as at January 1	859	12,362	3,044	16,265
Additions	-	407	75	482
Disposals	-	-	(109)	(109)
Ending balance as at December 31	859	12,769	3,010	16,638
Accumulated depreciation				
Balance as at January 1	-	8,061	2,270	10,331
Depreciation charges	-	415	216	631
Disposals	-	-	(109)	(109)
Ending balance as at December 31	-	8,476	2,377	10,853
Carrying value as at December 31	859	4,293	633	5,785

2016
$

	Land	Building	Furniture and equipment	Total
Cost				
Balance as at January 1	859	11,950	3,012	15,821
Additions	-	427	97	524
Disposals	-	(15)	(65)	(80)
Ending balance as at December 31	859	12,362	3,044	16,265
Accumulated depreciation				
Balance as at January 1	-	7,637	2,089	9,726
Depreciation charges	-	439	246	685
Disposals	-	(15)	(65)	(80)
Ending balance as at December 31	-	8,061	2,270	10,331
Carrying value as at December 31	859	4,301	774	5,934

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13. INVESTMENT PROPERTY

Investment property consists of the portion of the building not occupied by SaskCentral. SaskCentral uses the cost model to account for its investment property. Details are as follows:

	2017 $	2016 $
Cost		
Balance as at January 1	**11,449**	11,449
Ending Balance as at December 31	**11,449**	11,449
Accumulated Depreciation		
Balance as at January 1	**1,663**	1,462
Depreciation charges	**200**	201
Ending Balance as at December 31	**1,863**	1,663
Carrying Value as at December 31	**9,586**	9,786

The fair value of SaskCentral's investment property at December 31, 2017 is $19,808 (2016 - $24,484). The fair value of the investment property has been arrived at on the basis of a valuation completed by management.

The fair value was determined using an income approach. The estimate of fair value by management was developed based on current and future income that could be generated by the investment property through rents based on estimated market rates. In estimating the fair value of the investment property, the highest and best use of the investment property is the current use.

A summary of inputs (Level 3) used to calculate fair value of investment property is provided below:

Income approach	2017	2016
Rent per square foot (in actual Canadian dollars)	**$11 - $18**	$13 - $18
Parking rate per month (in actual Canadian dollars)	**$212.50**	$212.50
Vacancy rate	**10.34%**	13.87%
Capitalization rate	**7.5%**	7.5%

In 2016, investment property generated rental income of $3,585 (2016 - $3,227). Direct operating expenses recognized in the separate income statement were $1,944 (2016 - $2,054).

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14. INTANGIBLE ASSETS

2017
$

	Computer software	Intangible assets under development	Total
Cost			
Balance as at January 1	2,119	-	2,119
Additions	-	-	-
Transfers	-	-	-
Disposals	-	-	-
Ending balance as at December 31	2,119	-	2,119
Accumulated amortization			
Balance as at January 1	1,981	-	1,981
Amortization charges	111	-	111
Disposals	-	-	-
Ending balance as at December 31	2,092	-	2,092
Carrying value as at December 31	27	-	27

2016
$

	Computer software	Intangible assets under development	Total
Cost			
Balance as at January 1	1,899	205	2,104
Additions	-	15	15
Transfers	220	(220)	-
Ending balance as at December 31	2,119	-	2,119
Accumulated amortization			
Balance as at January 1	1,899	-	1,899
Amortization charges	82	-	82
Ending balance as at December 31	1,981	-	1,981
Carrying value as at December 31	138	-	138

Notes to the Separate Financial Statements

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15. INCOME TAXES

Income taxes are included in the separate statement of profit or loss as follows:

	2017	2016
	$	$
Deferred income tax expense		
Origination and reversal of temporary differences	**(21,616)**	7,139
	(21,616)	7,139

Income taxes are included in the separate statement of comprehensive income as follows:

	2017	2016
	$	$
Net unrealized gains on available-for-sale securities		
Deferred income tax expense (recovery)	**1,191**	(2,250)
	1,191	(2,250)
Reclassification of gains on available-for-sale securities to income		
Deferred income tax expense	**31**	959
	31	959
	1,222	(1,291)

Income taxes are included in the separate statement of changes in equity as follows:

	2017	2016
	$	$
Reduction in income taxes due to payment of dividends		
Deferred income tax recovery	**(2,879)**	(3,703)
	(2,879)	(3,703)

Dividends, which are reflected in retained earnings, are normally deductible in determining current income subject to tax. The reduction in income tax resulting from the payment of dividends deductible in determining income subject to tax is reflected in retained earnings.

Total income tax reported in the separate financial statements:

	2017	2016
	$	$
	23,273	2,145

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15. INCOME TAXES (continued)

Reconciliation of income tax expense from continuing operations:

	2017 $	2016 $
Combined federal and provincial income tax rate applied to income from Continuing operations (2017 – 26.75%; 2016 – 27%)	**21,837**	8,356
Income tax expense adjusted for the effect of:		
Non-taxable dividend income	**(157)**	(165)
Rate reduction relating to equity income	**-**	(1,618)
Expenses not deductible for tax purposes	**43**	43
Adjustments related to prior periods	**(1,610)**	523
Tax not recorded on equity pick-up of subsidiary	**(6,729)**	-
Tax not recorded on gain on acquisition of control	**(12,920)**	-
Reversal of deferred tax liability on acquisition of control	**(22,080)**	-
	(21,616)	7,139

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 21% (2016 - 16%). The movement in deferred income tax asset (liability) is as follows:

	2017 $	2016 $
Balance, beginning of year	**19,871**	17,726
Recognized in profit or loss	**(21,616)**	7,139
Available-for-sale securities:		
Fair value measurement	**1,191**	(2,250)
Transfer to profit or loss	**31**	959
Recognized in retained earnings	**(2,879)**	(3,703)
Balance, end of year	**3,402**	19,871

The components of deferred income taxes are as follows:

	2017 $	2016 $
Deferred income tax assets		
Non capital loss carryforward	**7,197**	2,556
Accounts payable and deferred revenue	**234**	118
Losses not yet deductible for tax purposes	**138**	173
Other	**17**	8
	7,586	2,855
Deferred income tax liabilities		
Securities	**(3,677)**	(22,020)
Property, plant and equipment	**(507)**	(706)
	(4,184)	(22,726)
Net deferred income tax asset (liability)	**3,402**	(19,871)

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15. INCOME TAXES (continued)

	2017 $	2016 $
Deferred income tax assets		
Recoverable after more than 12 months	**7,352**	2,728
Recoverable within 12 months	**234**	127
	7,586	2,855
Deferred income tax liabilities		
Payable after more than 12 months	**(4,184)**	(22,726)
	(4,184)	(22,726)
Net deferred income tax asset (liability)	**3,402**	(19,871)

Deferred income tax assets are recognized for tax losses carried forward only to the extent that realization of the related tax benefit is probable. SaskCentral has non-capital loss carryforwards of $26,654 (2016 - $9,458) which are available to offset future taxable income. The balance of these loss carryforwards will expire in the years 2030 ($7,583), 2032 ($1,447) and 2037 ($17,624). The benefit of the tax losses has been recognized in SaskCentral's financial statements as realization of the related tax benefit is probable.

16. DEPOSITS

Provincial Liquidity Program

The Provincial Liquidity Program requires Saskatchewan credit unions to maintain deposits with SaskCentral based on 10% of credit union deposits and loan liabilities.

The maturity dates, and weighted average effective interest rates for SaskCentral's deposits are as follows:

2017
$

	Term to maturity						
	On Demand	**Within 3 months**	**Over 3 months to 1 year**	**Over 1 year to 5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Member							
Amortized Cost	**282,018**	**-**	**-**	**-**	**-**	**-**	**282,018**
Yield [(1)]	**0.01%**						**0.01%**
Provincial liquidity program							
Amortized Cost	**-**	**120,204**	**340,075**	**867,620**	**-**	**629,876**	**1,957,775**
Yield [(1)]		**1.49%**	**1.42%**	**1.35%**		**1.10%**	**1.29%**
	282,018	**120,204**	**340,075**	**867,620**	**-**	**629,876**	**2,239,793**
Accrued interest							**4,471**
							2,244,264

[(1)] *represents weighted average effective interest rates based on year-end carrying values.*

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16. DEPOSITS (continued)

2016
$

	Term to maturity						
	On Demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	No fixed maturity	Total
Member							
Amortized Cost	142,829	-	-	-	-	-	142,829
Yield (1)	0.01%						0.01%
Provincial liquidity program							
Amortized Cost	-	85,562	291,117	989,921	-	495,086	1,861,686
Yield (1)		1.34%	1.37%	1.41%		0.66%	1.20%
	142,829	85,562	291,117	989,921	-	495,086	2,004,515
Accrued interest							4,545
							2,009,060

(1) represents weighted average effective interest rates based on year-end carrying values.

Interest rates on deposits are determined by market conditions.

17. LOANS PAYABLE

SaskCentral has available credit facilities related to securities repurchase agreements from National Bank Financial, Toronto Dominion Bank, Royal Bank of Canada and Bank of Nova Scotia. These repurchase agreements mature within one month (2016 – one month).

In addition, SaskCentral has a credit facility with Central 1 for $100,000 (2016 - $100,000) for which SaskCentral has pledged securities with the Bank of Canada to support the group clearing agreement (note 27). The balance of the credit facility is unsecured, ranking equally with the deposit obligations of SaskCentral. SaskCentral also has a secured credit facility with Canadian Imperial Bank of Commerce for $50,000 (2016 - $50,000) where SaskCentral is required to maintain a borrowing base comprised of fixed income collateral.

	Loans payable (1)		Collateral			
			Securities pledged			
			Fair value		Carrying value	
	2017	2016	2017	2016	2017	2016
	$	$	$	$	$	$
Repurchase payable	**45,755**	58,573	**45,743**	58,567	**45,461**	57,967
Central 1 line of credit	**-**	-	**305,801**	302,383	**305,038**	302,539
	45,755	58,573	**351,544**	360,950	**350,499**	360,506

(1) Weighted average effective interest rate based on year-end carrying values is 1.15% (2016 - 0.60%).

18. NOTES PAYABLE

SaskCentral is authorized to issue a maximum of $300,000 (2016 - $300,000) under a commercial paper program. Outstanding commercial paper matures within one month (2016 – one month) and at December 31, 2017 has a weighted average effective interest rate of 1.37% (2016 – 0.94%).

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19. SHARE CAPITAL

Under the Act, SaskCentral is authorized to issue an unlimited number of membership shares. Also under the Act, SaskCentral may, by bylaw, establish one or more classes of membership. In April 2017, SaskCentral's bylaws were amended and as such, SaskCentral is authorized to issue the following classes of membership shares:

- An unlimited number of Class A membership shares
- An unlimited number of Class B membership shares
- An unlimited number of investment shares

Each member of SaskCentral must own at least one Class A or Class B membership share. Prior to April 2017, SaskCentral's bylaws referred to one class of membership shares.

SaskCentral's bylaws require credit unions to maintain either Class A or Class B membership share capital in SaskCentral at 1% of their previous year's assets. SaskCentral has the discretion to make this annual true-up in whole or in part. SaskCentral would not exercise this authority to require additional membership share capital contributions unless the SaskCentral 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 contribution would bring the projected borrowing multiple to 16.0:1 or to 1.0% of system assets, whichever was first met.

Class A membership shares (formerly membership shares)

The Class A membership shares entitle the holders to vote. Voting privileges are restricted to one vote per member, regardless of the number of Class A membership shares held by a member. The Class A shares also provide the right to receive dividends declared on the Class A membership shares. The holders of the Class A membership shares are Saskatchewan credit unions and certain co-operative associations.

Class A membership shares may be redeemed only with the approval of the Board subject to the limits provided in the Act. The redemption price is determined with reference to the bylaws of SaskCentral. In accordance with the bylaws of SaskCentral, Class A membership shares are to be issued and redeemed at $10 per share. Upon liquidation or dissolution of SaskCentral, the Class A membership shareholders will be entitled to receive $10 per share prior to the holders of the Class B membership shares. Following the distribution of the $10 per share to both Class A and B members, the Class A shareholders are entitled to share equally, on a share by share basis, with the Class B membership shares in the remaining assets of SaskCentral.

At December 31, 2017, 16,160,746 Class A membership shares (2016 – membership shares of 16,116,098) were issued and outstanding. Membership shares issued during the year were exchanged for cash.

Class B membership shares

The Class B membership shares provide the right to vote, with similar voting privileges as Class A membership shares, and the right to receive dividends declared on the Class B membership shares. Class B membership shares may be redeemed only with the approval of the Board subject to the limits provided in the Act. In accordance with the bylaws of SaskCentral, Class B membership shares are to be issued and redeemed at $10 per share. Upon liquidation or dissolution of SaskCentral, the Class B membership shareholders will be entitled to receive $10 per share following the payment of $10 per share to the holders of the Class A membership shares. Following the distribution of the $10 per share to both Class A and B members, the Class B shareholders are entitled to share equally, on a share by share basis, with the Class A membership shares in the remaining assets of SaskCentral. There are currently no series of Class B membership shares approved for issuance.

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19. SHARE CAPITAL (continued)

Investment shares

The investment shares entitle the holder to receive non-cumulative cash dividends as and when declared by the Board. The holders of investment shares will not be entitled to attend any meeting of members of SaskCentral and will not be entitled to vote at any such meeting. Upon liquidation, dissolution or wind-up, the holders of the investment shares will be entitled to receive, before any amount shall be paid or any assets shall be distributed to the holders of any other shares of any other class, an amount equal to a redemption amount. The redemption amount for each investment share is equal to the aggregate consideration determined upon issuance of the shares. After payment of the redemption amount, the holders of investment shares will not be entitled to share in any further distribution of assets of SaskCentral.

There are currently no series of investment shares approved for issuance.

20. DIVIDENDS

In 2017, dividends of $14,145 (2016 - $13,715) were declared, as approved by the Board. Two cash dividends were paid to credit unions in 2017. The first was in January for $5,615 (2016 - $5,615) and the second in April for $5,146 (2016 - $8,100). On December 12, 2017, the Board approved payment of a dividend of $3,384 to be paid to credit unions on January 12, 2018.

21. DUES

Dues, which are included in non-interest income, are used to fund various products and services designed for credit unions. Saskatchewan credit unions pay an annual dues assessment fee to SaskCentral based on a charge per membership (50% of the dues assessment) and a charge on assets (50% of the dues assessment).

22. FEE FOR SERVICE

	2017 $	2016 $
Fee for service revenue	**5,985**	6,377
Foreign exchange revenue	**16**	43
Miscellaneous revenue	**119**	111
Parking revenue	**349**	355
Tenant revenue	**4,728**	4,636
	11,197	11,522

Notes to the Separate Financial Statements

December 31, 2017
in thousands of Canadian dollars

23. SALARY AND EMPLOYEE BENEFITS

	2017	2016
	$	$
Contributions to defined contribution plans	**430**	452
Employee training and development	**135**	185
Other employee benefits	**525**	512
Salaries and incentive compensation	**8,982**	9,631
	10,072	10,780

SaskCentral contributes annually to a defined contribution pension plan for employees. The contributions are held in trust by the Co-operative Superannuation Society and are not recorded in these separate financial statements. As a defined contribution pension plan, SaskCentral has no future obligation for future contributions to fund benefits to plan members.

24. PROFESSIONAL AND ADVISORY SERVICES

	2017	2016
	$	$
Concentra Bank (formerly Concentra Financial) consulting fees	**586**	636
Canadian Credit Union Association cost sharing	**2,144**	1,471
Professional fees	**3,860**	3,887
	6,590	5,994

25. GAIN ON FINANCIAL INSTRUMENTS

	2017	2016
	$	$
Realized gains on available-for-sale securities	**96**	524
Realized losses on available-for-sale securities	**(190)**	(61)
Realized gains on securities classified as held-for-trading	**21**	-
Unrealized gains on securities classified as held-for-trading	**20**	497
Recovery on loan provision	**251**	-
	198	960

SaskCentral provided loans to Castor Holdings Ltd. (Castor), a real estate lending company, over a number of years in the late 1980s and early 1990s. Castor declared bankruptcy in 1992. As the credit was unsecured, SaskCentral recognized a full allowance in 1992. SaskCentral is a member of a group of financial institutions which sought legal proceedings against the auditors of Castor for negligence in the performance of their audit. A settlement proposal was accepted by the plaintiffs in the second quarter of 2015. In 2015, SaskCentral received a total of $1,719 in settlement proceeds, which were recorded as a recovery on loan provision. SaskCentral received a final settlement of $251 thousand during the year, which was recorded as a recovery on loan provision.

December 31, 2017
in thousands of Canadian dollars

26. RELATED PARTY TRANSACTIONS

Related parties exist when one party has the ability to directly or indirectly exercise control, joint control or significant influence over the other or is a member of the key management personnel of SaskCentral. SaskCentral defines key management personnel as directors and the management positions of Chief Executive Officer, Executive Vice-President Finance / Chief Financial Officer / Chief Risk Officer, Executive Vice-President Credit Union Solutions / Chief People Officer, Associate Vice-President Legal / Corporate Secretary, Associate Vice-President Finance, Associate Vice-President Financial Reporting & Strategy, Associate Vice-President Technology, Associate Vice-President National Consulting, Associate Vice-President Strategic Initiatives & Member Relations, and Associate Vice-President Strategic Solutions.

Related party transactions are in the normal course of operations and are measured at the consideration established and agreed to by the parties. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. Related party loan balances are included with groups of loans with similar credit risk characteristics when assessing collective allowances.

SaskCentral provides a variety of services to Concentra Bank, Celero Solutions and CUPS. Some of the services provided include facility services and financial services. SaskCentral also receives financial services from Concentra Bank and technology services from Celero Solutions and CUPS.

The following table summarizes the balances outstanding at year end and related party transactions during the year not noted elsewhere in the separate financial statements for SaskCentral:

	2017 $	2016 $
Celero Solutions		
Loan receivable from (amount drawn on line of credit)	**2,711**	3,169
Due from included in trade and other receivables	**61**	94
Due to included in trade and other payables	**186**	455
Interest received from	**87**	94
Fee for service revenue received from	**753**	1,125
Technology services paid to	**1,189**	3,133
Concentra Bank (formerly Concentra Financial)		
Lines of credit authorized to	**100,000**	100,000
Loans receivables from (amount drawn on line of credit)	**40**	4,722
Collateral received from	**18,532**	24,469
Due from included in trade and other receivables	**17**	15
Deposits payable to	**18,844**	2,989
Due to included in trade and other payables	**49**	53
Interest received from	**71**	95
Fee for service revenue received from	**1,371**	1,392
Financial services fees paid to	**640**	589
CUPS		
Fee for service revenue received from	**-**	1
Services charges paid to	**6**	7

Notes to the Separate Financial Statements

December 31, 2017
in thousands of Canadian dollars

26. RELATED PARTY TRANSACTIONS (continued)

Key management compensation

The aggregate compensation of key management personnel for SaskCentral during the year includes amounts paid or payable and is as follows:

	2017	2016
	$	$
Directors		
Salaries and other short-term employee benefits	**159**	174
Post-employment benefits	**6**	6
	165	180
Key Management Personnel		
Salaries and other short-term employee benefits	**4,131**	2,613
Post-employment and other long-term benefits	**176**	153
Termination benefits		-
	4,307	2,766
	4,472	2,946

27. COMMITMENTS

The amounts reported as lines of credit and loan commitments, and letters of credit represent a maximum credit exposure to SaskCentral. Many of these contracts will expire without being drawn upon, thereby reducing SaskCentral's credit risk from the maximum commitment. SaskCentral earns minimal fees on commitments. SaskCentral has not issued any financial guarantee contracts.

	2017	2016
	$	$
Lines of credit and loan commitments		
Original term to maturity of one year or less	**512,030**	469,136
Original term to maturity of more than one year	-	400,000
	512,030	869,136
Letters of credit and guarantees		
Original term to maturity of one year or less	-	36
	512,030	869,172

December 31, 2017
in thousands of Canadian dollars

27. COMMITMENTS (continued)

Contractual commitments

On December 31, 2017, the Credit Union Electronic Account Management Services Association (CEAMS), which provided electronic account management and financial services systems for credit unions dissolved. As part of the dissolution, all the contracts under the former CEAMS Association, were assigned to SaskCentral. As a result, as of December 31, 2017, SaskCentral has 15 (2016 – nil) significant contractual commitments made on behalf of credit unions for data, management, support and telecommunication services. The contracts have varying terms over 5 years. Total expected cash outflows resulting from these contracts over their respective terms amount to approximately $9,192 (2016 – $nil). Actual amounts incurred may differ from the estimates calculated.

	2017 $
Open Solutions Canada – Data Services	45
CRI Canada – Data Services	548
Jack Henry & Associates – ProfitStars	46
Hyland Software - ECM Solution	236
SaskTel – Telecommunication Services	6,601
Celero Solutions – Support Services	1,528
Everlink – Card Issuance Services	188
	9,192

Group Clearing Agreement

Under the Group Clearing Agreement, SaskCentral guarantees and indemnifies the Group Clearer and each member of the Canadian Central Group Clearing Agreement against any losses arising from the payment obligation for settlement drawn on or payable by SaskCentral and its member credit unions. In addition, SaskCentral and its member credit unions abide by the Canadian Payments Association's rules, bylaws and procedures for settlement.

28. GAIN ON ACQUISITION ON CONTROL

As described in note 11, effective January 1, 2017, SaskCentral holds 84.0% of the voting common shares of Concentra Bank, providing SaskCentral control of Concentra Bank through virtue of shareholder voting rights. For the purposes of these separate financial statements, Concentra Bank has been recorded using the equity method.

The fair value of SaskCentral's previously held interest in Concentra Financial at January 1, 2017 was $299,785. The discounted cash flow technique (income approach) was used to calculate the fair value. Cash flow projections for Concentra Bank were discounted using a discount rate, which accounted for the market cost of equity, as well as the risk and nature of the cash flows. The following were key model inputs (Level 3) used in determining the fair value:

- Assumed discount rate ranging from 13.3% to 14.6%; and
- Assumed long-term growth rate of 1.7%

The remeasurement to fair value of SaskCentral's existing 84.0% interest in Concentra Financial resulted in a gain of $48,343 ($299,785 fair value less the $251,442 carrying amount of the equity-accounted investee at the date of acquisition). An additional $46 of unrealized losses previously recognized in AOCI relating to Concentra Financial was recycled to the separate statement of profit or loss. These amounts have been recorded in 'gain on acquisition of control'.

December 31, 2017
in thousands of Canadian dollars

29. APPLICATION OF NEW AND REVISED IFRSs

SaskCentral has adopted the amendments to IAS 7, *Statement of Cash Flows* (IAS 7) and IAS 12, *Income Taxes* (IAS 12) issued by the IASB that was mandatorily effective for the accounting period that begins on or after January 1, 2017.

The amendments to IAS 7 require an entity to provide disclosure that enable users of the financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The amendments to IAS 12 clarify how an entity should evaluate whether there will be sufficient taxable profits against which it can utilize a deductible temporary difference.

The application of these amendments has had no impact on SaskCentral's separate financial statements.

30. SUBSEQUENT EVENT

SaskCentral, as part of a partnership comprised of Canada's five provincial credit union centrals (The Centrals), Desjardins Group and The CUMIS Group have entered into a definitive agreement to merge the businesses of their wealth management investees, Credential Financial Inc. (Credential), Qtrade Canada Inc. and NEI Investments (NEI). The new entity, Aviso Wealth, will be jointly owned by Desjardins and a limited partnership comprised of the Centrals and CUMIS, with each holding a 50% stake. The three merging business are owned by one or a combination of the Aviso Wealth equity holders. SaskCentral has an 8.19% interest in each Credential and NEI and will hold a 10.9% ownership in the limited partnership. The transaction is expected to close in 2018 and is subject to approval from regulators and compliance with customary closing conditions. Due to the early stage of the transaction, an estimate of the financial effect of this proposed merger cannot be made reliably.

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.

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.

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

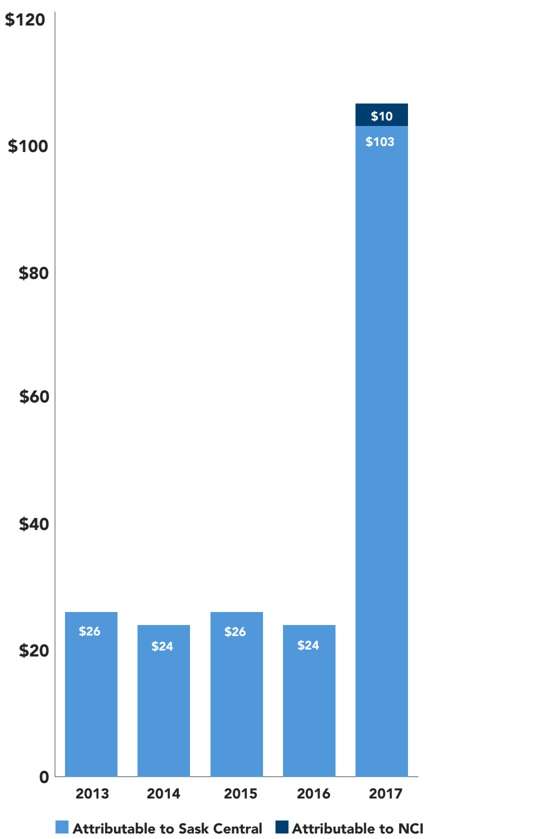
Consolidated Management Discussion and Analysis

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 Concentra Bank of $48.3 million. Concentra Bank contributed $33.6 million to SaskCentral's consolidated profit in 2017.

Consolidated Profit (in millions)

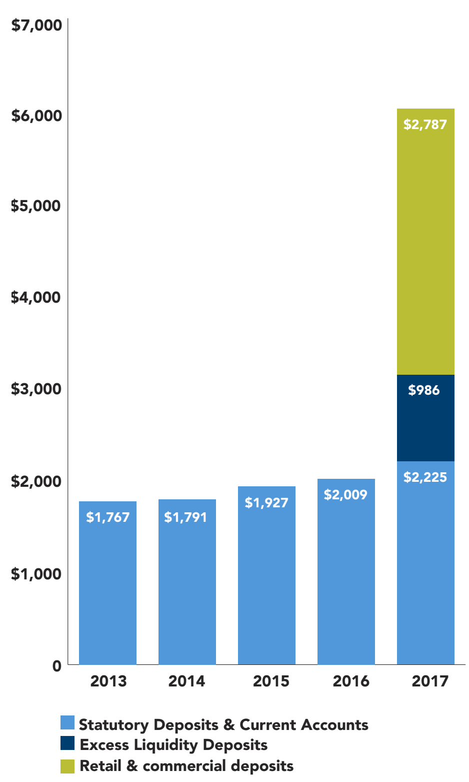


Growth

As a result of consolidation of Concentra 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 Concentra 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 Concentra Bank retained from its legacy direct banking operations, credit union cash balances and excess liquidity deposits.

Consolidated Deposits (in millions)



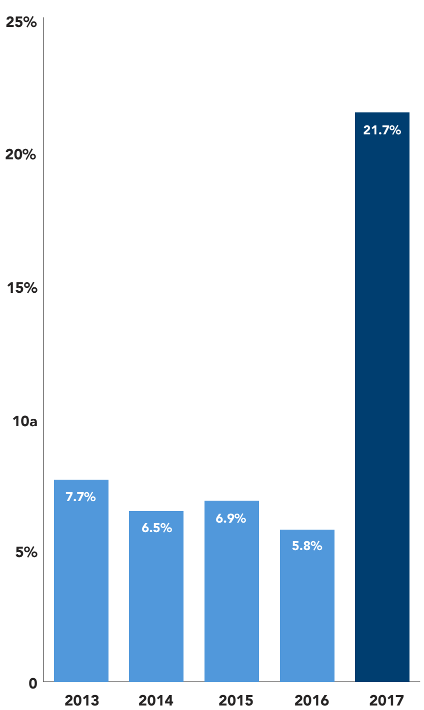
Consolidated Management Discussion and Analysis

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

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

Independant Auditor's Report

Deloitte.

Deloitte LLP
2103 - 11th Avenue
Mezzanine Level
Bank of Montreal Building
Regina SK S4P 3Z8
Canada

Tel: 306-565-5200
Fax: 306-757-4753
www.deloitte.ca

Independent Auditor's Report

To the Members of Credit Union Central of Saskatchewan

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Deloitte LLP

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

CONSOLIDATED BALANCE SHEET

[in thousands of Canadian dollars]

As at December 31

	2017 $	2016 $
Assets		
Cash and cash equivalents [note 7]	**728,789**	107,469
Securities [note 8]	**3,077,842**	2,131,450
Derivative assets [note 9]	**27,975**	11,122
Loans [note 10]	**7,721,935**	45,057
Other securitization assets [note 12]	**36,499**	-
Trade and other receivables	**3,172**	653
Other assets	**1,774**	706
Investments in associates [note 13]	**5,719**	256,140
Property, plant and equipment [note 14]	**26,732**	6,205
Investment property [note 15]	**21,587**	9,786
Intangible assets [note 16]	**2,584**	198
Current income tax assets [note 17]	**128**	-
Deferred income tax assets [note 17]	**19,187**	-
Goodwill [note 33]	**41,979**	-
	11,715,902	2,568,786
Liabilities		
Deposits [note 18]	**5,998,315**	2,009,060
Derivative liabilities [note 9]	**28,132**	11,122
Loans payable [note 19]	**271,552**	58,573
Notes payable [note 20]	**259,958**	24,991
Securitization liabilities [note 12]	**4,329,747**	-
Trade and other payables	**79,893**	7,731
Other liabilities [note 21]	**7,254**	111
Current income tax liabilities [note 17]	**12,325**	-
Deferred income tax liabilities [note 17]	**17,666**	19,871
	11,004,842	2,131,459
Equity		
Share capital [note 22]	**161,607**	161,161
Retained earnings	**361,487**	269,505
Accumulated other comprehensive income	**17,291**	6,172
Total equity attributable to equity holders of SaskCentral	**540,385**	436,838
Non-controlling interest [note 31]	**170,675**	489
Total equity	**711,060**	437,327
	11,715,902	2,568,786

See accompanying notes

On behalf of the Board:

Director | Director

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

[in thousands of Canadian dollars]

Year ended December 31

	2017	2016
	$	$
Interest income		
Securities	56,116	32,374
Loans	209,950	804
	266,066	33,178
Interest expense		
Deposits	83,662	21,492
Loans and notes	5,089	687
Securitization liabilities	72,800	-
Subordinated debentures	385	-
Other direct expenses	3,571	-
	165,507	22,179
Net interest income	100,559	10,999
Provision for credit losses [note 11]	618	-
Net interest income after provision for credit losses	99,941	10,999
Non-interest income		
Dues [note 24]	5,375	5,600
Fee for service [note 25]	37,451	22,526
Gain on financial instruments [note 28]	2,796	960
Gain from securitizations	1,110	-
Unrealized and realized gains on derivatives	897	-
Share of profits of associates [note 13]	1,569	24,170
Gain on acquisition of control [note 33]	48,297	-
	97,495	53,256
Net interest and non-interest income	197,436	64,255
Non-interest expense		
Salary and employee benefits [note 26]	49,918	13,462
Professional and advisory services [note 27]	18,796	8,282
Computer and office equipment	3,401	3,611
Occupancy	5,327	3,980
General business	14,768	3,972
	92,210	33,307
Profit for the year before income taxes	105,226	30,948
Income tax (recovery) expense [note 17]	(7,911)	7,139
Profit for the year	113,137	23,809
Attributable to:		
Owners of SaskCentral	103,248	23,809
Non-controlling interest	9,889	-
	113,137	23,809

See accompanying notes

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OR LOSS

[in thousands of Canadian dollars]

Year ended December 31

	2017 $	2016 $
Profit for the year	**113,137**	23,809
Other comprehensive income (loss)		
Items that will be reclassified subsequently to profit or loss:		
Available-for-sale securities		
Net unrealized gains (losses) on available-for-sale securities during the year	**8,893**	(3,476)
Reclassification of gains on available-for-sale securities disposed of in the year	**(569)**	(497)
Cash flow hedges		
Net gains on derivatives designated as cash flow hedges	**3,760**	-
Reclassification of gains on derivatives designated as cash flow hedges to profit or loss	**(715)**	-
Share of other comprehensive loss of associates [note 13]	**-**	(1,614)
Reclassification of other comprehensive loss of associates disposed of in the year [note 33]	**46**	-
Income tax relating to items that will be reclassified subsequently [note 17]	**(578)**	1,291
Other comprehensive income (loss) for the year, net of tax	**10,837**	(4,296)
Total comprehensive income for the year	**123,974**	19,513
Attributable to:		
Owners of SaskCentral	**114,367**	19,513
Non-controlling interest	**9,607**	-
	123,974	19,513

See accompanying notes

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

[in thousands of Canadian dollars]

Year ended December 31

	Share capital	Retained earnings	Accumulated other comprehensive income	Total	Non-controlling interest	Total equity
Balance as at December 31, 2015	138,688	255,708	10,468	404,864	977	405,841
Profit for the year	-	23,809	-	23,809	-	23,809
Other comprehensive loss for the year, net of tax	-	-	(4,296)	(4,296)	-	(4,296)
Increase (decrease) in share capital	22,473	-	-	22,473	(488)	21,985
Dividends [note 23]	-	(13,715)	-	(13,715)	-	(13,715)
Reduction in income taxes [note 17]	-	3,703	-	3,703	-	3,703
Balance as at December 31, 2016	161,161	269,505	6,172	436,838	489	437,327
Profit for the year	-	**103,248**	-	**103,248**	**9,889**	**113,137**
Other comprehensive income (loss) for the year, net of tax	-	-	**11,119**	**11,119**	**(282)**	**10,837**
Increase (decrease) in share capital	**446**	-	-	**446**	**(489)**	**(43)**
Dividends [notes 23 and 31]	-	**(14,145)**	-	**(14,145)**	**(5,749)**	**(19,894)**
Reduction in income taxes [note 17]	-	**2,879**	-	**2,879**	-	**2,879**
Non-controlling interest arising on the acquisition of Concentra Bank [note 33]	-	-	-	-	**166,817**	**166,817**
Balance as at December 31, 2017	**161,607**	**361,487**	**17,291**	**540,385**	**170,675**	**711,060**

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS

[in thousands of Canadian dollars]

Year ended December 31

	2017 $	2016 $
Cash flows from operating activities		
Profit for the year	**113,137**	23,809
Adjustments to determine net cash used in operating activities:		
Depreciation of property, plant and equipment and investment property [note 14/15]	**2,189**	972
Other amortization	**11,250**	10,244
Gain on financial instruments	**(2,796)**	(960)
Gain from securitization income	**(1,110)**	-
Unrealized and realized gains on derivatives	**(897)**	-
Net interest income	**(100,559)**	(10,999)
Provision for credit losses [note 11]	**618**	-
Gain on acquisition of control [note 33]	**(48,297)**	-
Share of profits in associates, net of losses	**(1,569)**	(24,170)
Income tax (recovery) expense	**(7,911)**	7,139
Changes in operating assets and liabilities:		
Loans, net of repayments and sales	**20,926**	(7,238)
Trade and other receivables (payables)	**36,217**	3,814
Other assets	**(300)**	3
Deposits, net of withdrawals	**(237,891)**	82,635
Securitization liabilities, net of repayments	**69,353**	-
Loans payable and notes payable, net of repayments	**65,731**	10,654
Other liabilities	**491**	(325)
Interest received	**291,457**	32,861
Dividends received	**587**	613
Interest paid	**(179,672)**	(22,273)
Net realized losses from derivatives	**(1,244)**	12
Net realized gains from derivatives designated as cash flow hedges	**3,760**	-
Income taxes recovered	**4,081**	-
Cash flows provided by operating activities	**37,551**	106,791
Cash flows from financing activities		
Redemption of subordinated debt	**(25,500)**	-
Proceeds from issuance of share capital	**446**	22,473
Dividends paid to members [note 23]	**(14,145)**	(13,715)
Dividends paid to non-controlling interests	**(5,749)**	-
Cash flows (used in) provided by financing activities	**(44,948)**	8,758

Continued on following page

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

[in thousands of Canadian dollars]

Year ended December 31

	2017 $	2016 $
Cash flows from investing activities		
Purchase of securities	**(6,079,138)**	(3,315,637)
Proceeds from sales of securities	**6,515,589**	3,225,139
Distributions from investments in associates [note 13]	**550**	12,596
Property, plant and equipment [note 14]	**(1,190)**	(679)
Investment property [note 15]	**(522)**	-
Intangible assets [note 16]	**(951)**	(72)
Cash flows provided by (used in) investing activities	**434,338**	(78,653)
Net increase in cash and cash equivalents	**426,941**	36,896
Cash and cash equivalents, beginning of year	**107,469**	70,573
Cash acquired from business combination [note 33]	**194,379**	-
Cash and cash equivalents, end of year	**728,789**	107,469

See accompanying notes

December 31, 2017
in thousands of Canadian dollars

1. REPORTING ENTITY

Credit Union Central of Saskatchewan and its subsidiaries (collectively "SaskCentral") is a company domiciled in Canada. The address of SaskCentral's registered office is 2055 Albert Street, Regina, Saskatchewan, S4P 3G8. SaskCentral is incorporated under *The Credit Union Central of Saskatchewan Act, 2016* (the Act). Under the Act, Credit Union Deposit Guarantee Corporation of Saskatchewan (CUDGC) took over regulatory responsibilities for SaskCentral effective January 15, 2017. Prior to January 15, 2017, SaskCentral was regulated by the Office of the Superintendent of Financial Institutions (OSFI).

SaskCentral functions as a liquidity manager and key service supplier on behalf of and for Saskatchewan credit unions. SaskCentral also maintains business relationships with, and investments in, a number of co-operative entities on behalf of Saskatchewan credit unions, including Concentra Bank (formerly Concentra Financial), CUPS Payment Services (CUPS), Celero Solutions and CUVentures LP as described in notes 13, 31 and 32.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

2.1 Basis of presentation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These consolidated financial statements have been prepared in accordance with subsection 292(4) of the *Cooperative Credit Associations Act (Canada)* (the CCAA).

These consolidated financial statements were authorized for issue by the Board on February 27, 2018.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for available-for-sale financial assets and financial assets and liabilities held at fair value through profit or loss (FVTPL), which have been measured at fair value, including all derivative contracts.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, SaskCentral takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, and measurements that have some similarities to fair value, but are not fair value, such as value in use on impairment.

SaskCentral follows a fair value hierarchy to categorize the inputs used to measure fair value into Level 1, 2 or 3 based on the degree to which inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

December 31, 2017
in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of presentation (continued)

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is SaskCentral's functional currency. Except as otherwise indicated, financial information presented in Canadian dollars has been rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates thereby impacting the consolidated financial statements. Management believes that the underlying assumptions are appropriate and that SaskCentral's consolidated financial statements therefore present the financial position and results fairly.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information about key sources of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements are described in note 3.

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of SaskCentral and entities controlled by SaskCentral. Control is achieved when SaskCentral (a) has power over the investee; (b) is exposed, or has rights, to variable returns from its involvement with the investee; and (c) has the ability to use its power to affect its returns.

SaskCentral reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control listed above.

When SaskCentral has less than the majority of voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. SaskCentral considers all relevant facts and circumstances in assessing whether or not SaskCentral's voting rights in an investee are sufficient to give it power, including:

- the size of SaskCentral's holding of voting rights relative to the size and dispersion of holdings of other vote holders;
- potential voting rights held by SaskCentral, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate SaskCentral has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when SaskCentral obtains control over the subsidiary and ceases when SaskCentral loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and comprehensive income (loss) from the date SaskCentral gains control until the date when SaskCentral ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with SaskCentral's accounting policies.

December 31, 2017
in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

All intercompany assets and liabilities, equity, income, expenses and cash flows relating to transactions between SaskCentral and its subsidiaries are eliminated in full upon consolidation.

The following entities are included in these consolidated financial statements:

Concentra Bank – SaskCentral owns 84.0% (2016 – 84.0% of the non-voting Class A shares and 47.1% of the voting membership shares of Concentra Financial) of the common shares of Concentra Bank and controls Concentra Bank effective January 1, 2017; as such, these consolidated statements include the assets and liabilities and results of the operations of this subsidiary. Note 33 provides further details on a business combination that occurred on January 1, 2017.

Concentra Trust – Concentra Bank owns 100% (2016 – 100%) of the common shares of Concentra Trust; as such these consolidated financial statements include the assets and liabilities and results of the operations of this wholly owned subsidiary.

CUVentures LP – SaskCentral owns 100% (2016 – 81.22%) of CUVentures LP as a result of SaskCentral's 100% ownership (2016 – 100%) ownership of CUVentures Inc., the General Partner; as such, these consolidated financial statements include the assets and liabilities and results of the operations of this wholly owned subsidiary.

(a) Acquisition of control

The acquisition of control of Concentra Bank, effective January 1, 2017 constitutes a business combination, in which no consideration was transferred. There was no acquisition related costs. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. SaskCentral recognizes any non-controlling interest in the acquiree at the date of acquisition at fair value.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previously held equity interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. Please refer to note 2.23 for the subsequent accounting policy on goodwill.

2.3 Investments in associates

An associate is an entity over which SaskCentral has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results of the operations and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognized in the consolidated balance sheet at cost and adjusted thereafter to recognize SaskCentral's share of the profit or loss and other comprehensive income (OCI) of the associate. When SaskCentral's share of losses of an associate exceeds SaskCentral's interest in that associate, SaskCentral discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that SaskCentral has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in associate, any excess of the cost of the investment over SaskCentral's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of SaskCentral's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

December 31, 2017
in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Investments in associates (continued)

The requirements of IAS 39, *Financial Instruments: Recognition and Measurement* (IAS 39) are applied to determine whether it is necessary to recognize any impairment loss with respect to SaskCentral's investment in associates. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36, *Impairment of Assets* (IAS 36) as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The following investments in associates are included in these consolidated statements:

Celero Solutions – SaskCentral has a 33.3% (2016 – 33.3%) interest in Celero Solutions and has concluded that Celero Solutions is considered an investment in associated. Celero Solutions is accounted for in these consolidated financial statements using the equity method.

Saskatchewan Entrepreneurial Fund Joint Venture (SEF JV) – CUVentures LP has 100% ownership of Saskatchewan Entrepreneurial Fund Limited Partnership (SEF LP), which has a 45.45% (2016 – 45.45%) interest in SEF JV. SaskCentral has concluded that SEF JV is an investment in an associate and is accounted for in these consolidated financial statements using the equity method.

2.4 Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When SaskCentral undertakes its activities under joint operations, it recognizes in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The following interest in joint operation is included in these consolidated statements:

CUPS – SaskCentral owns a 50% interest in CUPS (2016 – 50%) and accounts for its share of assets, liabilities, revenue and expenses, which are recorded following SaskCentral's accounting policies for these assets, liabilities, revenues and expenses.

2.5 Sale and repurchase agreements

Securities sold subject to repurchase agreements are treated as collateralized borrowing transactions when the transferee has the right by contract or custom to sell or repledge the collateral and are classified as available-for-sale and recorded at fair value. Obligations related to assets sold under repurchase agreements are recorded in loans payable (note 19). Interest incurred on repurchase agreements is included in loans and notes interest expense.

December 31, 2017
in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments

All financial assets and financial liabilities are recognized in the consolidated balance sheet and measured in accordance with their assigned classification. Financial assets and financial liabilities are recognized when SaskCentral becomes a party to the contractual provisions of the instruments.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

SaskCentral uses trade date accounting for regular way contracts when recording financial instrument transactions.

(a) Financial assets

SaskCentral classifies financial assets to the following specified categories: FVTPL; available-for-sale and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of the initial recognition.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held-for-trading or is designated as FVTPL.

A financial asset is classified as held-for-trading if:

- it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or
- on initial recognition, it is part of a portfolio of identified financial instruments that are managed together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the consolidated statement of profit or loss and is reported as gains on financial instruments. Gains and losses arising from SaskCentral's foreign exchange contracts are classified as held-for-trading and are included in the consolidated statement of profit or loss and are reported as fee for service. Fair value is determined in the manner described in note 5.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables or financial assets at FVTPL. Available-for-sale financial assets are initially recognized at fair value and measured subsequently at fair value with gains and losses being recognized in OCI in the consolidated statement of comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognized. Fair value is determined in the manner described in note 5.

Available-for-sale financial assets are assessed for impairment at the end of each reporting period. If an available-for-sale financial asset is determined to be impaired, the cumulative gains or losses previously recognized in OCI in the consolidated statement of comprehensive income are recognized in the consolidated statement of profit or loss. Interest is calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognized in the consolidated statement of profit or loss.

December 31, 2017
in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

Purchase premiums or discounts on available-for-sale securities are amortized over the life of the security using the effective interest method and are recognized in securities interest income. Interest income accruing on available-for-sale securities is recorded in securities interest income. Dividends on available-for-sale equity instruments are recognized in the consolidated statement of profit or loss in securities interest income when SaskCentral's right to receive payment is established. Gains and losses realized on disposal of available-for-sale securities are included in gains on financial instruments.

Investments in equity instruments of co-operative enterprises classified as available-for-sale that do not have a quoted market price in an active market are measured at cost.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortized cost using the effective interest method less any impairment.

For loans acquired as part of a larger portfolio, any premium or discount paid is first allocated to the loans with objective evidence of impairment to bring these credit impaired loans to fair value based on the expected future cash flows. The remaining premium or discount is then allocated to the performing loans based on their proportionate fair values. Loan fees, premiums, and commissions paid on the acquisition of loans are amortized to loan interest income. Realized gains or losses from the sale of loans are recorded in gain on financial instruments in the consolidated statement of profit or loss. In the case of impairment, the impairment loss is included in provision for credit losses in the consolidated statement of profit or loss and is deducted from the carrying value of the loan. Interest income continues to be accrued at the original effective interest rate of the loan based on the net carrying value of impaired loans.

(b) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For available-for-sale equity securities, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

SaskCentral first assesses whether objective evidence of impairment exists individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. If SaskCentral determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognized through the use of a specific allowance are not included in a collective assessment of impairment.

December 31, 2017
in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

(b) Impairment of financial assets (continued)

Collective allowances are established to recognize incurred loss events for which there is objective evidence of loss but whose effects are not yet evident. Loans are assessed for impairment collectively, in groups of loans with similar credit risk characteristics (i.e. loan type, past-due status, and other relevant factors).

For certain categories of financial assets, such as trade and other receivables, assets are assessed for impairment on a collective basis even if they are assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include SaskCentral's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of thirty days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of the estimated cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

For financial assets that are carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. When a trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance are recognized in profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in OCI are reclassified to profit or loss in the period.

When a loan is uncollectible, it is written off to provision for credit losses and the related specific allowance is reversed. This determination is made after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Property held for resale acquired through the settlement of loans is valued at the lower of the outstanding balance of the loan at the date of acquisition adjusted for costs incurred subsequent to foreclosure or repossession and the fair value of the property less costs of disposal. Property held for resale is sold as soon as practicable, with the proceeds used to reduce the outstanding net carrying value. Property held for resale is recorded in the consolidated balance sheet within residential mortgages – non-securitized.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date of the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of available-for-sale equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in OCI. In respect of available-for-sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

December 31, 2017
in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

(c) Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities measured at amortized cost. Management determines the classification of its financial liabilities at initial recognition.

Financial liabilities at FVTPL

Financial liabilities are classified at FVTPL when the financial liability is either held-for-trading or it is designated as FVTPL. A financial liability is classified as held-for-trading if:

- it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or
- on initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are stated at fair value, with any gains and losses arising from re-measurement recognized in profit or loss. Fair value is determined in the manner described in note 5.

Other financial liabilities

Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

(d) Derecognition of financial assets or liabilities

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have expired or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred. SaskCentral tests control to ensure that continuing involvement on the basis of any retained powers of control do not prevent derecognition. When financial assets are derecognized in full, a gain or loss is recognized in profit or loss for an amount equal to the difference between the carrying amount of the asset and the value of the consideration received.

SaskCentral derecognizes financial liabilities when, and only when, SaskCentral's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

December 31, 2017
in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

(e) Categories of financial instruments

SaskCentral classifies their financial instruments into categories that reflect characteristics of the financial instruments. The classification made can be seen in the table below:

	Classification as defined by IAS 39	Type of financial instrument
Financial assets	FVTPL	Held-for trading • Certain debt securities • Derivative assets
	Available-for-sale	Certain debt securities Equity securities
	Loans and receivables	Cash and cash equivalents Certain debt securities Certain loans Other securitization assets Trade and other receivables

	Classification as defined by IAS 39	Type of financial instrument
Financial liabilities	FVTPL	Held-for-trading • Derivative liabilities
	Other financial liabilities	Deposits Loans payable Notes payable Securitization liabilities Trade and other payables

2.7 Asset securitizations

SaskCentral periodically securitizes groups of assets by selling them to independent structured entities. As part of these transactions, SaskCentral generally retains an interest in the securitized assets, such as servicing rights and various forms of recourse including rights to excess spreads and cash reserves.

When assets have been transferred and substantially all of the risks and rewards of ownership of the assets have also been transferred to a third party during a securitization transaction, the transaction is recorded as a sale and SaskCentral removes the transferred assets from the consolidated balance sheet.

When substantially all of the risks and rewards of ownership of the assets have not been transferred during a securitization transaction, the transaction is not accounted for as a sale and the assets remain on the consolidated balance sheet of SaskCentral. At the time of the transaction, the securitized borrowings are recognized as securitization liabilities on the consolidated balance sheet.

Securitized assets are classified as either securities or loans on the consolidated balance sheet. Securities are carried at fair value. Loans are carried at amortized cost using the effective interest method. Securitized borrowings are classified as securitization liabilities on the consolidated balance sheet and are carried at amortized cost. Securitized assets are periodically reviewed for impairment with any impairment being charged to profit or loss.

December 31, 2017
in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial guarantees

Certain loan assets are secured by limited financial guarantees issued by third parties unrelated to the underlying borrower. When the financial guarantee forms an integral part of the loan asset, the contract is not recognized separately and instead the value of the guarantee is reflected in the recoverable amount of the asset for the purpose of assessing impairment. When the financial guarantee does not form an integral part of the loan asset, it is recognized separately as a reimbursement asset equal to the lesser of: (1) the difference between the impaired carrying value of the loan and what the carrying value would be if impairment had not occurred; and (2) the maximum amount of the financial guarantee. Recoveries from financial guarantees are recorded within provisions for credit losses in the consolidated statement of profit or loss to offset the associated impairment loss.

SaskCentral has not issued any financial guarantee contracts with the exception of limited guarantees related to assets that did not qualify for derecognition as described in note 12.

2.9 Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet only when there is currently a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

2.10 Derivative financial instruments and hedge accounting

(a) Derivative financial instruments

SaskCentral enters into derivative financial instruments to hedge interest rate and foreign currency risks, and for economic and asset/liability management purposes. Hedge accounting may be applied when appropriate. SaskCentral does not have a trading program for derivatives. SaskCentral also enters into derivative transactions on an intermediary basis on behalf of credit unions. These derivatives are carried at fair value on a gross basis as derivative assets and liabilities. Economic and asset/liability management derivatives are used to manage interest rate and currency exposure on SaskCentral's balance sheet, but do not meet the specific criteria to qualify as hedge derivatives. These derivatives include contracts that reposition SaskCentral's overall interest rate and foreign exchange risk profile. Further details of derivative financial instruments are disclosed in note 9.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured at their fair value at the end of each reporting period. The resulting gain or loss is recognized in the consolidated statement of profit or loss within unrealized and realized gains (losses) on derivatives unless they are designated and effective as hedging instruments.

(b) Hedge accounting

When derivatives are used to manage exposure, SaskCentral determines for each derivative whether hedge accounting can be applied. Hedge accounting may be applied where a derivative is highly effective in offsetting either changes in the fair value or cash flows attributable to the risk being hedged, both at inception and over the life of the underlying asset or liability. The hedging relationship is required to be documented at inception detailing the hedging relationship and the particular risk management objective and strategy for undertaking the hedge transaction. SaskCentral assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging instruments have been highly effective in offsetting changes in the fair value or cash flows of the hedged items.

Note 9 sets out the details of the fair values of derivatives used for hedging purposes.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Derivative financial instruments and hedge accounting (continued)

(b) Hedge accounting (continued)

Cash flow hedge

In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative, net of income taxes, is recorded in OCI while the ineffective portion is recorded in the consolidated statement of profit or loss. All components of each derivative's change in fair value have been included in the assessment of cash flow hedge effectiveness. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, hedge accounting is discontinued and the amounts previously recorded in OCI are reclassified to net interest income during the periods when the variability in the cash flows of the hedged item affects net interest income. When a forecast transaction is no longer expected to occur, the amounts previously recorded in OCI are immediately reclassified to the consolidated statement of profit or loss and are recorded as unrealized and realized gains (losses) on derivatives.

Fair value hedge

In a fair value hedging relationship, changes in the fair value of the hedging derivative are offset in the consolidated statement of profit or loss by the change in the fair value attributable to the hedged risk component of the hedged item. If the hedging instrument expires or is sold, or when the hedge no longer meets the criteria for hedge accounting, hedge accounting is discontinued prospectively.

2.11 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognized within interest income and interest expense in the consolidated statement of profit or loss using the effective interest method, except for short-term receivables and payables when the effect of discounting is immaterial. The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments and receipts through the expected life of the financial instrument (or, when appropriate, a shorter period) to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, SaskCentral estimates future cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and basis points paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Transaction costs are incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income on held-for-trading securities is presented together with securities interest income in the consolidated statement of profit or loss.

2.12 Fee for service

Fee for service revenues, except for estate administration fees, are recognized over the period in which the related service is rendered. Estate administration fees are recognized as income when SaskCentral has rendered all services and is entitled to collect the fee.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid securities with a short maturity from the date of acquisition. They are subject to insignificant risk of changes in fair value and are used to manage short-term cash commitments.

2.14 Leases

Leases are divided into finance leases and operating leases.

(a) As lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the minimum lease payment is recognized as unearned finance income. Lease income is recognized over the term of the lease using the net investment in the lease and the implicit interest rate, which reflects a constant periodic rate of return.

(b) As Lessee

The leases entered into by the Bank are operating leases as a significant portion of the risks and rewards are retained by another party, the lessor. The total payments made under operating leases are charged to non-interest expense in the consolidated statement of income on a straight-line basis over the period of the lease.

2.15 Property, plant and equipment

Property, plant and equipment are reported at cost less accumulated depreciation and impairment losses. Land is not amortized.

Depreciation is recognized using the straight-line method over the estimated useful life of the item of property, plant and equipment. Depreciation is discontinued when the residual value is equal to or greater than the net carrying value of a depreciable asset. The residual value of an asset is the estimated amount that would be currently obtained from the disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

The applicable depreciation periods are as follows:

Buildings	40 years
Building components	20 years
Building improvements	5 to 35 years
Furniture and equipment	3 to 20 years

Depreciation methods, residual values and estimates of useful lives are reviewed at the end of each reporting period, with the effect of any changes being accounted for on a prospective basis.

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to SaskCentral and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. Day-to-day servicing costs of property, plant and equipment are recognized in profit or loss as incurred.

Gains and losses arising from disposal of property, plant and equipment are measured as the difference between the disposal proceeds and the carrying amount of the asset and are recognized in profit or loss.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Investment property

Investment property is property held for long-term rental income or for capital appreciation or both, and that is not occupied by SaskCentral. Investment property may be partially occupied by SaskCentral with the remainder being held for rental income or capital appreciation. If the part of the property held for rental income can be sold separately, SaskCentral accounts for the portions separately. The portion that is owner-occupied is accounted for as property, plant and equipment and the portion that is held for rental income is accounted for as an investment property. In order to determine the percentage of the portions, SaskCentral uses the size of the property measured in square feet. Certain investment property that SaskCentral holds is as a consequence of enforcing its security interest over certain commercial mortgages.

Investment property is carried at its cost less any accumulated depreciation and accumulated impairment losses. Depreciation is recognized using the straight-line method over forty years, which is the estimated useful life of the investment property. Depreciation is discontinued when the residual value is equal to or greater than the net carrying value of a depreciable asset. Depreciation methods, residual values and estimates of useful lives are reviewed at the end of each reporting period, with the effect of any changes being accounted for on a prospective basis.

2.17 Intangible assets

Intangible assets consist of acquired and internally developed software. Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives ranging from two to five years.

Amortization methods and estimates of useful lives are reviewed at the end of each reporting period, with the effect of any changes being accounted for on a prospective basis.

An intangible asset is derecognized on disposal, or when no further economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognized in profit or loss when the asset is derecognized.

2.18 Impairment of non-financial assets

Non-financial assets such as property, plant and equipment, investment property and intangible assets are reviewed to determine whether an impairment loss has occurred on the assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

If an impairment loss is presumed to exist, a recoverable amount is estimated for the asset to determine the extent of the impairment loss. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is assessed as the estimated future cash flows discounted to present value using a discount rate reflecting current market assessments of the time value of money and risks specific to the asset where future cash flows have not been adjusted. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

If the estimated recoverable amount is less than the carrying amount, the carrying amount is reduced to the estimated recoverable amount. The difference between the recoverable and carrying amount is the impairment loss and the loss is recognized in profit or loss immediately.

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date and when there is an indication that reversal of the impairment may have occurred. Upon reversal of an impairment loss the carrying amount is increased to the revised recoverable amount and the revised recoverable amount does not exceed the carrying amount had the impairment loss not been recognized in prior years. The reversal is recognized in profit or loss immediately. No non-financial assets were impaired in 2017 or 2016.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Taxation

Income tax expense represents current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in OCI.

(a) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit for the year before income taxes as reported in the consolidated statement of profit or loss because of items of income and expense that are taxable or deductible in other years and items that are never taxable or deductible. SaskCentral's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

(b) Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the date of the consolidated balance sheet and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

The principal temporary differences arise from securities, securitized assets, loans, depreciation of property, plant and equipment, accrued expenses, effective interest method and carry-forward amounts. Deferred income tax is not recognized for the following: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income, and differences relating to investments in subsidiaries to the extent SaskCentral is able to control the timing of the reversal of the temporary difference and to the extent that it is probable that the temporary differences will not reverse in the foreseeable future.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. A deferred tax asset is recognized for differences relating to investments in subsidiaries to the extent that it is probable that the temporary differences will reverse in the future and that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

A deferred tax liability is recognized when income taxes are payable in future periods as a result of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred tax related to fair value re-measurement of available-for-sale securities and cash flow hedges, which are recognized in OCI, is also recognized in OCI and subsequently in the consolidated statement of profit or loss together with the deferred gains or losses.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset tax liabilities against tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but SaskCentral intends to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Employee benefits

(a) Pension benefits

A defined contribution plan is a post-employment benefit plan under which SaskCentral pays fixed contributions into a separate entity. SaskCentral has no legal or constructive obligations to pay further contributions if the plan does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The contributions are recognized as employee benefit expense when they are due in respect of service rendered before the end of the reporting period. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available. Contributions to a defined contribution plan that are due more than twelve months after the end of the reporting period in which the employees rendered the service are discounted to their present value at the reporting date.

(b) Short-term employee benefits

Short-term employee benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under SaskCentral's annual incentive compensation plan if SaskCentral has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(c) Termination benefits

Termination benefits are employee benefits provided when employment is terminated by SaskCentral before the normal retirement date, or whenever an employee accepts an offer of benefits in exchange for the termination of employment. SaskCentral recognizes termination benefits at the earlier of the date when SaskCentral can no longer withdraw the offer of those benefits and the date SaskCentral recognizes costs for a restructuring provision which involves the payment of termination benefits. Benefits falling due more than twelve months after the date of the consolidated balance sheet are discounted to present value.

2.21 Provisions

Provisions are recognized if, as a result of a past event, SaskCentral has a present legal or constructive obligation that can be estimated reliably, and it is probable that SaskCentral will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

2.22 Dividends

SaskCentral records dividends to shareholders as a reduction in retained earnings, in the year in which they are declared.

2.23 Goodwill

Goodwill represents the excess of the purchase price over the fair value of SaskCentral's share of the net identifiable assets acquired in business combinations. Goodwill is allocated to cash-generating units or groups of cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Goodwill (continued)

Goodwill is tested for impairment annually, or whenever a trigger event has been observed, by comparing the present value of the expected future cash flows from a cash-generating unit with the carrying value of its net assets, including applicable goodwill carried at cost less previous accumulated impairment losses.

Any goodwill impairment is charged to income in the period in which the impairment is identified. Impairment losses on goodwill are not reversed.

2.24 Assets under administration

Assets administered or managed by SaskCentral on behalf of estates, trusts, and agencies are recorded separately from SaskCentral's assets and are not included on the consolidated balance sheet.

2.25 New standards and interpretations not yet adopted

At December 31, 2017 a number of standards and interpretations, and amendments thereto have been issued by the International Accounting Standards Board (IASB), which are not effective for these consolidated financial statements. Those which could have an impact on SaskCentral's consolidated financial statements are discussed below.

(a) Financial instruments

On July 24, 2014 the IASB issued the final version of IFRS 9, *Financial Instruments* (IFRS 9). IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

Key requirements of IFRS 9:

All recognized financial assets that are within the scope of IAS 39 are to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt investments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely of principal and interest on the principal amount outstanding, are generally measured at fair value through OCI (FVTOCI). All other debt investments and equity investments are measured at fair value through profit or loss. Although, entities may make an irrevocable election to present subsequent changes in the fair value of an equity instrument (that is not held-for-trading) in OCI, with only dividend income generally recognized in profit or loss.

With regard to the measurement of financial liabilities designated as at FVTPL, IFRS 9 requires that the amount of change in the fair value of the financial liability, that is attributable to changes in the credit risk of that liability, is presented in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mis-match in profit or loss. Changes in the fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 New standards and interpretations not yet adopted (continued)

The standard expands the scope of hedged items and hedging items to which hedge accounting can be applied and aims to better align the accounting with risk management activities. SaskCentral is permitted to adopt the hedge accounting requirements of IFRS 9 concurrently or to defer the adoption to a future period and continue to apply the hedge accounting requirements of IAS 39. However, the hedging disclosure requirements of IFRS 9 will continue to apply to SaskCentral regardless of the choice made.

SaskCentral

Based on the preliminary assessment, SaskCentral has concluded that the following changes will be made to the classification and measurement of SaskCentral's financial assets and liabilities:

Type of financial instrument	Classification under IAS 39	Classification under IFRS 9
Financial assets		
Cash and cash equivalents	Loans and receivables	Amortized cost
Federal, Provincial, and Municipal debt securities	Available-for-sale	FVTOCI (certain securities designated at FVTPL)
Corporate and chartered bank debt securities	Available-for-sale	FVTOCI (certain securities designated at FVTPL)
Co-operative securities	Available-for-sale	FVTPL
Subordinated debentures securities	Available-for-sale	Amortized cost
Master asset vehicle	FVTPL	FVTPL
Derivative assets	FVTPL	FVTPL
Loans	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Financial liabilities		
Deposits	Other financial liabilities	Amortized cost (certain deposits designated at FVTPL)
Derivative liabilities	FVTPL	FVTPL
Loans payable	Other financial liabilities	Amortized cost
Notes payable	Other financial liabilities	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost

Based on the classification and measurement changes above, the estimated increase to SaskCentral's January 1, 2018 opening retained earnings is $24,000. SaskCentral's preliminary assessment of the expected credit loss required under IFRS 9 is estimated to be $12,645 to $14,645, which causes a decrease to opening retained earnings. Management will continue to review the impacts of implementation and refine this estimate during the adoption process, which may result in changes to the current estimate.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 New standards and interpretations not yet adopted (continued)

(b) Revenue from contracts with customers

IFRS 15, *Revenue from Contracts with Customers* (IFRS 15), is a new standard that addresses the recognition of revenue from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18, *Revenue* (IAS 18), IAS 11, *Construction Contracts* and the related Interpretations when it becomes effective. Under IFRS 15, a customer of an entity is a party that has contracted with the entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. Unlike the scope of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity instruments are no longer within the scope of IFRS 15. Instead they are within the scope of IAS 39 (or IFRS 9, once adopted).

The core principle of the new standard is the recognition of revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the entity expects to be entitled in the exchange for those goods or services. Specifically, IFRS 15 introduces a five-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied (i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customer). Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

IFRS 15 was initially effective for annual periods beginning on or after January 1, 2017. In July 2015, the IASB approved the deferral of the effective date of IFRS 15. IFRS 15 is now effective for annual periods beginning on or after January 1, 2018. SaskCentral is currently evaluating the impact of the new standard on its consolidated financial statements.

(c) Leases

The IASB has published a new standard, IFRS 16, *Leases* (IFRS 16). The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting has remained largely unchanged. IFRS 16 supersedes IAS 17, *Leases* and related Interpretations and is effective for periods beginning on or after January 1, 2019. SaskCentral is currently evaluating the impact of the new standard on its financial statements.

SaskCentral did not early adopt any new or amended standards in 2017.

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3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, profits and losses during the reporting period. Accordingly, actual results may differ from those estimates. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgments are evaluated on a continuous basis, and are based on historical experience and other factors, including expectations with regard to future events. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies

The following are the critical judgments that management have made in the process of applying SaskCentral's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Allowances for impairment

SaskCentral reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of profit or loss, SaskCentral makes judgments as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified within that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the portfolios. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when forecasting its future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about a counterparty's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the work out strategy and estimate of cash flows considered recoverable are independently approved by the credit risk management function.

The collectively assessed impairment allowances covers credit losses inherent in portfolios of loans with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans, but the individual impaired loans cannot yet be identified. In assessing the need for collective allowances for impairment, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances for impairment.

Impairment of goodwill

Goodwill is tested for impairment annually, or whenever a trigger event has been observed, by comparing the present value of the expected future cash flows from a cash-generating unit with the carrying value of its net assets, including applicable goodwill carried at cost less previous accumulated impairment losses. The impairment test requires management to make assumptions as to factors that determine the present value of the expected future cash flows which are subject to judgement.

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3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Critical judgments in applying accounting policies (continued)

Control of Concentra Bank

Note 31 describes that as of January 1, 2017, Concentra Bank is a subsidiary of SaskCentral as a result of SaskCentral's ability to call a special resolution vote on any matter or Board decision related to Concentra Bank and its 84.0% (2016 - 84.0% of Concentra Financial) voting interest in Concentra Bank. In addition, SaskCentral has the power to appoint and remove four out of the twelve directors of Concentra Bank. Management has concluded that SaskCentral acquired control on January 1, 2017 due to SaskCentral's ability to call a special resolution on any matter and its power to appoint and remove directors of Concentra Bank.

Prior to January 1, 2017, SaskCentral did not control Concentra Bank (formerly Concentra Financial). Concentra Financial was considered an associate of SaskCentral due to SaskCentral's lack of substantive rights to power. Note 33 provides further details on the business combination resulting in acquisition of control that occurred on January 1, 2017.

Significant influence over Celero Solutions

Note 13 describes that SaskCentral has significant influence over Celero Solutions by virtue of its 33.3% (2016 – 33.3%) interest in Celero Solutions. SaskCentral has the right to appoint two out of six (33.3%) members of the Celero Solutions Management Committee. Management has concluded that due to the lack of unanimous consent required to make decisions regarding relevant activities, SaskCentral does not have joint control over Celero Solutions. However, since SaskCentral has 33.3% of the voting power of Celero Solutions, management has concluded that SaskCentral has significant influence over Celero Solutions.

Control of CUVentures LP

Note 31 describes that CUVentures LP is a subsidiary of SaskCentral as a result of SaskCentral's 100% (2016 – 100%) ownership of CUVentures Inc., the General Partner. In addition, SaskCentral has the power to appoint and remove two out of two directors of CUVentures Inc. SaskCentral also owns 100% (2016 - 81.22%) of the partnership units of CUVentures LP. Management has concluded that SaskCentral has control over CUVentures LP since SaskCentral has 100% of the voting power of CUVentures Inc., who has the full power and authority to make all decisions on behalf of CUVentures LP.

Significant influence over Saskatchewan Entrepreneurial Fund Joint Venture

CUVentures LP has 100% ownership of Saskatchewan Entrepreneurial Fund Limited Partnership (SEF LP), which has a 45.45% share in Saskatchewan Entrepreneurial Fund Joint Venture (SEF JV). Note 13 describes that SaskCentral has significant influence over SEF JV by virtue of SEF LP's 45.45% (2016 – 45.45%) interest in SEF JV. SaskCentral has the ability to appoint two out of five members (40%) to the Executive Committee of SEF JV. Management has concluded that due to the lack of unanimous consent required to make decisions, SaskCentral does not have joint control of SEF JV. However, since SaskCentral has 40% of the voting power of SEF, through CUVentures LP, management has concluded that SaskCentral has significant influence over SEF.

Business combination

SaskCentral used significant judgement in assessing whether the continuance of Concentra Bank was considered a business combination under IFRS 3 – *Business Combinations*. In assessing the transaction, SaskCentral reviewed the bylaw changes of Concentra Bank and considered the legal structure changes resulting from Concentra Bank's continuance. Management concluded that due to the change in the legal structure of Concentra Bank, SaskCentral was considered to have obtained control of Concentra Bank effective January 1, 2017 through a step-acquisition.

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3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Critical judgments in applying accounting policies (continued)

Classification of CUPS Payment Services as a joint operation

Note 32 describes that CUPS is a joint operation by virtue of SaskCentral's 50% interest in the joint arrangement in which unanimous consent is required for decision making. The remaining 50% interest in CUPS is owned by Alberta Central. CUPS is an unincorporated joint operation structured through a separate vehicle with a contractual arrangement. This separate vehicle is an unincorporated joint venture and is not seen as a separate entity under law. An unincorporated joint venture does not offer limited liability and the assets and liabilities held in the separate vehicle are regarded legally as the assets and liabilities of SaskCentral and Alberta Central based on their proportionate share in the joint operation. The legal form of the contractual arrangement gives SaskCentral and Alberta Central rights to the assets and obligations for the liabilities, in proportion to their proportionate share in the joint operation. The contractual agreement between SaskCentral and Alberta Central states that the gross revenues, expenses, income and losses of the joint operation shall belong to, be owned by and borne exclusively by SaskCentral and Alberta Central in proportion to their proportionate share in the joint operation. Management has concluded that CUPS is a joint operation due to the fact that both SaskCentral and Alberta Central share proportionately the rights to the assets, obligations to the liabilities and share of profits or losses of CUPS.

Key sources of estimation uncertainty

The following are key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair value measurements and valuation processes

Some of SaskCentral's financial assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or liability, SaskCentral uses market-observable data to the extent it is available. Where Level 1 inputs are not available, SaskCentral utilizes valuation techniques, such as discounted cash flow models, or observable data from sources such as Bloomberg, to calculate the fair value of assets and liabilities. Where valuation techniques such as models are used to determine fair values, they are validated and periodically reviewed. To the extent practical, models use only observable data; however, areas such as credit risk (both own-credit risk and counterparty credit risk), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments. Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in notes 5 and 15.

Valuation of Concentra Bank

As a result of acquisition of control of Concentra Bank, SaskCentral performed a valuation of Concentra Bank effective January 1, 2017. In performing the valuation, SaskCentral used discounted cash flow models and income approaches, or observable data from sources to calculate the value of Concentra Bank. Information about the valuation techniques and inputs used in determining the fair value of Concentra Bank is disclosed in note 33.

Income taxes

SaskCentral is subject to income taxes in multiple jurisdictions. Estimates are required in determining income tax expense. There are transactions and calculations for which the ultimate tax determination is uncertain. SaskCentral recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact current income tax and deferred income tax expense.

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3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Key sources of estimation uncertainty (continued)

The deferred income tax liability recognized at December 31, 2017 is based on future profitability assumptions within the foreseeable future. SaskCentral has determined that it is not probable that the temporary differences relating to Concentra Bank will reverse in the foreseeable future. Therefore, no deferred tax liability has been recorded on the temporary differences related to Concentra Bank. In the event of changes to these profitability assumptions, the deferred income tax liability recognized may be adjusted.

4. FINANCIAL RISK MANAGEMENT

The *Financial Management Policy* outlines risk management activities that support the maintenance of sufficient liquidity while ensuring capital adequacy. As a financial institution, SaskCentral is exposed to the following risks as a result of holding financial instruments: credit risk, market risk, and liquidity risk. Concentra Bank manages risk independently of SaskCentral and as such, the entities are discussed separately for the purpose of this note.

The following is a description of each risk and how they are managed.

Credit risk

Credit risk arises from a borrower, guarantor or counterparty's inability or unwillingness to fully meet its contractual obligations. The credit risk on securities and loans relates to principal and interest amounts. For derivatives, credit risk is the contract's replacement cost as opposed to its notional value.

SaskCentral

SaskCentral manages credit risk by:

- Restricting the concentration of credit to issuer, issuer group, and industry;
- Establishing prudent loan structuring, credit review and authorization processes;
- Monitoring the quality of the credit portfolio ensuring conservative valuation and timely recognition of losses through specific loan impairment charges and securities write downs;
- Providing new and annual reviews of issuers and industries for credit quality;
- Limiting credit union loans; and
- Limiting the use of derivatives.

SaskCentral's Board is responsible for approving the credit risk tolerances in the *Financial Management Policy* upon the recommendation of the Audit and Risk Committee. Compliance to this policy is presented to the Audit and Risk Committee on a quarterly basis.

The Credit Committee, established by the Board and comprised of members of executive and senior management, has the authority to approve large loans. The Financial Management Advisory Committee, established by the Board and comprised of members of executive and senior management, has the authority to set credit risk strategies for the security portfolio within the risk tolerances in the *Financial Management Policy.*

The following reports, related to the management of credit risk, are provided to the SaskCentral Board:

- Monitored and Non-Productive Assets Report
- Large Lending Credit Report

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4. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

The SaskCentral credit risk objectives, policies, and methodologies have not changed materially from December 31, 2016.

SaskCentral is exposed to credit related losses in the event of non-performance by the counterparties to derivative contracts. In determining the credit quality of derivative instruments both SaskCentral's own credit risk and the risk of the counterparty are considered elements of the credit quality.

Credit risk is measured by using a credit equivalent amount. The credit equivalent amount is derived from the sum of the positive replacement cost and the potential credit risk exposure which reflects the potential change in replacement cost in relation to the remaining term to maturity of the contract. Potential credit risk exposure is calculated in accordance with the capital adequacy guidelines as prescribed by CUDGC.

Concentra Bank

Concentra Bank manages credit risk by:

- Operating in accordance with an approved credit risk strategy, investment management strategy and identified target markets;
- Segregating business generation activities from credit risk oversight;
- Maintaining prudent credit granting criteria;
- Entering into lending and investment transactions within Concentra Bank's expertise;
- Undertaking regular stress testing to determine probable impacts and develop treatment plans;
- Establishing loan and investment management risk tolerances and limits to manage credit risk;
- Maintaining underwriting guidelines and procedures aligned to policy and risk appetite; and
- Complying with applicable regulatory expectations, regulations and guidelines.

Concentra Bank mitigates credit risk by taking security for funds advanced. Policies and guidelines are maintained on the acceptability of specific classes of collateral or credit risk treatment. The principal collateral types against loans are in the form of mortgage interests over residential and commercial property, charges over business assets such as property, inventory, and accounts receivable, other registered security interest over assets, and guarantees. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed for impairment.

Concentra Bank has a Credit Risk function which is segregated from business generation activities. Credit Risk is responsible for delegating credit approval limits to business units and approving loan, lease, consumer, and residential mortgage applications in excess of the credit authority delegated. In addition, Credit Risk conducts ongoing systematic reviews of the credit adjudication process and the condition of the credit portfolio, with regular reporting to the Board of Concentra Bank.

Consolidated risk measurement

SaskCentral assumes credit risk in both the security and loan portfolios. In the securities portfolio, SaskCentral supplements its internal credit analysis with industry recognized rating agency data (DBRS, Standard and Poor's, and Moody's). In the loans portfolio, SaskCentral places primary reliance on internal risk ratings and a comprehensive review of the credit worthiness of the borrower. SaskCentral does not transact in credit derivatives.

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4. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

SaskCentral's maximum exposure to credit risk, including undrawn commitments, without taking account of any collateral held or other credit enhancements is:

	2017 $		
	Amount outstanding	Undrawn commitments (1)	Total
Cash and cash equivalents	**728,789**	**-**	**728,789**
Securities	**3,077,842**	**-**	**3,077,842**
Derivative assets	**26,940**	**-**	**26,940**
Loans	**7,743,996**	**1,011,082**	**8,755,078**
Investments in associates	**5,719**	**-**	**5,719**
Letters of credit and financial guarantees	**-**	**64,629**	**64,629**
Total Exposure	**11,583,286**	**1,075,711**	**12,658,997**

(1) *Excludes origination commitment as they are not tied to specific assets. Refer to note 30 for more information.*

	2016 $		
	Amount outstanding	Undrawn commitments (1)	Total
Cash and cash equivalents	107,469	-	107,469
Securities	2,131,450	-	2,131,450
Derivative assets	8,490	-	8,490
Loans	45,057	469,136	514,193
Investments in associates	256,140	-	256,140
Letters of credit and financial guarantees	36	-	36
Total Exposure	2,548,642	469,136	3,017,778

(1) *Excludes origination commitments as they are not tied to specific assets. Refer to note 30 for more information.*

The following table summarizes the authorized credit exposures based on SaskCentral's internal risk rating for loans, letters of credit, and financial guarantees.

	2017 $	2016 $
Low risk	**6,299,042**	506,032
Standard monitoring	**2,361,876**	8,197
Special monitoring	**130,633**	-
Default	**28,156**	-
Total Exposure	**8,819,707**	514,229

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4. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

The following table summarizes the risk rating based on recognized rating agency data for FVTPL securities at carrying value.

	2017 $	2016 $
A	-	14,823
Unrated	**467**	447
Total exposure	**467**	15,270

The following table summarizes the risk rating based on recognized rating agency data for available-for-sale securities at carrying value.

	2017 $	2016 $
AAA/R1H	**1,478,993**	743,718
AA/R1M	**333,642**	577,480
A/R1L	**1,160,674**	725,096
BBB/R2H	**57,728**	56,977
BB/R2M	**3,039**	-
Unrated	**36,291**	5,909
Total exposure	**3,070,367**	2,109,180

Refer to note 8 for information on the credit quality performance of the security portfolio and note 10 for information on the credit quality performance of the loan portfolio.

Concentrations of credit risk indicate relative sensitivity of performance to developments affecting a particular industry or geographic region.

The following table summarizes the authorized credit exposures by industry for residential mortgages and consumer loans.

	2017 $
Residential mortgages – insured	**5,076,726**
Residential mortgages- uninsured	**1,027,574**
Consumer loans - unsecured	**367,480**
Total Exposure	**6,471,780**

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4. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

The following table summarizes the authorized credit exposures by industry for securities and commercial mortgages and loans.

	2017 $	2016 $
Accommodation and food services	**144,147**	-
Agriculture, forestry, fishing & hunting	**95,656**	-
Arts, entertainment and recreation	**19,230**	-
Automobile financing	**50,584**	58,619
Banking (Schedule 1)	**1,213,238**	886,600
Banking (Schedule 2 and Schedule 3)	**-**	1,501
Construction	**537,391**	-
Credit card issuing/financing	**32,287**	32,848
Diversified holdings	**74,457**	1,000
Health care and social assistance	**52,798**	-
Information	**15,139**	9,826
Insurance carriers and related activities	**1,797**	1,797
Local credit union	**712,132**	413,337
Manufacturing	**137,220**	50,951
Master asset vehicles	**467**	15,270
Mining & oil and gas extraction	**10,465**	4,993
Other non-depository (co-operatives)	**258,464**	450,529
Public administration (federal, provincial, and municipal government)	**2,011,144**	968,400
Real estate	**599,985**	31,007
Rental & leasing services	**-**	2,773
Residential mortgages- conventional	**1,184**	-
Retail trade	**46,121**	10,186
Transportation and warehousing	**94,548**	45,311
Utilities	**33,259**	23,366
Wholesale trade	**1,017**	9,464
Other	**44,488**	-
Total Exposure	**6,187,218**	3,017,778

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4. FINANCIAL RISK MANAGEMENT (continued)

Market risk

Market risk arises from three components:

- Interest rate risk which results from movements in interest rates. This risk primarily results from timing differences in the re-pricing of assets and liabilities as they mature or are contractually re-priced;
- Price risk which results from changes in the market price of an asset or liability; and
- Foreign exchange risk which results from movements in foreign exchange rates.

SaskCentral

SaskCentral manages market risk by:

- Acquiring assets which are marketable with minimal risk of price fluctuation;
- Establishing market risk limits;
- Monitoring exposure and simulating the impact of interest rate changes;
- Monitoring exposure to changes in foreign exchange rates; and
- Undertaking stress testing.

SaskCentral's Board is responsible for approving the market risk tolerances in the *Financial Management Policy* upon the recommendation of the Audit and Risk Committee. Compliance to these policies is presented to the Audit and Risk Committee on a quarterly basis. These policies outline maximum limits for the exposure of net interest income and the economic value of equity to market risk.

The Financial Management Advisory Committee has the authority to set market risk strategies for the balance sheet within the risk tolerances in the *Financial Management Policy*. In addition, management monitors the monthly simulation of the impact of interest rate changes to ensure market risk levels remain within policy and strategy parameters, and reviews derivative holdings.

The SaskCentral market risk objectives and methodologies have not changed materially from December 31, 2016.

Concentra Bank

Concentra Bank manages market risk by:

- Monitoring exposure to changes in interest rates and foreign exchange rates, including simulating the impact of interest rate changes;
- Using on- and off-balance sheet strategies to manage interest rate changes;
- Undertaking regular stress testing to determine the impact from an immediate change in interest rates and develop treatment plans;
- Establishing aggregate risk tolerances and limits to manage market risk; and
- Complying with applicable regulatory expectations, regulations and guidelines.

Concentra Bank has established policies that outline maximum limits for the exposure of net interest income and the economic value of equity to interest and price risk, foreign currency risk and derivative portfolio concentrations.

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4. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Consolidated risk measurement

The market risk position is measured on a monthly basis. Measurement of risk is based upon key assumptions such as future interest rate movements, asset growth, and funding mix. The short term (next twelve months) risk position of SaskCentral is assessed by measuring both the impact of an immediate 100 basis points (bp) shock and a 30% rate ramp scenario on the adjusted net interest income which is the net interest income adjusted for realized gains and losses on derivatives. The long term risk position of SaskCentral is assessed by measuring both the impact of an immediate 100 bp shock and a 30% rate ramp scenario on the economic value of equity. The short term risk position of Concentra Bank is assessed by measuring both the impact of an immediate 100 bp shock and a rate ramp scenario on net interest income. The long term risk position of Concentra Bank is measured by both the impact of an immediate 100bp shock and a steepening or inverted yield curve on the economic value of equity,

The information presented is a measurement of interest rate sensitivity gaps at a specific point in time, and there is potential for these gaps to change significantly over a short period. The impact on earnings from changes in market interest rates will depend will depend on both the magnitude of and speed with which interest rates change, as well as the size and maturity structure of the cumulative interest rate gap position and the management of these positions over time.

Neither SaskCentral nor Concentra Bank is exposed to significant currency risk as the net foreign currency positions are not significant.

The following represents SaskCentral's market risk position, excluding Concentra Bank:

	2017 $		2016 $	
	Adjusted net interest income	**Economic value of equity**	**Adjusted net interest income**	**Economic value of equity**
Impact of:				
100 bp increase in rates	**7.1%**	**(0.4%)**	7.6%	(0.6%)
100 bp decrease in rates	**(8.1%)**	**0.4%**	(3.8%)	0.3%
Impact of:				
30% rate ramp increase	**1.9%**	**(0.6%)**	1.7%	(0.1%)
30% rate ramp decrease	**(3.9%)**	**0.4%)**	(1.2%)	0.2%

The following represents the Concentra Bank market risk position:

	2017 $	
	Net income	**Economic value of equity**
Impact of:		
100 bp increase in rates	**1.3%**	**(0.1%)**
100 bp decrease in rates (1)	**(1.2%)**	**0.1%**
Impact of:		
Ramp up of rates	**1.1%**	**0.0%**
Ramp down of rates	**(1.0%)**	**(0.4%)**

(1) The rates have been adjusted to zero where effective rates at December 31 were less than 100 bp.

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4. FINANCIAL RISK MANAGEMENT (continued)

(a) Interest rate risk

SaskCentral's exposure to interest rate risk is the risk of capital volatility due to changes in interest rates. This arises when assets and liabilities have different maturity profiles. Interest rate risk has the potential to affect capital strength. Capital volatility is managed by matching asset duration or cash flows to liability duration or cash flows. Interest rate derivatives may be used to manage the duration or cash flow mismatch. SaskCentral monitors interest rate changes monthly on a forecasted basis.

SaskCentral

SaskCentral evaluates interest rate risk by determining the financial impact under a variety of scenarios. SaskCentral limits the impact of interest rate changes so that an immediate 100 bp change in the interest rate will not negatively affect the economic value of equity by more than 10% or projected annual net interest income by more than 10% and a 30% rate ramp scenario will not negatively affect the economic value of equity by more than 10% one year forward or projected annual net interest income by more than 10%.

SaskCentral's interest rate sensitivity, excluding Concentra Bank, to a 100 bp fluctuation in interest rates over the next twelve months would be as outlined in the following table:

	2017 $		2016 $	
	Profit (loss) for the year	Other comprehensive (loss) income	Profit (loss) for the year	Other comprehensive (loss) income
Impact of:				
100 bp increase in rates	**13,802**	**(3,005)**	12,576	(3,073)
100 bp decrease in rates	**11,845**	**2,945**	11,250	3,012

Concentra Bank

Concentra Bank measures its exposure to interest rate risk by the mismatch, or gap, between the assets, liabilities, and derivative financial instruments scheduled to mature or reprice on particular dates. Gap analysis measures the difference between the amount of assets and liabilities that reprice in specific time periods.

(b) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument, including derivatives, will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. SaskCentral's most significant consolidated other price risk relates to its holdings of asset-backed commercial paper (ABCP) as described in note 8. SaskCentral manages its other price risk by adhering to the *Financial Management Policy*.

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4. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk arises from the inability to generate or obtain necessary cash or cash equivalents in a timely manner, at a reasonable price, to meet commitments as they become due, without incurring unacceptable losses.

SaskCentral

Liquidity risk specific to the role of SaskCentral as operating liquidity manager is managed by:

- Investing in a stock of high quality liquid assets (HQLA);
- Ensuring liquidity funding sources are sufficient to meet the requirements for normal operating mode, emergency operating mode, and bridge operations;
- Complying with the requirements arising from the Group Clearing Agreement;
- Maintaining a Liquidity Crisis Management Plan, including funding plans, and disseminating to credit unions;
- Undertaking stress testing to assist in identifying, measuring and controlling liquidity risks and assessing liquidity sufficiency in case of both internal and market-wide stress events; and
- Maintaining an investment grade rating of R1-low.

The assessment of the liquidity position reflects management's estimates, assumptions, and judgments relative to current and future company specific operations and market conditions.

The SaskCentral Board is responsible for approving the liquidity risk tolerances in the *Financial Management Policy* upon the recommendation of the Audit and Risk Committee. Compliance to these policies is presented to the Audit and Risk Committee on a quarterly basis.

The Financial Management Advisory Committee has the authority to set liquidity risk strategies for the balance sheet within the risk tolerances in the *Financial Management Policy*. In addition, this committee reviews compliance to mandatory liquidity requirements and monitors the liquidity position and projections, including the results of stress testing.

SaskCentral uses two metrics to monitor liquidity risk: the Liquidity Coverage Ratio (LCR) and a liquidity score. The LCR is modeled after the 2017 Liquidity Adequacy Requirements (LAR) Guidelines published by OSFI. This guideline does not apply to SaskCentral; however, SaskCentral has incorporated the LAR principles in the LCR. The LCR is the ratio of liquid assets over potential outflows over five days. SaskCentral calculates the LCR on a stand-alone basis and on a combined view of Saskatchewan credit unions and SaskCentral (system-wide).

	2017 $		2016 $	
	System-wide LCR	**Stand-alone LCR**	**System-wide LCR**	**Stand-alone LCR**
Policy limit	**120%**	**110%**	120%	110%
Actual	**214%**	**136%**	171%	124%

SaskCentral also evaluates liquidity quality of investments using the liquidity score. The liquidity score is an internal rating system developed by all Group Clearing participants. Ratings range from 0 to 4 with 0 indicating the investment is illiquid and 4 indicating the investment can be sold immediately to any dealer. The policy limit describes a liquidity score of 3.0 or better. The liquidity score was 3.4 at December 31, 2017 (2016 – 3.3).

SaskCentral's liquidity risk objectives and policies have not changed materially from December 31, 2016.

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4. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

Concentra Bank

Concentra Bank manages liquidity risk by:

- Daily monitoring of cash flows;
- Investing a prudent portion of the investment portfolio in liquid, low-risk, unencumbered instruments;
- Acquiring credit union, commercial, and retail deposits and accessing capital markets;
- Diversifying funding resources;
- Maintaining external credit facilities, including lines of credit, to support daily liquidity and business needs and unforeseen liquidity events;
- Maintaining an investment grade market rating;
- Maintaining a liquidity plan, including a liquidity contingency plan, and funding strategy to ensure there is sufficient cash and high quality cash equivalents to support daily liquidity needs;
- Undertaking regular stress testing to assist in identifying, measuring, and controlling funding and liquidity risks, assessing the adequacy of liquidity buffers in case of both internal and market-wide stress events, and developing treatment plans; and
- Complying with applicable regulatory expectations, regulations, and guidelines.

The assessment of the liquidity position reflects management's estimates, assumptions, and judgments relative to current and future company specific operations and market conditions. Concentra Bank's liquidity position is monitored on a daily basis to ensure obligations can be met and cash is optimized for the balance sheet. The goal is to effectively use Concentra Bank's portfolio of HQLA and back stop liquidity facilities to ensure liquidity access during constrained liquidity conditions.

The liquidity position is monitored for policy purposes in reference to OSFI's prescribed LCR which is based on a thirty-day liquidity stress scenario, with assumptions defined in OSFI's *Liquidity Adequacy Requirements* Guideline (the LAR Guideline). The LCR is calculated as the ratio of HQLA to net cash outflows over the next thirty days. HQLA are defined in the LAR Guideline, and are grouped into three main categories, with varying haircuts applied. The total weighted values for net cash outflows for the next thirty days are derived by applying the assumptions specified in the LAR Guideline to specific items, including loans. Concentra Bank also incorporates a number of internal liquidity measures to forecast liquidity requirements including minimum survival horizon. Throughout 2017, Concentra Bank has been in compliance with the OSFI prescribed Guideline.

Consolidated risk measurement

In the normal course of business SaskCentral enters into contracts that give rise to commitments of future minimum payments which affect liquidity.

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4. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

The following table provides a summary of SaskCentral's primary future contractual funding commitments.

2017 $	On Demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	No fixed maturity	Total
Loans payable	631	270,921	-	-	-	-	271,552
Notes payable	-	145,911	114,047	-	-	-	259,958
Securitization liabilities	-	4,377	346,641	3,978,729	-	-	4,329,747
Total Exposure	631	421,209	460,688	3,978,729	-	-	4,861,257

2016 $	On Demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	No fixed maturity	Total
Loans payable	-	58,573	-	-	-	-	58,573
Notes payable	-	24,991	-	-	-	-	24,991
Total Exposure		83,564	-	-	-	-	83,564

Offsetting financial assets

The following financial assets are subject to offsetting, enforceable master netting arrangements or similar agreements.

2017	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related amounts not offset in the balance sheet: Impact of master netting agreements or similar agreements [(1)]	Related amounts not offset in the balance sheet: Collateral received [(2)]	Net amount [(3)]
Derivative assets	27,975	-	27,975	(8,989)	-	18,986

(1) *Amounts that are subject to master netting arrangements or similar agreements but were not offset because they did not meet the net settlement/simultaneous settlement criteria; or because the rights of set off are conditional upon the default of the counterparty only.*
(2) *Collateral received and pledged amounts are reflected at fair value, but have been limited to the net balance sheet exposure so as not to include any over-collateralization.*
(3) *Not intended to represent SaskCentral's actual exposure to credit risk, as a variety of credit mitigation strategies are employed in addition to offsetting and collateral arrangements.*

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4. FINANCIAL RISK MANAGEMENT (continued)

Offsetting financial liabilities (continued)

The following financial liabilities are subject to offsetting, enforceable master netting arrangements or similar agreements.

2017						
				Related amounts not offset in the balance sheet		
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets offset in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Impact of master netting agreements or similar agreements (1)	Collateral pledged (2)	Net amount (3)
Derivative liabilities	28,132	-	28,132	(8,989)	(862)	18,281
Repurchase payable	270,943	-	270,943	-	(270,272)	671

(1) *Amounts that are subject to master netting arrangements or similar agreements but were not offset because they did not meet the net settlement/simultaneous settlement criteria; or because the rights of set off are conditional upon the default of the counterparty only.*
(2) *Collateral received and pledged amounts are reflected at fair value, but have been limited to the net balance sheet exposure so as not to include any over-collateralization.*
(3) *Not intended to represent SaskCentral's actual exposure to credit risk, as a variety of credit mitigation strategies are employed in addition to offsetting and collateral arrangements.*

For the financial assets and financial liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between SaskCentral and the counterparty allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis, however, each party to the master netting arrangement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party. Based on the terms of each agreement, an event of default includes failure by a party to make payment when due; failure by a party to perform any obligation required by the agreement (other than payment) if such failure is not remedied within periods defined in the respective agreements after notice of such failure is given to the party; or bankruptcy.

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5. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Some of SaskCentral's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table provides information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Fair value of financial assets and financial liabilities measured at fair value on recurring basis

Instrument	Fair value as at 2017 $	Fair value as at 2016 $	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Financial assets					
Available-for-sale					
Government					
Federal	**1,281,411**	617,656	Level 2	Market comparable prices using quoted bid prices obtained from Bloomberg, or dealer quoted prices where applicable.	N/A
Provincial	**675,603**	348,434	Level 2	Market comparable prices using quoted bid prices obtained from Bloomberg, or dealer quoted prices where applicable.	N/A
Municipal	**4,352**	4,535	Level 2	Market comparable prices using quoted bid prices obtained from Bloomberg, or dealer quoted prices where applicable.	N/A
Corporate					
Corporate debt	**303,212**	279,344	Level 2	Market comparable prices using quoted bid prices obtained from Bloomberg, or dealer quoted prices where applicable.	N/A
Asset backed securities	**23,068**	-	Level 2	Market comparable prices using quoted bid prices obtained from Bloomberg, or dealer quoted prices where applicable.	N/A
Credential Financial subordinated debentures	**574**	572	Level 2	Discounted cash flow. Future cash flows are determined based on a fixed coupon rate of 5.13%. Discount rate of 5.06%, estimated using market comparable rates from Bloomberg.	N/A
Credential Securities subordinated debentures	**658**	658	Level 2	Discounted cash flow. Future cash flows are determined based on a fixed coupon rate of 3.65%. Discount rate of 3.76%, estimated using market comparable rates from Bloomberg.	N/A
Credential Financial partnership units	**16,380**	626	Level 3	Combined multiplier approach using comparable entities and precedent transactions and discounted cash flow. Prior year value equal to cost because a quoted price in an active market was not available and the fair value could not be reliably measured.	Earnings multipliers ranging from 7.0 to 13.5 and assets under administration multipliers ranging from 1.0% to 2.0%.

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5. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Fair value of financial assets and financial liabilities measured at fair value on recurring basis (continued)

Instrument	Fair value as at 2017 $	2016 $	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Financial assets (continued)					
Available-for-sale (continued)					
Northwest and Ethical Investments partnership units	**12,285**	20	Level 3	Combined multiplier approach using comparable entities and precedent transactions and discounted cash flow. Prior year value equal to cost because a quoted price in an active market was not available and the fair value could not be reliably measured.	Earnings multipliers ranging from 8.0 to 10.0 and assets under administration multipliers ranging from 2.5% to 3.5%.
Chartered banks	**730,818**	845,227	Level 2	Market comparable prices using quoted bid prices obtained from Bloomberg, or dealer quoted prices where applicable.	N/A
Co-operatives [(1)]	**5,459**	-	Level 2	Market comparable prices using quoted bid prices obtained from Bloomberg, or dealer quoted prices where applicable.	N/A
FVTPL					
MAV II	**-**	14,823	Level 3	Discounted cash flow. Future cash flows based on a coupon rate of 0.82% that reflects a CDOR and a CDX rate with similar maturity dates and similar characteristics.	Discount rate of 3.11% calculated using the coupon rate plus a credit spread and liquidity discount. The higher the discount rate, the lower the fair value.
MAV III	**467**	447	Level 2	Market comparable prices using dealer quoted prices	N/A
Derivative assets					
Index-linked term deposits	**9,399**	11,122	Level 2	Discounted cash flow. Future cash flows are estimated based on observable market inputs (third party quotes, pricing on trading venues and prices for comparable transactions) and a discount rate derived from relevant market inputs for each asset class.	N/A

[(1)] Certain co-operative securities with a carrying value at December 31, 2017 of $6,394 (2016 - $4,033) are not included in this note as these securities are carried at cost because a quoted price in an active market is not available and the fair value cannot be reliably measured.

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5. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Fair value of financial assets and financial liabilities measured at fair value on recurring basis (continued)

Instrument	Fair value as at 2017 $	2016 $	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Financial assets (continued)					
Derivative assets (continued)					
Interest rate swaps	17,423	-	Level 2	Market comparable prices using yields with matching terms to maturity. The fair values reflect the estimated amounts that SaskCentral would receive if the contracts were terminated at the reporting date.	N/A
Forward rate swaps	482	-	Level 2	Market comparable prices using yields with matching terms to maturity. The fair values reflect the estimated amounts that SaskCentral would receive if the contracts were terminated at the reporting date.	N/A
Foreign exchange contracts	671	-	Level 2	Market comparable prices using yields with matching terms to maturity. The fair values reflect the estimated amounts that SaskCentral would receive if the contracts were terminated at the reporting date.	N/A
Financial liabilities					
Derivative liabilities					
Index-linked term deposits	9,399	11,122	Level 2	Discounted cash flow. Future cash flows are estimated based on observable market inputs (third party quotes, pricing on trading venues and prices for comparable transactions) and a discount rate derived from relevant market inputs for each asset class.	N/A
Interest rate swaps	17,602	-	Level 2	Market comparable prices using yields with matching terms to maturity. The fair values reflect the estimated amounts that SaskCentral would receive or pay to terminate the contracts at the reporting date.	N/A
Foreign exchange contracts	657	-	Level 2	Market comparable prices using yields with matching terms to maturity. The fair values reflect the estimated amounts that SaskCentral would receive if the contracts were terminated at the reporting date.	N/A
Forward rate contracts	474	-	Level 2	Market comparable prices using yields with matching terms to maturity. The fair values reflect the estimated amounts that SaskCentral would receive or pay to terminate the contracts at the reporting date.	N/A

SaskCentral's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

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5. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

During the year, the valuation method of MAV securities was changed from a discounted cash flow method to using a market comparable approach using broker-quoted prices. As a result, SaskCentral transferred MAV securities with a carrying value of $447 at the date of transfer from Level 3 to Level 2. During the year, SaskCentral also obtained a fair value for the Credential Financial and Northwest and Ethical Investments partnership units. The method of valuation was considered Level 3 with unobservable inputs. In prior year, the fair value was equal to cost because a quoted price in an active market was not available and the fair value could not be reliably measured. As a result, SaskCentral transferred the partnership units with a carrying value of $646 at the date of transfer from Level 2 to Level 3. There have been no transfers between Level 1 and 2.

Reconciliation of Level 3 fair value measurements

The following table summarizes the changes in Level 3 assets and liabilities recorded at fair value for the year ended December 31, 2017:

	2017 $	2016 $
Level 3, beginning of year	**15,270**	23,932
Additions from business combination [note 33]	**38,070**	-
Total gains in profit or loss	**21**	497
Unrealized gains in OCI	**28,019**	-
Sales/settlements	**(38,070)**	-
Principal payments	**(14,844)**	(9,159)
Transfer in (out) of Level 3	**199**	-
Level 3, end of year	**28,665**	15,270
Total gains for the period included in profit or loss for assets held at the end of the reporting period	**21**	497

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5. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Fair value of financial assets and liabilities not measured at fair value on recurring basis (but fair value disclosures are required)

Except as detailed in the following table, SaskCentral considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair value.

	Carrying value as at 2017 $	Carrying value as at 2016 $	Fair value as at 2017 $	Fair value as at 2016 $	Fair value hierarchy	Valuation technique
Financial assets						
Loans	**31,169**	45,057	**31,156**	45,051	Level 2	Discounted cash flows based on current market rates of interest for similar lending
	7,678,000	-	**7,609,515**	-	Level 3	Discounted cash flows based on current market rates of interest for similar lending. The credit risk adjustment based on perceived credit worthiness of a borrower is an unobservable input resulting in certain loans being classified at Level 3 in the fair value hierarchy
Central 1 subordinated debentures	**7,000**	7,000	**6,537**	6,331	Level 2	Discounted cash flows based on current market rates of interest for similar lending.
Financial liabilities						
Deposits	**5,998,315**	2,009,060	**6,005,132**	2,021,432	Level 2	Discounted cash flows based on current market rates of interest for similar maturities.
Loans payable	**271,552**	58,573	**269,990**	58,567	Level 2	Discounted cash flows based on current market rates of interest for similar maturities.
Securitization liabilities	**4,329,747**	-	**4,250,625**	-	Level 2	Discounted cash flows based on current market rates of interest for similar maturities.

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6. CAPITAL MANAGEMENT

Concentra Bank manages and monitors capital independently of SaskCentral and as such, the entities are discussed separately for the purpose of this note.

SaskCentral

SaskCentral manages and monitors capital from several perspectives, including regulatory capital requirements and operational capital requirements.

SaskCentral manages its capital by monitoring, on a quarterly basis, a number of regulatory requirements as prescribed by CUDGC and by internal Board and operational policies. The regulatory capital ratio (Borrowing Multiple) calculation is specified in the CUDGC *Capital Adequacy Requirements Prudential Standard 2017-02* for SaskCentral. Annually, SaskCentral develops a five-year capital plan that is reviewed with the Audit and Risk Committee. This capital plan discusses the components of capital, the assumptions and risk factors, the capital and financial position, and provides alternatives to support organizational growth.

The Borrowing Multiple is an important measure for SaskCentral as it determines the level of borrowings to total regulatory capital in the organization. Total borrowings are comprised of total deposits, notes payable, loans payable and liabilities related to derivative contracts, excluding index-linked term deposits. The Borrowing Multiple is not to exceed 20.0 times total borrowings as prescribed by CUDGC. Internal board policy for this ratio is set at 17.0 times. Operationally, management targets a maximum ratio of 16.0 times.

Regulatory capital is allocated to two tiers: Tier 1 and Tier 2. Tier 1 regulatory capital comprises the more permanent components of capital and consists of share capital and retained earnings, excluding accumulated other comprehensive income (AOCI) and goodwill. CUDGC monitors SaskCentral on a non-consolidated basis, as such for the purposes of SaskCentral's non-consolidated regulatory capital, the goodwill resulting from the acquisition of control is not included. Tier 2 regulatory capital consists of subordinated debentures, less any amortization on the subordinated debentures as required by CUDGC. Total regulatory capital is defined as the sum of Tier 1 and Tier 2 regulatory capital, less substantial investments and assets of little or no realizable value.

CUDGC also prescribes an internal capital adequacy assessment process (ICAAP) to address SaskCentral's unique conditions. ICAAP is an integrated process that evaluates capital adequacy, and is used to establish capital targets that take into consideration the strategic direction and risk appetite of SaskCentral. ICAAP seeks to identify the material risks requiring capital and quantify the amount of capital that should be held in relation to those risks.

Throughout the year, SaskCentral has been in compliance with CUDGC prescribed capital adequacy requirements, board policy capital requirements, and internally imposed operational capital targets.

	2017 $	2016 $
Capital		
Tier 1 and Tier 2 regulatory capital	**523,094**	430,666
Less deductions:		
Substantial investments	**324,774**	253,422
Assets of little value	**8,162**	1,357
Total borrowing multiple capital	**190,158**	175,887
Borrowing multiple	**12.2:1**	11.9:1

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6. CAPITAL MANAGEMENT (continued)

Concentra Bank

Concentra Bank manages and monitors capital from several perspectives, including regulatory and ICAAP capital. Capital levels for Concentra Bank are regulated pursuant to OSFI's Capital Adequacy Requirements Guideline. Under the Basel III framework, regulatory capital is allocated to three tiers: Common Equity Tier 1 (CET 1), Tier 1 and Tier 2. CET 1 regulatory capital comprises the more permanent components of capital and consists of common share capital, retained earnings, and AOCI. In addition, goodwill and other items as prescribed by OSFI are deducted from CET 1 regulatory capital. Tier 1 regulatory capital comprises of CET 1 and additional Tier 1 items which include preferred shares. Tier 2 regulatory capital consists of subordinated debentures less deductions as prescribed by OSFI. Total regulatory capital is defined as the sum of Tier 1 and Tier 2 regulatory capital.

Regulatory ratios are calculated by dividing CET 1 regulatory capital, Tier 1 regulatory capital and total regulatory capital by risk-weighted assets (RWA). The calculation of RWA is determined from OSFI prescribed rules relating to on-balance sheet and off-balance sheet exposures and includes an amount for operational risk. Concentra Bank is not required to compute market risk since Concentra Bank is not an internationally active financial institution. In addition, OSFI formally establishes risk-based capital targets for deposit-taking institutions. Currently OSFI targets are a minimum CET 1 regulatory capital to RWA ratio of 7%, a minimum Tier 1 regulatory capital to RWA ratio of 8.5% and a minimum total regulatory capital to RWA ratio of 10.5%. In addition, Canadian financial institutions are required to maintain a material operating buffer above the OSFI prescribed minimum leverage ratio of 3%. The regulatory requirements are determined on a Basel III "all in" basis as per OSFI guidelines. Throughout 2017, Concentra Bank has been in compliance with OSFI prescribed capital adequacy requirements.

	2017 $
Capital	
Common Equity Tier 1 regulatory capital	324,220
Tier 1 regulatory capital	435,207
Total regulatory capital	435,207
Risk-weighted assets	
Credit risk	2,303,352
Market risk	-
Operational risk	179,504
Total risk-weighted assets	2,482,856
Capital ratios	
Common Equity Tier 1 regulatory capital to risk-weighted assets	13.1%
Tier 1 regulatory capital to risk-weighted assets	17.5%
Total regulatory capital to risk-weighted assets	17.5%
Leverage ratio	4.7%

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6. CAPITAL MANAGEMENT (continued)

Concentra Bank's wholly owned subsidiary, Concentra Trust, is also required to meet these regulatory capital requirements. Throughout 2017, Concentra Trust has been in compliance with OSFI's prescribed capital adequacy requirements.

	2017 $
Capital	
Common Equity Tier 1 regulatory capital	**14,073**
Tier 1 regulatory capital	**14,073**
Total regulatory capital	**14,073**
Risk-weighted assets	
Credit risk	**3,704**
Market risk	-
Operational risk	**15,218**
Total risk-weighted assets	**18,922**
Capital ratios	
Common Equity Tier 1 regulatory capital to risk-weighted assets	**74.4%**
Tier 1 regulatory capital to risk-weighted assets	**74.4%**
Total regulatory capital to risk-weighted assets	**74.4%**
Leverage ratio	**90.1%**

7. CASH AND CASH EQUIVALENTS

	2017 $	2016 $
Cash and balances with Central 1	**202,233**	71,065
Cash and balances with banks	**412,364**	4,976
Cash equivalents	**114,192**	31,428
	728,789	107,469

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8. SECURITIES

SaskCentral's securities portfolio is comprised of a large number of securities carrying a variety of terms and conditions. Approximately 78.5% (2016 – 75.9%) of the portfolio bears interest at fixed rates and pays interest semi-annually and/or upon maturity. The remainder of the portfolio earns interest at variable rates and pays interest monthly or quarterly, provides a return of dividends over varying periods of time or provides an index-linked return. The maturity dates and weighted average effective interest rates for the securities portfolio are as follows:

		2017 $					
		Term to maturity					
	Yield[1]	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	No fixed maturity	Total
Available-for-sale							
Government – non-securitized							
Federal							
Fair value	1.46%	2,140	243,310	730,429	-	-	975,879
Amortized cost		2,140	243,328	733,693	-	-	979,161
Provincial							
Fair value	1.46%	71,707	245,152	358,744	-	-	675,603
Amortized cost		71,731	245,035	362,374	-	-	679,140
Municipal							
Fair value	1.80%	-	-	4,352	-	-	4,352
Amortized cost		-	-	4,376	-	-	4,376
Government – securitized							
Federal							
Fair value	1.56%	-	116,453	189,079	-	-	305,532
Amortized cost		-	116,667	189,664	-	-	306,331
Corporate							
Corporate debt [2]							
Fair value	1.84%	18,497	100,818	183,897	-	-	303,212
Amortized cost		18,501	100,829	185,274	-	-	304,604
Chartered banks							
Fair value	1.93%	34,304	248,680	437,085	-	10,749	730,818
Amortized cost		34,305	248,283	440,544	-	10,707	733,839
Co-operatives							
Fair value	0.52%	-	658	574	5,459	35,059	41,750
Amortized cost		-	656	573	5,500	7,041	13,770
Asset-backed							
Fair value	1.78%	12,544	-	10,524	-	-	23,068
Amortized cost		12,544	-	10,640	-	-	23,184
Total fair value		139,192	955,071	1,914,684	5,459	45,808	3,060,214
Total amortized cost		139,221	954,798	1,927,138	5,500	17,748	3,044,405
FVTPL							
Master asset vehicle	-	-	-	-	467	-	467
Loans and receivables							
Central 1 subordinated debentures	1.55%	-	-	-	7,000	-	7,000
Total carrying value							3,067,681
Accrued interest							10,161
							3,077,842

[1] *represents weighted average effective interest rates based on year-end carrying values*
[2] *corporate debt includes: commercial paper and medium-term notes*

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8. SECURITIES (continued)

	2016 $						
		Term to maturity					
	Yield[1]	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	No fixed maturity	Total
Available-for-sale							
Government							
Federal							
Fair value	1.16%	-	129,151	483,502	5,003	-	617,656
Amortized cost		-	128,692	481,883	5,000	-	615,575
Provincial							
Fair value	1.08%	25,023	81,596	241,815	-	-	348,434
Amortized cost		25,027	81,353	241,445	-	-	347,825
Municipal							
Fair value	1.46%	-	3,620	915	-	-	4,535
Amortized cost		-	3,603	919	-	-	4,522
Corporate							
Corporate debt [2]							
Fair value	1.82%	7,336	76,992	193,495	1,521	-	279,344
Amortized cost		7,328	76,720	192,475	1,532	-	278,055
Chartered banks							
Fair value	1.82%	101,470	171,628	572,129	-	-	845,227
Amortized cost		101,460	170,973	567,919	-	-	840,352
Co-operatives							
Fair value	-	-	658	572	-	4,679	5,909
Amortized cost		-	656	573	-	4,679	5,908
Total fair value		133,829	463,645	1,492,428	6,524	4,679	2,101,105
Total amortized cost		133,815	461,997	1,485,214	6,532	4,679	2,092,237
FVTPL							
Master asset vehicle	-	14,823	447	-	-	-	15,270
Loans and receivables							
Central 1 subordinated debentures	0.96%	-	-	-	7,000	-	7,000
Total carrying value							2,123,375
Accrued interest							8,075
							2,131,450

[1] *represents weighted average effective interest rates based on year-end carrying values*
[2] *corporate debt includes: commercial paper, medium-term notes*

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8. SECURITIES (continued)

Unrealized gains and losses on available-for-sale securities

	2017 $			
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Government	1,662,677	2,641	(9,484)	1,655,834
Corporate	1,052,213	29,449	(5,882)	1,075,780
Asset-backed	23,184	4	(120)	23,068
Securitized portfolio	306,331	259	(1,058)	305,532
	3,044,405	32,353	(16,544)	3,060,214

	2016 $			
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Government	967,922	3,701	(998)	970,625
Corporate	1,124,315	7,338	(1,173)	1,130,480
	2,092,237	11,039	(2,171)	2,101,105

MAV, which consist of pools of assets, issued notes on January 19, 2009, to replace non-bank sponsored or third party ABCP which had experienced a liquidity event or market disruption in 2007. During the year SaskCentral received $14,915 (2016 - $9,298) of principal and interest payments on the MAV notes held. The fair value of MAV notes held at December 31, 2017 is $467 (2016 - $15,270).

9. DERIVATIVE ASSETS AND LIABILITIES

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity instrument or index.

Derivative contracts are expressed in notional amounts. The notional amounts, which are off-balance sheet, do not represent amounts exchanged and, thus, are not a measure of SaskCentral's exposure through the use of derivatives. The notional amount is the reference amount used to determine the payment required by contract and is a common measure of business volume.

Swaps are contractual agreements to exchange a series of cash flows based on agreed upon rates to a notional amount. Interest rate swaps are used to manage exposure to interest rate risk by modifying the repricing or interest rate characteristics of assets and liabilities. Exposure is managed through the exchange of fixed and floating interest rate payments based on notional amounts.

Forward rate contracts are used to determine the rate of interest to be paid or received beginning at a future date. A forward rate agreement manages the risk of fluctuating market interest rates by locking in a current interest rate for a transaction that will take place in the future. Payment based on a notional amount is paid or received once at maturity.

Foreign exchange forward contracts are contractual obligations to buy or sell one currency against another, for settlement on the day the contract expires. A foreign exchange contract manages the risk of fluctuating exchange rates by locking in a current price for a transaction that will take place in the future. Foreign exchange exposure is managed through entering into foreign exchange forward contracts.

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9. DERIVATIVE ASSETS AND LIABILITIES (continued)

Index-linked term deposits are contractual agreements between SaskCentral and participating credit unions, where credit union members' returns are linked to an underlying basket of stocks or indices. The return is generated through the use of a derivative specific to each product offering. SaskCentral is party to these transactions by facilitating the transactions, providing treasury expertise, and directing settlement with each participating credit union.

Derivatives currently held or issued are for non-trading purposes. These derivatives are used in managing SaskCentral's asset/liability activities and include investing and hedging activities.

Notional amounts / term to maturity and fair value of derivative instruments

2017
$

	Notional amount by term to maturity					Fair value	
	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total	Asset	Liability
Asset / liability management							
Interest rate swaps	11,780	179,356	321,866	27,731	540,733	3,161	3,785
	11,780	179,356	321,866	27,731	540,733	3,161	3,785
Designated in fair value hedges							
Interest rate swaps	-	-	-	5,500	5,500	3	6
	-	-	-	5,500	5,500	3	6
As intermediary							
Interest rate swaps	-	124,500	1,352,408	32,904	1,509,812	14,259	13,811
Forward rate contracts	120,200	-	-	11,078	131,278	482	474
Foreign exchange contracts	24,986	14,107	-	-	39,093	671	657
Index-linked term deposits	10,532	8,260	90,461	-	109,253	9,399	9,399
	155,718	146,867	1,442,869	43,982	1,789,436	24,811	24,341
	167,498	326,223	1,764,735	77,213	2,335,669	27,975	28,132

2016
$

	Notional amount by term to maturity					Fair value	
	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total	Asset	Liability
As intermediary							
Index-linked term deposits	16,195	14,431	83,153	-	113,779	11,122	11,122
	16,195	14,431	83,153	-	113,779	11,122	11,122

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9. DERIVATIVE ASSETS AND LIABILITIES (continued)

Amounts expected to be recovered or settled

	2017 $		2016 $	
	Asset	Liability	Asset	Liability
Within 12 months	**11,880**	**11,528**	5,145	5,145
After 12 months	**16,095**	**16,604**	5,977	5,977
	27,975	**28,132**	11,122	11,122

SaskCentral is required to post collateral to derivative counterparties when the sum of the mark to market of the derivative financial instruments in favour of the counterparty exceeds the established threshold. SaskCentral has pledged securities with a fair value of $2,157 to support this obligation.

Counterparty risk

SaskCentral is exposed to credit related losses in the event of non-performance by the counterparties to derivative contracts. SaskCentral's credit exposure on the interest rate contracts is limited to the positive replacement cost (fair value) of the instruments as this represents the cost to replace these contracts at prevailing market rates if a default occurred. SaskCentral mitigates exposures by limiting the counterparties to interest rate contracts to credit worthy Canadian financial institutions. In determining the credit quality of derivative instruments both SaskCentral's own credit risk and the risk of the counterparty are considered elements of the credit quality.

Credit risk is measured by using a credit equivalent amount. The credit equivalent amount is derived from the sum of the positive replacement cost and the potential credit risk exposure which reflects the potential change in replacement cost in relation to the remaining term to maturity of the contract. The risk-weighted amount is determined by applying standard measures of counterparty risk to the credit equivalent amount.

The following table provides information in relation to SaskCentral's credit risk exposure for derivative financial transactions. Positive replacement cost is derived from the fair value of derivative financial instruments. Potential credit risk exposure and risk-weighted equivalents are calculated in accordance with OSFI's guideline for Capital Adequacy Requirements (CAR).

	2017 $		
	Interest rate contracts	Foreign exchange contracts	Total
Notional amounts	**2,187,323**	**39,093**	**2,226,416**
Positive replacement cost	**17,905**	**671**	**18,576**
Potential credit risk exposure	**9,530**	**391**	**9,921**
Credit equivalent amount	**27,435**	**1,061**	**28,496**
Risk-weighted equivalent	**5,487**	**212**	**5,699**

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9. DERIVATIVE ASSETS AND LIABILITIES (continued)

Results of hedge activities

SaskCentral uses forward rate agreements to hedge the variability in cash flows related to the issuance of obligations under the Canada Mortgage Bond (CMB) and National Housing Act Mortgage-Backed Securities (NHA MBS) programs. Interest spreads are exposed to potential changes in interest rates from the time the commitment is made to fund the residential mortgages through to the actual funding date of the residential mortgages and to the ultimate funding of the obligation under the CMB and NHA MBS programs. Thus the forward rate agreement reduces the impact of interest rate changes on the interest spread between the residential mortgages to be securitized and the securitization liabilities. SaskCentral has designated this hedging relationship as a cash flow hedge and the realized gains (losses) are reclassified from OCI to profit or loss over the period of the obligation under the securitization program.

SaskCentral is exposed to interest rate risk through certain long-term fixed rate securities for which there are no liabilities of similar durations to create an economic hedge. To manage this risk, SaskCentral enters into interest rate swaps which result in fair value changes of the hedging instruments offsetting, within a reasonable range, changes in the fair value of the long-term fixed rate securities resulting from changes in the interest rate environment. SaskCentral has designated this hedging relationship as a fair value hedge and the net difference between the fair value changes of the hedging instrument and the hedged risk component of long-term securities is recorded in gain on financial instruments in the consolidated statement of profit or loss.

	2017 $
Cash flow hedges	
Ineffective portion recorded in unrealized and realized gains (losses) on derivatives	-
Effective portion – net gains recorded in OCI during the year	3,760
Reclassification of gains to profit or loss during the year	(715)
Fair value hedges	
Ineffective portion recorded in gain on financial instruments	(12)
Reclassification of gains on hedged risk components from OCI to profit or loss	(24)
Unrealized losses on derivatives related to hedged risk components	26

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10. LOANS

2017 $	Gross loan balance	Specific allowances	Total
Loans and receivables			
Residential mortgages – securitized	4,535,644	-	4,535,644
Residential mortgages – non-securitized [1]	1,553,795	(460)	1,553,335
Consumer loans [2]	367,870	(60)	367,810
Commercial mortgages	936,975	(3,500)	933,475
Commercial loans (includes credit union loans)	155,369	-	155,369
Commercial leases	181,795	(878)	180,917
	7,731,448	(4,898)	7,726,550
Collective allowances			(17,163)
Accrued interest			12,548
			7,721,935

[1] *Residential mortgages include $992 of property held for resale.*
[2] *Consumer loans of $101,282 are subject to a credit enhancement in the form of a limited financial guarantee provided by the loan originator.*

2016 $	Gross Loan Balance	Specific Allowances	Total
Loans and receivables			
Credit union loans	41,859	-	41,859
Commercial loans	3,162	-	3,162
	45.021	-	45,021
Collective allowances			-
Accrued interest			36
			45,057

The maturity dates, and weighted average effective interest rates for the loan portfolio are as follows:

2017 $	Effective rate	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Loans and receivables						
Residential mortgages – securitized	2.68%	96,691	322,799	4,116,154	-	4,535,644
Residential mortgages – non-securitized	3.34%	106,300	574,026	869,843	3,166	1,553,335
Consumer loans	7.39%	5,823	37,502	193,381	131,104	367,810
Commercial mortgages	4.18%	121,710	193,998	561,495	56,272	933,475
Commercial loans (includes credit union loans)	3.73%	40,906	21,424	69,554	23,485	155,369
Commercial leases	4.00%	448	5,668	161,479	13,322	180,917
Total excluding collective allowance and accrued		371,878	1,155,417	5,971,906	227,349	7,726,550

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10. LOANS (continued)

				2016 $		
	Effective Rate	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Loans and receivables						
Credit union loans	1.77%	41,859	-	-	-	41,859
Commercial loans	2.70%	3,162	-	-	-	3,169
Total excluding collective allowance and accrued		45,021	-	-	-	45,021

Arrears and credit impaired loans

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as credit impaired because they are either: (1) less than 90 days past due; or (2) fully secured and collection efforts are reasonably expected to result in full repayment:

		2017 (1) $		
	1 – 29 days	30 – 89 days	90 days and greater	Total
Residential mortgages – securitized	20,263	4,652	1,116	26,031
Residential mortgages – non-securitized	24,262	6,267	9,944	40,473
Consumer loans	1,676	1,027	-	2,703
Commercial mortgages	-	-	-	-
Commercial loans (including credit union loans)	346	-	-	346
Commercial leases	1,914	218	-	2,132
	48,461	12,164	11,060	71,685

(1) *SaskCentral had no credit impaired loans or loans in arrears in 2016.*

Arrears and credit impaired loans (continued)

The following table presents the gross amount of credit impaired loans and the corresponding specific allowances:

		2017 (1) $	
	Credit impaired loans – gross amounts	Specific allowances	Credit impaired loans – net amounts
Residential mortgages – securitized	-	-	-
Residential mortgages – non-securitized	733	(460)	273
Consumer loans	60	(60)	-
Commercial mortgages	10,504	(3,500)	7,004
Commercial loans (including credit union loans)	-	-	-
Commercial leases	2,193	(878)	1,315
	13,490	(4,898)	8,592

(1) *SaskCentral had no credit impaired loans or loans in arrears in 2016.*

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10. LOANS (continued)

Interest income of $488 was recognized on credit impaired loans during the year.

Commercial leases

The carrying value of leases of certain commercial property and equipment where SaskCentral is the lessor includes the following:

	2017 $
Minimum lease payments receivable:	
Not later than one year	6,582
Between one and five years	173,758
Later than five years	15,110
	195,450
Unearned finance income on commercial leases	(13,655)
Gross commercial leases receivable	181,795

11. ALLOWANCE AND PROVISION FOR CREDIT LOSSES

The following tables provide a continuity of SaskCentral's collective and specific loan allowances:

	2017 $						
	Residential mortgages - securitized	Residential mortgages – non-securitized	Consumer loans	Commercial mortgages	Commercial and credit union loans	Commercial leases	Total
Specific allowance							
Balance, beginning of year	-	-	-	-	-	-	-
Additions from business combination	-	866	583	4,675	1,040	2,117	9,281
Increase in allowance	-	207	578	-	-	1,825	2,610
Reversal of allowance	-	(46)	(107)	(1,175)	(1,040)	(101)	(2,469)
Write-offs applied to allowance	-	(567)	(994)	-	-	(2,963)	(4,524)
Balance, end of year	-	460	60	3,500	-	878	4,898
Collective allowance							
Balance, beginning of year	-	-	-	-	-	-	-
Additions from business combination	1,861	653	2,297	11,166	845	2,668	19,490
Increase in allowance	-	-	-	-	-	-	-
Reversal of allowance	(413)	(198)	(332)	(422)	(53)	(909)	(2,327)
Balance, end of year	1,448	455	1,965	10,744	792	1,759	17,163
Total loan allowance	1,448	915	2,025	14,244	792	2,637	22,061

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11. ALLOWANCE AND PROVISION FOR CREDIT LOSSES (continued)

The following table summarizes the provision for credit losses included in the consolidated statement of profit or loss:

	2017 $						
	Residential mortgages - securitized	Residential mortgages – non-securitized	Consumer loans	Commercial mortgages	Commercial and credit union loans	Commercial leases	Total
Net (reversal) increase of loan allowance before write-offs	(413)	(37)	139	(1,597)	(1,093)	815	(2,186)
Write-offs in excess of specific allowance	-	222	4,691	-	-	74	4,987
Recoveries of previous write-offs	-	(121)	(671)	(284)	(117)	(159)	(1,352)
Recoveries from financial guarantees	-	-	(831)	-	-	-	(831)
Total provision for credit losses	(413)	64	3,328	(1,881)	(1,210)	730	618

12. TRANSFER OF FINANCIAL ASSETS

Transferred financial assets not derecognized in their entirety

(a) Securities sale and repurchase agreements

SaskCentral enters into transactions where it sells a security and simultaneously enters into an agreement to repurchase the security at the original sales price plus a small lending premium. The repurchase agreement results in SaskCentral continuing to be exposed to the risks and rewards of the asset post-transfer and therefore it continues to be recognized within securities on the consolidated balance sheet (see note 8). A corresponding liability equal to the sales proceeds received is then recognized within loans payable (see note 19).

(b) Asset securitizations

National Housing Act Mortgage-Backed Securities and Canada Mortgage Bond Programs

SaskCentral participates in the Canada Mortgage and Housing Corporation (CMHC)-sponsored NHA MBS program where SaskCentral assigns all legal rights, interest and title in certain insured residential mortgages to CMHC in exchange for NHA MBS certificates. As SaskCentral continues to be exposed to substantially all of the risks and rewards of ownership of the original mortgages, SaskCentral has determined that the assignment of the mortgages does not constitute a transfer. Therefore, SaskCentral continues to recognize the assets as loans within residential mortgages – securitized on the consolidated balance sheet.

Subsequently, SaskCentral may sell its NHA MBS certificates to third parties or under the CMB program to Canada Housing Trust (CHT), a CMHC sponsored trust. The securitized mortgages are subject to prepayment, in full or in part, and thus the future cash flows related to the transferred assets are uncertain including the amount of prepayment penalties paid by the borrower. SaskCentral remains exposed to this variability through the difference between the return on the insured residential mortgages and the interest and indemnities paid on the related NHA MBS certificates (retained interest). As a result, the sale of the NHA MBS certificates does not transfer substantially all of the risks and rewards of ownership and the underlying mortgages continue to be recognized in the consolidated balance sheet with matching securitization liabilities being established based on the proceeds received on the date of the transfer.

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12. TRANSFER OF FINANCIAL ASSETS (continued)

Transferred financial assets not derecognized in their entirety (continued)

As part of a CMB transaction, SaskCentral may enter into a total return swap with highly rated counterparties, exchanging the cash flows of the CMB for those of the NHA MBS certificates transferred to CHT. Any excess or shortfall in these cash flows is absorbed by SaskCentral. The total return swaps are not recognized at fair value in SaskCentral's consolidated balance sheet as the risks and rewards of these derivatives are captured through the continued recognition of the mortgages and the associated securitization liabilities. Accordingly, the total return swaps are recognized on an accrual basis and are not fair valued through the consolidated statement of profit or loss.

Securitization obligations under the CMB program where SaskCentral has entered into a total return swap are non-amortizing liabilities with fixed maturity dates. Principal payments collected from the mortgages underlying the securitized NHA MBS certificates are transferred to CHT on a monthly basis where they are held and invested in eligible securities until the maturity of the CMB. To the extent that these eligible securities are not SaskCentral's own issued NHA MBS certificates, the investments are recognized on SaskCentral's consolidated balance sheet within securities.

In the case of NHA MBS certificates sold to third parties including sales to CHT under the CMB program where SaskCentral has not entered into a total return swap, as scheduled and unscheduled payments are received the cash flows are ultimately transferred to the holders of the NHA MBS certificates and the securitization liabilities are reduced accordingly.

Multi-seller conduit

In 2017 SaskCentral entered into an agreement to sell non-insured residential mortgage loans to an intermediate multi-seller structured entity established for the limited purpose of securitization activities. The intermediate multi-seller structured entity funds such purchases through the issuance of interest bearing notes. Although SaskCentral has transferred all legal right, title and interest in the mortgages to the structured entity, SaskCentral also provides a limited financial guarantee in the form of a cash reserve. Through this credit enhancement, SaskCentral retains substantially all of the risks and rewards of the transferred assets and consequently the mortgage loans do not qualify for derecognition. The structured entity has no recourse to the other assets of SaskCentral in the event of failure of debtors to pay when due. The proceeds received from the sale of the mortgage loans are recorded as a securitization liability on the consolidated balance sheet.

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12. TRANSFER OF FINANCIAL ASSETS (continued)

Securitized assets not qualifying for derecognition and associated securitization liabilities

The following table presents the carrying value and fair value of the aggregate insured residential mortgages transferred by SaskCentral under these programs that have not been derecognized, the securities held within the CMB program and the related securitization obligations recognized on the consolidated balance sheet and the net position:

	2017 $	
	Carrying value	Fair value
Securitized assets		
Cash reserve related to Multi-Seller Conduit	**6,660**	6,660
Securities – securitized portfolio [note 8]	**305,886**	305,886
Residential mortgages – securitized [note 10]	**4,537,025**	4,472,170
	4,849,571	4,784,716
Securitization liabilities		
Securitization obligations under the CMB program (1)	**2,157,199**	2,109,659
Securitization obligations under the NHA MBS program (2)	**2,039,699**	2,009,835
Securitization obligations to multi-seller conduit (3)	**132,849**	131,131
	4,329,747	4,250,625
Net position	**519,824**	534,091

(1) *Securitization obligations under the CMB program have a weighted average interest rate of 1.58% and include only those CMB securitizations subject to a total return swap.*
(2) *Securitization obligations under the NHA MBS program have a weighted average interest rate of 1.65% and include CMB securitizations which are not subject to a total return swap.*
(3) *The interest rate related to the securitization obligations to multi-seller conduits corresponds to the rate of the asset-backed commercial paper issued by the conduit, plus related program fees.*

SaskCentral also retains certain amounts of its issued NHA MBS certificates as part of its liquidity management strategy. As at December 31, 2017, residential mortgages of $492,951 with a fair value of $492,690 were assigned to NHA MBS certificates and retained by SaskCentral. These unsold NHA MBS certificates are included in loans on the consolidated balance sheet.

Derecognized financial asset transfers

(a) Loan sales

SaskCentral periodically sells co-ownership interests in commercial loans/mortgages, consumer loans and residential mortgages to credit unions while retaining servicing rights. The credit union investors have no recourse against SaskCentral for any credit or fair value losses on the transferred assets which results in substantially all of the risks and rewards being transferred. SaskCentral has therefore removed the transferred assets from its consolidated balance sheet. Under the servicing arrangements, SaskCentral collects the cash flows of the transferred assets on behalf of the credit union investors in return for a fee that is expected to compensate SaskCentral adequately for servicing the related assets. Consequently, SaskCentral accounts for the servicing arrangements as executory contracts and has not recognized a servicing asset or liability in the consolidated balance sheet. The servicing fees are based on a fixed percentage of the remaining principal balance of the transferred assets and are included within fee for service on the consolidated statement of profit or loss net of direct servicing costs incurred.

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12. TRANSFER OF FINANCIAL ASSETS (continued)

Derecognized financial asset transfers (continued)

The following tables provide quantitative information about these derecognized loan sales/syndications and SaskCentral's continuing involvement during the year:

	2017 $		
	Consumer loans and residential mortgages	Commercial mortgages and loans	Total mortgages and loans
Sales activity			
Carrying value of loans/mortgages derecognized during the year	176,152	62,725	238,877
Gain on sale of loans/mortgages during the year	1,397	610	2,007
Continuing involvement			
Outstanding principal balance of derecognized loans/mortgages at year end	301,877	273,357	575,234
Cumulative income earned on derecognized loans/mortgages during the year (1)	939	177	1,116

(1) *Consists of net servicing fees included in fee for service on the consolidated statement of profit or loss.*

During the year SaskCentral also sold commercial mortgages of $30,217 to third parties without retaining servicing rights or any other form of continuing involvement. These sales transferred substantially all of the risks and rewards of ownership resulting in the loan assets being derecognized from the consolidated balance sheet and a total loss of $40 being recorded within gain on financial instruments on the consolidated statement of profit or loss.

(b) Asset securitizations

SaskCentral sells NHA MBS certificates created from insured single family residential mortgages and may subsequently enter into an agreement to sell the retained interest (excess spread) less specific related costs to a third party investor for a fee which is recorded in gain from securitizations. The fee is payable up front or in fixed, monthly installments which are not linked to the performance of the underlying mortgages or retained interest. SaskCentral has accounted for these transactions as a sale since the NHA MBS certificates and retained interest represent the entire cash flows of the underlying mortgages and therefore substantially all of the risks and rewards of ownership have been transferred. Accordingly, SaskCentral derecognizes the transferred assets and, when the fee is payable in installments, recognizes a long-term interest bearing receivable within other securitization assets on the consolidated balance sheet. SaskCentral continues to service the underlying mortgages for which it receives a fixed monthly fee that provides adequate compensation for the cost of servicing. As such, no servicing asset or liability is recognized from the transaction.

SaskCentral securitizes and sells through the NHA MBS program certain insured multi-family and social housing residential mortgages with no prepayment privileges. SaskCentral has determined that the sale of the NHA MBS certificates results in neither the transfer nor retention of substantially all of the risks and rewards of ownership. However, as SaskCentral no longer controls the asset, the underlying mortgages are derecognized from the consolidated balance sheet. SaskCentral's continuing involvement is limited to its retained interest in the excess spread and its obligations for servicing the underlying mortgages and therefore a corresponding retained interest asset and servicing liability are recorded in other securitization assets and other liabilities, respectively. During the life of the associated NHA MBS certificate, as cash is received the retained interest and the servicing liability are amortized and recognized in interest income.

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12. TRANSFER OF FINANCIAL ASSETS (continued)

Derecognized financial asset transfers (continued)

The following tables provide quantitative information about these derecognized securitization activities and SaskCentral's continuing involvement during the year:

	2017 $		
	Single family NHA MBS	Multi-family and social housing NHA MBS	Total NHA MBS
Securitization activity			
Carrying value of underlying mortgages derecognized in year	-	184,961	184,961
Gain on sale of mortgages or retained interests during the year	-	1,145	1,145
Continuing involvement			
Carrying value of deferred installments receivable [2]	726	-	726
Carrying value of retained interests	-	35,773	35,773
Total other securitization assets	726	35,773	36,499
Carrying value of servicing liabilities [note 21]	-	6,652	6,652
Outstanding principal balance of derecognized mortgages at year end	52,223	917,177	969,400
Cumulative income earned on derecognized mortgages during the year [1]	-	794	794

[1] *The effective rate of outstanding deferred installments is 1.25%.*

13. INVESTMENTS IN ASSOCIATES

Concentra Financial

Note 31 describes that effective January 1, 2017, Concentra Bank became a subsidiary of SaskCentral. At December 31, 2016, SaskCentral owned 84.0% of the non-voting Class A shares and 47.1% of the voting membership shares of Concentra Financial and was accounted for an associate using the equity method. Concentra Bank provides financial intermediation and trust services to Canadian credit unions and associated commercial and retail customers. Concentra Bank's registered place of business is Saskatoon, Saskatchewan. Refer to note 31 for current year financial information for Concentra Bank.

Celero Solutions

At December 31, 2017, SaskCentral has a 33.3% (2016 – 33.3%) interest in Celero Solutions, an arrangement between SaskCentral, Alberta Central and Credit Union Central of Manitoba for the purpose of providing information technology (IT) services including developing new IT services and providing technology-based products. Celero Solutions' registered place of business is Calgary, Alberta. SaskCentral accounts for Celero Solutions using the equity method in these consolidated financial statements.

SEF JV

At December 31, 2017, SaskCentral has a 45.45% (2016 – 45.45%) interest in SEF JV, which was created to undertake and carry out the investment and deployment of capital to small and mid-sized businesses in Saskatchewan requiring less than $1 million in capital. SEF JV's principal place of business is Regina, Saskatchewan. SaskCentral accounts for SEF JV using the equity method in these consolidated financial statements.

Related party transactions for these investees, if any, are disclosed in note 29.

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13. INVESTMENTS IN ASSOCIATES (continued)

Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by SaskCentral is as follows:

2017 (1)
$

	Assets	Liabilities	Revenue	Profit	Other comprehensive income	Total comprehensive income
Celero Solutions	33,943	20,459	76,099	3,485	-	3,485
SEF JV	2,805	163	15	14	-	14
	36,748	20,622	76,114	3,499	-	3,499

(1) Refer to note 31 for Concentra Bank's current year financial information.

2016
$

	Assets	Liabilities	Revenue	Profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
Concentra Financial	9,436,734	9,002,541	257,951	28,859	(1,914)	26,945
Celero Solutions	35,391	23,742	79,210	3,573	-	3,573
SEF JV	1,868	123	37	(140)	-	(140)
	9,473,993	9,026,406	337,198	32,292	(1,914)	30,378

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13. INVESTMENTS IN ASSOCIATES (continued)

A reconciliation of Concentra Financial's financial information to the carrying amount of SaskCentral's interest in Concentra Financial recognized in the consolidated financial statements as at December 31, 2016 is provided below. Refer to note 31 for Concentra Bank's current year financial information.

2016	Concentra Financial equity components $	%	SaskCentral's carrying amount $
Ending share capital	245,239		
Concentra shares held by other Class A shareholders	(16,174)		
Concentra shares held by Class D shareholders	(110,987)		
Concentra shares held by other member shareholders	(18)		
SaskCentral's portion of share capital	118,060		118,060
Ending retained earnings	188,613		
Accumulated other comprehensive income	341		
Retained earnings at date of asset transfer (January 1, 2005) [1]	(22,628)	55.76%	12,617
Dividend on 2005 earnings [1]	2,579	55.76%	(1,438)
Retained earnings attributable to Class A shareholders	168,905	84.30%	142,387
			271,626
Goodwill			(19,248)
Other adjustments			(936)
Carrying amount of SaskCentral's investment in Concentra Financial			251,442

[1] On January 1, 2005, a significant portion of SaskCentral's financial assets and financial liabilities were transferred to Concentra Financial. In exchange for net assets transferred, SaskCentral received additional non-voting Class A shares. As a result, in 2005, SaskCentral's ownership interest at January 1, 2005 was 55.76%. SaskCentral's portion of non-voting Class A dividend received from Concentra Financial in 2005 was 55.76%, or $1,438.

A reconciliation of Celero Solutions and SEF JV's financial information to the carrying amount of SaskCentral's interest in associates recognized in the consolidated financial statements is provided below.

	2017 $	
	Celero Solutions	**SEF JV**
Net assets of the associate	**13,484**	**2,642**
Proportion of SaskCentral's ownership interest	**33.3%**	**45.45%**
	4,495	**1,201**
Other adjustments	**23**	**-**
Carrying amount of SaskCentral's interest in associates	**4,518**	**1,201**

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13. INVESTMENTS IN ASSOCIATES (continued)

	2016 $	
	Celero Solutions	**SEF JV**
Net assets of the associate	11,649	1,745
Proportion of SaskCentral's ownership interest	33.3%	45.45%
	3,883	793
Other adjustments	22	-
Carrying amount of SaskCentral's interest in associates	3,905	793

SaskCentral received the following distributions from its investments in associates:

	2017 $	2016 $
Concentra Financial	-	11,231
Celero Solutions	550	1,168
SEF JV	-	197
	550	12,596

14. PROPERTY, PLANT AND EQUIPMENT

	2017 $			
	Land	**Building**	**Furniture and equipment**	**Total**
Cost				
Balance as at January 1	859	12,362	4,290	17,511
Additions	-	612	584	1,196
Additions from business combination [note 33]	517	17,395	255	18,167
Adjustment from business combination [note 33]	-	2,839	-	2,839
Disposals	-	-	(123)	(123)
Ending balance as at December 31	1,376	33,208	5,006	39,590
Accumulated depreciation				
Balance as at January 1	-	8,061	3,245	11,306
Depreciation charges	-	1,188	481	1,669
Disposals	-	-	(117)	(117)
Ending balance as at December 31	-	9,249	3,609	12,858
Carrying value as at December 31	1,376	23,959	1,397	26,732

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14. PROPERTY, PLANT AND EQUIPMENT (continued)

	2016 $			
	Land	**Building**	**Furniture and equipment**	**Total**
Cost				
Balance as at January 1	859	11,950	5,314	18,123
Additions	-	427	252	679
Disposals	-	(15)	(1,276)	(1,291)
Ending balance as at December 31	859	12,362	4,290	17,511
Accumulated depreciation				
Balance as at January 1	-	7,637	4,189	11,826
Depreciation charges	-	439	332	771
Disposals	-	(15)	(1,276)	(1,291)
Ending balance as at December 31	-	8,061	3,245	11,306
Carrying value as at December 31	859	4,301	1,045	6,205

15. INVESTMENT PROPERTY

Investment property consists of the portion of the Regina commercial office building not occupied by SaskCentral and the Ottawa commercial office building that SaskCentral holds as a consequence of enforcing its security interest over certain commercial mortgages. SaskCentral uses the cost model to account for its investment properties. Details are as follows:

	2017 $	**2016 $**
Cost		
Balance as at January 1	**11,449**	11,449
Additions	**522**	-
Additions from business combination [note 33]	**14,638**	-
Adjustment from business combination [note 33]	**(2,839)**	-
Ending balance as at December 31	**23,770**	11,449
Accumulated depreciation		
Balance as at January 1	**1,663**	1,462
Depreciation charges	**520**	201
Ending balance as at December 31	**2,183**	1,663
Carrying value as at December 31	**21,587**	9,786

Regina commercial office building

The fair value of SaskCentral's Regina investment property at December 31, 2017 is $19,808 (2016 - $24,484). The fair value of the Regina investment property has been arrived at on the basis of a valuation completed by management.

The fair value was determined using an income approach. The estimate of fair value by management was developed based on current and future income that could be generated by the investment property through rents based on estimated market rates. In estimating the fair value of the investment property, the highest and best use of the investment property is the current use.

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15. INVESTMENT PROPERTY (continued)

A summary of inputs (Level 3) used to calculate fair value of the Regina investment property is provided below:

Income approach	**2017**	**2016**
Rent per square foot (in actual Canadian dollars)	$11 - $18	$13 - $18
Parking rate per month (in actual Canadian dollars)	$212.50	$212.50
Vacancy rate	10.34%	13.87%
Capitalization rate	7.5%	7.5%

In 2017, the Regina investment property generated rental income of $2,503 (2016 - $3,227). Direct operating expenses recognized in the consolidated statement of profit or loss were $1,777 (2016 - $2,054).

Ottawa commercial office building

SaskCentral holds the Ottawa investment property as a consequence of enforcing its security interest over certain commercial mortgages. The fair value of SaskCentral's Ottawa investment property at December 31, 2017 is $16,980. The fair value of the Ottawa investment property has been arrived at on the basis of a valuation completed by external real estate experts.

The fair value was determined using unobservable inputs and the discounted cash flow method, which results in this asset being classified at Level 3 in the fair value hierarchy. A range of 7.5% to 8.0% was used for discount rates to determine the fair value.

In 2017, the Ottawa investment property generated rental income of $2,504. Direct operating expenses recognized in the consolidated statement of profit or loss were $2,070.

16. INTANGIBLE ASSETS

		2017	
		$	
	Computer software	**Intangible assets under development**	**Total**
Cost			
Balance as at January 1	**3,423**	-	**3,423**
Additions	**158**	**1,800**	**1,958**
Additions from business combination [note 33]	**1,250**	**875**	**2,125**
Disposals	-	**(1,007)**	**(1,007)**
Ending balance as at December 31	**4,831**	**1,668**	**6,499**
Accumulated amortization			
Balance as at January 1	**3,225**	-	**3,225**
Amortization charges	**690**	-	**690**
Ending balance as at December 31	**3,915**	-	**3,915**
Carrying value as at December 31	**916**	**1,668**	**2,584**

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16. INTANGIBLE ASSETS (continued)

2016 $	Computer software	Intangible assets under development	Total
Cost			
Balance as at January 1	4,299	1,035	5,334
Additions	58	14	72
Transfers	220	(220)	-
Disposals	(1,154)	(829)	(1,983)
Ending balance as at December 31	3,423	-	3,423
Accumulated amortization			
Balance as at January 1	4,264	829	5,093
Amortization charges	115	-	115
Disposals	(1,154)	(829)	(1,983)
Ending balance as at December 31	3,225	-	3,225
Carrying value as at December 31	198	-	198

17. INCOME TAXES

Income taxes are included in the consolidated statement of profit or loss as follows:

	2017 $	2016 $
Current income tax expense		
Current tax on income for current year	**13,733**	-
Current tax from adjustments for prior years	**(615)**	-
	13,118	-
Deferred income tax (recovery) expense		
Origination and reversal of temporary differences	**(21,545)**	7,139
Deferred tax from adjustments for prior years	**528**	-
Impact of tax rate changes	**(12)**	-
	(21,029)	7,139
	(7,911)	7,139

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17. INCOME TAXES (continued)

Income taxes are included in the consolidated statement of comprehensive income as follows:

	2017 $	2016 $
Current income tax recovery		
Net unrealized losses on available-for-sale securities	(1,276)	-
Reclassification of gains on available-for-sale securities to profit or loss	(183)	-
Net gains on derivatives designated as cash flow hedges	1,006	-
Reclassification of gains on derivatives designated as cash flow hedges to profit or loss	(191)	-
	(644)	-
Deferred income tax expense (recovery)		
Net unrealized gains (losses) on available-for sale securities	1,191	(2,250)
Reclassification of losses on available-for-sale securities to profit or loss	31	959
	1,222	(1,291)
	578	(1,291)

Income taxes are included in the consolidated statement of changes in equity as follows:

	2017 $	2016 $
Reduction in income taxes due to payment of dividends		
Deferred income tax recovery	(2,879)	(3,703)
	(2,879)	(3,703)

Dividends, which are reflected in retained earnings, are normally deductible in determining current income subject to tax. The reduction in income tax resulting from the payment of dividends deductible in determining income subject to tax is reflected in retained earnings.

Total income tax reported in the consolidated financial statements:

	2017 $	2016 $
Income tax (recovery) expense	(10,212)	2,145

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17. INCOME TAXES (continued)

Reconciliation of income tax expense from continuing operations:

	2017 $	2016 $
Combined federal and provincial income tax rate applied to income from continuing operations (2017 – 26.75%; 2016 – 27%)	**28,148**	8,356
Income tax expense adjusted for the effect of:		
Lower average tax rate applicable to subsidiaries	**(5)**	-
Impact of change in tax rates	**(12)**	
Non-taxable dividend income	**(157)**	(165)
Rate reduction relating to equity income	**-**	(1,618)
Expenses not deductible for tax purposes	**89**	43
Adjustments related to prior periods	**(299)**	523
Tax not recorded on gain on acquisition of control	**(12,920)**	-
Reversal of deferred tax liability on acquisition of control [note 33]	**(22,080)**	-
Other	**(675)**	-
	(7,911)	7,139

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 21% (2016 - 16%) for SaskCentral and 27% for Concentra Bank. The movement in deferred income tax liability (asset) is as follows:

	2017 $	2016 $
Balance, beginning of year	**19,871**	17,726
Acquired in business combinations [note 33]	**448**	-
Recognized in profit or loss	**(21,029)**	7,139
Available-for-sale securities:		
Fair value measurement	**1,191**	(2,250)
Transfer to profit or loss	**31**	959
Recognized in retained earnings	**(2,879)**	(3,703)
Other adjustments	**846**	-
Balance, end of year	**(1,521)**	19,871

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17. INCOME TAXES (continued)

The components of deferred income taxes are as follows:

	2017 $	2016 $
Deferred income tax assets		
Non capital loss carryforward	**7,197**	2,556
Loans	**11,516**	-
Deposits	**5,431**	-
Accounts payable and deferred revenue	**234**	118
Losses not yet deductible for tax purposes	**138**	173
Other	**831**	8
	25,347	2,855
Deferred income tax liabilities		
Securities	**(3,677)**	(22,020)
Securitization liabilities	**(17,762)**	-
Property, plant and equipment	**(2,387)**	(706)
	(23,826)	(22,726)
Net deferred income tax asset (liability)	**1,521**	(19,871)

	2017 $	2016 $
Deferred income tax assets		
Recoverable within 12 months	**234**	127
Recoverable after more than 12 months	**5,990**	2,728
	6,224	2,855
Deferred income tax liabilities		
Payable within 12 months	**(519)**	-
Payable after more than 12 months	**(4,184)**	(22,726)
	(4,703)	(22,726)
Net deferred income tax asset (liability)	**1,521**	(19,871)

Deferred income tax assets are recognized for tax losses carried forward only to the extent that realization of the related tax benefit is probable. SaskCentral has non-capital loss carryforwards of $26,654 (2016 - $9,458) which are available to offset future taxable income. The balance of these loss carryforwards will expire in the years 2030 ($7,583), 2032 ($1,447) and 2037 ($17,624). The benefit of the tax losses has been recognized in SaskCentral's financial statements as realization of the related tax benefit is probable.

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18. DEPOSITS

Provincial Liquidity Program

The Provincial Liquidity Program requires Saskatchewan credit unions to maintain deposits with SaskCentral based on 10% of credit union deposits and loan liabilities (mandatory liquidity). Credit unions utilize Concentra Bank deposits for their excess liquidity.

The maturity dates, and weighted average effective interest rates for SaskCentral's deposits are as follows:

2017
$

		Term to maturity						
	Effective rate [1]	On demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	No fixed maturity	Total
Commercial deposits	0.89%	164,317	62	427	147	-	-	164,953
Consumer deposits	1.06%	627,621	276,013	237,899	104,629	-	-	1,246,162
Personal deposits	2.09%	181,646	130,714	689,343	1,595,479	-	-	2,597,182
Provincial liquidity program	1.29%	-	120,204	340,075	867,620	-	629,876	1,957,775
		973,584	526,993	1,267,744	2,567,875	-	629,876	5,966,072
Accrued interest								32,243
								5,998,315

[1] *represents weighted average effective interest rates based on year-end carrying values.*

2016
$

		Term to maturity						
	Effective rate [1]	On demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	No fixed maturity	Total
Consumer deposits	0.01%	142,829	-	-	-	-	-	142,829
Provincial liquidity program	1.20%	-	85,562	291,117	989,921	-	495,086	1,861,686
		142,829	85,562	291,117	989,921	-	495,086	2,004,515
Accrued interest								4,545
								2,009,060

[1] *represents weighted average effective interest rates based on year-end carrying values.*

Interest rates on deposits are determined by market conditions.

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19. LOANS PAYABLE

SaskCentral has available credit facilities related to securities repurchase agreements from National Bank Financial, Toronto Dominion Bank, Royal Bank of Canada and Bank of Nova Scotia. These repurchase agreements mature within twelve months (2016 – one month).

In addition, SaskCentral has a credit facility with Central 1 for $100,000 (2016 - $100,000) for which SaskCentral has pledged securities with the Bank of Canada to support the group clearing agreement (note 30). The balance of the credit facility is unsecured, ranking equally with the deposit obligations of SaskCentral. SaskCentral has a secured credit facility with Canadian Imperial Bank of Commerce for $50,000 (2016 - $50,000) where SaskCentral is required to maintain a borrowing base comprised of fixed income collateral. SaskCentral also has a secured credit facility with a major Schedule 1 Canadian bank for $500,000. The facility bears interest at the banker's acceptance rate plus 0.50% and is secured by insured residential mortgages or other qualified securities.

	Loans payable [1]		Collateral			
			Securities pledged			
			Fair value		Carrying value	
	2017	2016	2017	2016	2017	2016
	$	$	$	$	$	$
Repurchase payable	**270,943**	58,573	**270,272**	58,567	**269,990**	57,967
Lines of credit	**609**	-	**384,354**	302,383	**384,614**	302,539
	271,552	58,573	**654,626**	360,950	**654,604**	360,506

[1] Weighted average effective interest rate based on year-end carrying values is 1.13 % (2016 - 0.60%).

20. NOTES PAYABLE

SaskCentral is authorized to issue a maximum of $600,000 (2016 - $300,000) under a commercial paper program. Outstanding commercial paper matures within twelve months (2016 – one month) and at December 31, 2017 has a weighted average effective interest rate of 1.45% (2016 – 0.94%).

21. OTHER LIABILITIES

	2017 $	2016 $
Servicing liabilities [note 12]	**6,652**	-
Deferred revenue	**602**	111
	7,254	111

22. SHARE CAPITAL

Under the Act, SaskCentral is authorized to issue an unlimited number of membership shares. Also under the Act, SaskCentral may, by bylaw, establish one or more classes of membership. In April 2017, SaskCentral's bylaws were amended and as such, SaskCentral is authorized to issue the following classes of membership shares:

- An unlimited number of Class A membership shares
- An unlimited number of Class B membership shares
- An unlimited number of investment shares

Each member of SaskCentral must own at least one Class A or Class B membership share. Prior to April 2017, SaskCentral's bylaws referred to one class of membership shares.

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22. SHARE CAPITAL (continued)

SaskCentral's bylaws require credit unions to maintain either Class A or Class B membership share capital in SaskCentral at 1% of their previous year's assets. SaskCentral has the discretion to make this annual true-up in whole or in part. SaskCentral would not exercise this authority to require additional membership share capital contributions unless the SaskCentral 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 contribution would bring the projected borrowing multiple to 16.0:1 or to 1.0% of system assets, whichever was first met.

Class A membership shares (formerly membership shares)

The Class A membership shares entitle the holders to vote. Voting privileges are restricted to one vote per member, regardless of the number of Class A membership shares held by a member. The Class A shares also provide the right to receive dividends declared on the Class A membership shares. The holders of the Class A membership shares are Saskatchewan credit unions and certain co-operative associations.

Class A membership shares may be redeemed only with the approval of the Board subject to the limits provided in the Act. The redemption price is determined with reference to the bylaws of SaskCentral. In accordance with the bylaws of SaskCentral, Class A membership shares are to be issued and redeemed at $10 per share. Upon liquidation or dissolution of SaskCentral, the Class A membership shareholders will be entitled to receive $10 per share prior to the holders of the Class B membership shares. Following the distribution of the $10 per share to both Class A and B members, the Class A shareholders are entitled to share equally, on a share by share basis, with the Class B membership shares in the remaining assets of SaskCentral.

At December 31, 2017, 16,160,746 Class A membership shares (2016 – membership shares of 16,116,098) were issued and outstanding. Membership shares issued during the year were exchanged for cash.

Class B membership shares

The Class B membership shares provide the right to vote, with similar voting privileges as Class A membership shares, and the right to receive dividends declared on the Class B membership shares. Class B membership shares may be redeemed only with the approval of the Board subject to the limits provided in the Act. In accordance with the bylaws of SaskCentral, Class B membership shares are to be issued and redeemed at $10 per share. Upon liquidation or dissolution of SaskCentral, the Class B membership shareholders will be entitled to receive $10 per share following the payment of $10 per share to the holders of the Class A membership shares. Following the distribution of the $10 per share to both Class A and B members, the Class B shareholders are entitled to share equally, on a share by share basis, with the Class A membership shares in the remaining assets of SaskCentral. There are currently no series of Class B membership shares approved for issuance.

Investment shares

The investment shares entitle the holder to receive non-cumulative cash dividends as and when declared by the Board. The holders of investment shares will not be entitled to attend any meeting of members of SaskCentral and will not be entitled to vote at any such meeting. Upon liquidation, dissolution or wind-up, the holders of the investment shares will be entitled to receive, before any amount shall be paid or any assets shall be distributed to the holders of any other shares of any other class, an amount equal to a redemption amount. The redemption amount for each investment share is equal to the aggregate consideration determined upon issuance of the shares. After payment of the redemption amount, the holders of investment shares will not be entitled to share in any further distribution of assets of SaskCentral.

There are currently no series of investment shares approved for issuance.

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22. SHARE CAPITAL (continued)

SaskCentral's bylaws require credit unions to maintain membership share capital in SaskCentral at 1% of their previous year's assets. SaskCentral has the discretion to make this annual true-up in whole or in part. SaskCentral would not exercise this authority to require additional membership share capital contributions unless the SaskCentral 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 contribution would bring the projected borrowing multiple to 16.0:1 or to 1.0% of system assets, whichever was first met.

Membership shares may be redeemed only with the approval of the Board subject to the limits provided in the Act. The redemption price is determined with reference to the bylaws of SaskCentral. In accordance with the bylaws of SaskCentral, membership shares are to be issued and redeemed at $10 per share.

Issued share capital is comprised of 16,160,746 membership shares at December 31, 2017 (2016 – 16,116,098). Membership shares issued during the year were exchanged for cash.

23. DIVIDENDS

In 2017, dividends of $14,145 (2016 - $13,715) were declared, as approved by the Board. Two cash dividends were paid to credit unions in 2017. The first was in January for $5,615 (2016 - $5,615) and the second in April for $5,146 (2016 - $8,100). On December 12, 2017, the Board approved payment of a dividend of $3,384 to be paid to credit unions on January 12, 2018.

24. DUES

Dues, which are included in non-interest income, are used to fund various products and services designed for credit unions. Saskatchewan credit unions pay an annual dues assessment fee to SaskCentral based on a charge per membership (50% of the dues assessment) and a charge on assets (50% of the dues assessment).

25. FEE FOR SERVICE

	2017 $	2016 $
Fee for service revenue	**33,103**	17,381
Foreign exchange gains	**15**	43
Miscellaneous revenue	**119**	111
Parking revenue	**272**	355
Tenant revenue	**3,942**	4,636
	37,451	22,526

26. SALARY AND EMPLOYEE BENEFITS

SaskCentral contributes annually to a defined contribution pension plan for employees. During the year, SaskCentral contributed $2,098 (2016 - $574) in defined contributions. These costs are included in salary and employee benefits. The contributions are held in trust by the Co-operative Superannuation Society. As a defined contribution pension plan, SaskCentral has no future obligation for future contributions to fund benefits to plan members.

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27. PROFESSIONAL AND ADVISORY SERVICES

	2017	2016
	$	$
Canadian Credit Union Association cost sharing	**2,144**	1,471
Professional fees	**16,652**	6,811
	18,796	8,282

28. GAIN ON FINANCIAL INSTRUMENTS

	2017	2016
	$	$
Realized gains on available-for-sale securities	**813**	524
Realized losses on available-for-sale securities	**(190)**	(61)
Ineffective portion of fair value hedges	**(12)**	-
Realized gains on sale of loans and early payouts	**1,893**	-
Realized gains on securities classified as held-for-trading	**21**	-
Unrealized gains on securities classified as held-for-trading	**20**	497
Recovery on loan provision	**251**	-
	2,796	960

SaskCentral provided loans to Castor Holdings Ltd. (Castor), a real estate lending company, over a number of years in the late 1980s and early 1990s. Castor declared bankruptcy in 1992. As the credit was unsecured, SaskCentral recognized a full allowance in 1992. SaskCentral is a member of a group of financial institutions which sought legal proceedings against the auditors of Castor for negligence in the performance of their audit. A settlement proposal was accepted by the plaintiffs in the second quarter of 2015. In 2015, SaskCentral received a total of $1,719 in settlement proceeds, which were recorded as a recovery on loan provision. SaskCentral received a final settlement of $251 thousand during the year, which was recorded as a recovery on loan provision.

29. RELATED PARTY TRANSACTIONS

Related parties exist when one party has the ability to directly or indirectly exercise control, joint control or significant influence over the other or is a member of the key management personnel of SaskCentral. SaskCentral defines key management personnel as directors and the management positions.

Related party transactions are in the normal course of operations and are measured at the consideration established and agreed to by the parties. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. Related party loan balances are included with groups of loans with similar credit risk characteristics when assessing collective allowances. Balances and transactions between SaskCentral, its subsidiaries and jointly controlled entities, which are related parties of SaskCentral, have been eliminated on consolidation and are not disclosed in this note.

SaskCentral provided a variety of services to Concentra Financial and Celero Solutions. Some of the services provided include facility services and financial services. SaskCentral also received financial services from Concentra Financial and technology services from Celero Solutions. All related party transactions with Concentra Bank are eliminated upon consolidation and therefore, current year information is not disclosed below.

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29. RELATED PARTY TRANSACTIONS (continued)

The following table summarizes the balances outstanding at year end and related party transactions during the year not noted elsewhere in the consolidated financial statements for SaskCentral and its subsidiaries:

	2017 $	2016 $
Celero Solutions		
Loan receivable from (amount drawn on line of credit)	2,711	3,169
Due from included in trade and other receivables	75	94
Due to included in trade and other payables	625	455
Interest received from	87	94
Fee for service revenue received from	1,165	1,125
Technology services paid to	6,427	3,133
Concentra Financial (1)		
Lines of credit authorized to	-	100,000
Loans receivables from (amount drawn on line of credit)	-	4,722
Collateral received from	-	24,469
Due from included in trade and other receivables	-	15
Deposits payable to	-	2,989
Due to included in trade and other payables	-	53
Interest received from	-	95
Fee for service revenue received from	-	1,392
Financial services fees paid to	-	589

(1) *Effective January 1, 2017, Concentra Bank is consolidated in these statements. Therefore, no related party transactions are disclosed in 2017.*

Key management compensation

The aggregate compensation of key management personnel for SaskCentral and its subsidiaries during the year includes amounts paid or payable and is as follows:

	2017 $	2016 $
Directors		
Salaries and other short-term employee benefits	626	174
Post-employment and other long term benefits	6	6
	632	180
Key management personnel		
Salaries and other short-term employee benefits	7,169	2,886
Post-employment and other long term benefits	736	184
Termination benefits	197	-
	8,102	3,070
	8,734	3,250

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30. COMMITMENTS

Credit commitments

Loan commitments consist of authorized but undrawn lines of credit and loans as well as letters of credit. Loan commitments represent a maximum credit exposure to SaskCentral. If applicable, the maximum credit exposure to SaskCentral under certain letters of credit includes amounts for which SaskCentral has recourse to a third party lender. Many of these contracts will expire without being drawn upon and thereby reduce SaskCentral's credit risk from the maximum commitment.

Origination commitments consist of agreements committing SaskCentral to fund a specified volume of consumer loans originated by third party brokers. The commitment represents the maximum volume of loans to be funded by SaskCentral over the term of the underlying agreements and actual volumes funded may be lower than the disclosed amounts.

SaskCentral earns minimal fees on commitments. The following table summarizes the contractual maturities of the financial assets underlying SaskCentral's credit commitments:

	2017 $	2016 $
Lines of credit and loan commitments		
Original term to maturity of one year or less	**990,223**	469,136
Original term to maturity of more than one year	**120,753**	400,000
	1,110,976	869,136
Letters of credit and guarantees		
Original term to maturity of one year or less	**58,692**	36
Original term to maturity of more than one year	**5,937**	-
	64,629	36
Origination commitments (1)	**43,332**	-
	1,218,937	869,172

(1) *Origination commitments represent the maximum volume of loans SaskCentral is committed to fund through third party brokers. As the commitments are not tied to specific assets, they are excluded from the maturity analysis.*

Contractual commitments

On December 31, 2017, the Credit Union Electronic Account Management Services Association (CEAMS), which provided electronic account management and financial services systems for credit unions dissolved. As part of the dissolution, all the contracts under the former CEAMS Association, were assigned to SaskCentral. As a result, as of December 31, 2017, SaskCentral has 15 (2016 – nil) significant contractual commitments made on behalf of credit unions for data, management, support and telecommunication services. The contracts have varying terms over 5 years. Total expected cash outflows resulting from these contracts over their respective terms amount to approximately $9,192 (2016 – $nil). Actual amounts incurred may differ from the estimates calculated.

	2017 $
Open Solutions Canada – Data Services	**45**
CRI Canada – Data Services	**548**
Jack Henry & Associates – ProfitStars	**46**
Hyland Software - ECM Solution	**236**
SaskTel – Telecommunication Services	**6,601**
Celero Solutions – Support Services	**1,528**
Everlink – Card Issuance Services	**188**
	9,192

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30. COMMITMENTS (continued)

Group Clearing Agreement

Under the Group Clearing Agreement, SaskCentral guarantees and indemnifies the Group Clearer and each member of the Canadian Central Group Clearing Agreement against any losses arising from the payment obligation for settlement drawn on or payable by SaskCentral and its member credit unions. In addition, SaskCentral and its member credit unions abide by the Canadian Payments Association's rules, bylaws and procedures for settlement.

Litigation and other contingencies

SaskCentral is subject to various claims and litigation arising from time to time in the ordinary course of business. SaskCentral records a legal provision when it becomes probable that SaskCentral will incur a loss and the amount can be reliably estimated. SaskCentral believes its established legal provisions represent the best estimate of the expenditure required to settle current and pending litigation proceedings and the related legal costs, based on currently available information. However, given the uncertainties inherent in litigation proceedings, there is a possibility that the ultimate resolution may materially differ from current estimates.

31. SUBSIDIARIES

CUVentures LP

SaskCentral owns 100% (2016 – 81.22%) of the partnership units of CUVentures LP. Through its 100% ownership of CUVentures Inc., SaskCentral has control over CUVentures LP and CUVentures LP is consolidated into these financial statements. CUVentures LP's principal place of business is Regina, Saskatchewan. CUVentures LP previously owned an investment in APEX Investment LP (APEX) on behalf of the credit unions, which SaskCentral consolidated and classified as non-controlling interest in these consolidated financial statements. In 2017, the ownership of APEX was transferred directly to the credit unions.

Concentra Bank

SaskCentral owns 84.0% (2016 – 84.0%) of the common shares of Concentra Bank. As described in note 3, SaskCentral has control over Concentra Bank as a result of SaskCentral's ability to call a special resolution vote on any matter or Board decision related to Concentra Bank and its voting interest in Concentra Bank. Concentra Bank is consolidated into these financial statements. Concentra Bank owns 100% of the common shares of Concentra Trust. Concentra Bank's principal place of business is Regina, Saskatchewan.

The portion of net assets and income attributable to third parties is reported as non-controlling interests and profit or loss attributable to non-controlling interests in the consolidated balance sheet and consolidated statement of profit or loss, respectively. The non-controlling interests of Concentra Bank were initially measured at fair value on the date of acquisition.

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31. SUBSIDIARIES (continued)

The following table summarizes the financial information relating to SaskCentral's subsidiaries, before any intra-group eliminations:

	2017 (1) $	
	CUVentures LP	**Concentra Bank**
Assets	**1,201**	**9,126,672**
Liabilities	**-**	**8,669,729**
Revenue	**6**	**267,776**
(Loss) Profit	**(1,543)**	**33,647**
Other comprehensive loss	**-**	**(1,764)**
Total comprehensive (loss) income	**(1,543)**	**31,883**

(1) *Refer to note 13 for prior year financial information for Concentra Financial.*

	2016 $
	CUVentures LP
Assets	1,282
Liabilities	-
Revenue	(64)
Profit	(64)
Other comprehensive loss	-
Total comprehensive loss	(64)

The following table provides a continuity of non-controlling interests:

	2017 $	2016 $
Balance at beginning of year	**489**	977
Non-controlling interest arising on the acquisition of Concentra Bank [note 33]	**166,817**	-
Comprehensive income attributable to non-controlling interests for the year	**9,607**	-
Increase/decrease in share capital	**(489)**	(488)
Dividends	**(5,749)**	-
Balance at end of year	**170,675**	489

32. JOINT OPERATION

SaskCentral has a material joint operation, CUPS. SaskCentral has a 50% share in the ownership interest of CUPS. The remaining 50% interest is owned by Alberta Central. The CUPS joint operation was created to provide payment and suppo services to its members, specifically, services relating to the clearing and settlement of any payment items and services relating to the handling of foreign non-cash payment items. SaskCentral's earnings participation in CUPS is based upon th volume of Saskatchewan credit union payment activity as a percentage of the overall payment activity of CUPS. Capital contributions are shared equally with Alberta Central. CUPS' principal place of business is Calgary, Alberta.

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33. ACQUISITION OF SUBSIDIARY

On January 1, 2017, Concentra Financial ceased operations as an association governed by the CCAA and continued as a Schedule 1 chartered bank governed by the Bank Act (Canada). On this date, Concentra Financial's legal name changed to Concentra Bank. Prior to bank continuance, SaskCentral held 84.0% of the non-voting Class A shares and 47.1% of the voting membership shares of Concentra Financial and was limited to one vote out of 235 member votes on ordinary resolutions brought to members. SaskCentral accounted for Concentra Financial as an investment in associate prior to bank continuance. Effective January 1, 2017, SaskCentral holds 84.0% of the voting common shares of Concentra Bank, providing SaskCentral control of Concentra Bank through virtue of shareholder voting rights. No consideration was transferred to Concentra Bank as a result of the transaction.

Fair value of previously held interest

The fair value of SaskCentral's previously held interest in Concentra Financial at January 1, 2017 was $299,785. The discounted cash flow technique (income approach) was used to calculate the fair value. Cash flow projections for Concentra Financial were discounted, which accounted for the market cost of equity, as well as the risk and nature of the cash flows. The following were key model inputs (Level 3) used in determining the fair value:

- Assumed discount rate ranging from 13.3% to 14.6%; and
- Assumed long-term growth rate of 1.7%

Gain on acquisition of control

The remeasurement to fair value of SaskCentral's existing 84.0% interest in Concentra Financial resulted in a gain of $48,343 ($299,785 fair value less the $251,442 carrying amount of the equity-accounted investee at the date of acquisition). An additional $46 of unrealized losses previously recognized in AOCI relating to Concentra Financial was recycled to the consolidated statement of profit or loss. These amounts have been recorded in 'gain on acquisition of control' in the consolidated statement of profit or loss.

Assets acquired and liabilities assumed at the date of acquisition

The following table summarizes the recognized amounts of assets acquired and liabilities assumed at the date of acquisition.

	$
Assets	
Cash [note 7]	**194,379**
Securities [note 8]	**1,434,144**
Derivative assets [note 9]	**21,053**
Loans [note 10]	**7,723,162**
Other securitization assets [note 12]	**33,180**
Trades and other receivables	**10,490**
Other assets	**768**
Property, plant and equipment [note 14]	**18,167**
Investment property [note 15]	**14,638**
Intangible assets [note 16]	**2,125**
Current income tax asset [note 17]	**4,486**
Deferred income tax asset [note 17]	**178**
	9,456,770

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33. ACQUISITION OF SUBSIDUARY (continued)

Assets acquired and liabilities assumed at the date of acquisition (continued)

	$
Liabilities	
Deposits [note 18]	**4,239,403**
Derivative liabilities [note 9]	**21,638**
Loans payable [note 19]	**166,219**
Notes payable [note 20]	**215,758**
Securitization liabilities [note 12]	**4,310,912**
Subordinated debentures	**26,117**
Trade and other payables	**44,288**
Other liabilities [note 21]	**6,212**
Current income tax liabilities [note 17]	**163**
Deferred income tax liabilities [note 17]	**626**
	9,031,336
Total identifiable net assets acquired	425,434

The loans and trade and other receivables acquired had a fair value of $7,733,652 and gross contractual amounts of $8,728,731, including $976,991 of undrawn loans, letters of credit and origination commitments. The best estimate at acquisition date of the contractual cash flows not expected to be collected is $18,088.

The valuation techniques used for measuring the fair value of material assets acquired were as follows.

Assets and liabilities acquired	Valuation technique
Loans and other securitization assets	*Discounted cash flow technique (income approach):* The valuation model discounts the future cash flows to determine market value. The discount rates were based on observable market returns generated for similar assets (Level 2). In the ordinary course of business, future cash flows have been adjusted for expected impairment.
Property, plant and equipment	*Income approach:* The estimated fair value was developed based on current and future income that could be generated by the investment property through rents based on estimated market rates (Level 3). The Level 3 inputs used to calculate the fair value include rent per square foot ranging from $16 to $22, parking rate per month ranging from $165 to $250, a vacancy rate of 5.7% and a capitalization rate of 6.5%.
Deposits, securitization liabilities, subordinated debentures and servicing liabilities	*Discounted cash flow technique (income approach):* The valuation model discounts the future cash flows to determine market value. The discount rates were based on observable market returns generated for similar liabilities (Level 2).

The remaining assets acquired were measured at the carrying value, which is equivalent to fair value.

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33. ACQUISITION OF SUBSIDIARY (continued)

Non-controlling interests (NCI)

The following table summarizes the information relating to non-controlling interests (NCI) recognized as part of the acquisition of control.

	2017 $
Proportionate share of interest in Concentra Bank's common shares (16.0%)	57,022
Class A preferred shares	109,795
	166,817

SaskCentral measured the NCI components at fair value. The techniques used for measuring the fair value of NCI were as follows:

- The NCI recognized at the acquisition date was measured as the proportionate share of its interest in the fair value of Concentra Bank's identifiable net assets. This fair value was estimated by applying a discounted cash flow technique (income approach). The key model inputs used in determining the fair value of NCI is similar to inputs used in estimating fair value of previously held interest as described above.

- The NCI related to the Class A preferred shares not held by SaskCentral recognized at the acquisition date was estimated by applying a discounted cash flow technique (income approach). Future cash flows were determined based on coupon rates ranging from 4.6% to 5.2%. A discount rate used of 5.59% was based on observable market returns generated for similar assets (Level 2).

Goodwill arising on acquisition

	2017 $
Consideration transferred	-
Fair value of pre-existing interest in Concentra	299,785
Plus non-controlling interest (16.0% of common shares – Concentra Bank)	57,022
Plus non-controlling interest (Class A preferred shares – Concentra Bank)	109,795
Less fair value of identifiable net assets acquired	(425,434)
Add deferred tax on fair value differentials	811
Goodwill arising on acquisition	41,979

The goodwill arising from the acquisition of control of Concentra is mainly attributed to the stability in earnings and liquidity, compliance with the regulator and Concentra's ability to operate as a bank nationally. None of the goodwill arising on acquisition is expected to be deductible for tax purposes. No impairment has been recorded in the current year relating to the goodwill.

Impact of acquisition on the results of SaskCentral

For the year-ended December 31, 2017, Concentra Bank contributed revenue of $267,776 and profit of $33,647 to SaskCentral's results.

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34. APPLICATION OF NEW AND REVISED IFRSs

SaskCentral has adopted the amendments to IAS 7, *Statement of Cash Flows* (IAS 7) and IAS 12, *Income Taxes* (IAS 12) issued by the IASB that was mandatorily effective for the accounting period that begins on or after January 1, 2017.

The amendments to IAS 7 require an entity to provide disclosure that enable users of the financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The amendments to IAS 12 clarify how an entity should evaluate whether there will be sufficient taxable profits against which it can utilize a deductible temporary difference.

The application of these amendments has had no impact on SaskCentral's consolidated financial statements

35. SUBSEQUENT EVENT

SaskCentral, as part of a partnership comprised of Canada's five provincial credit union centrals (The Centrals), Desjardins Group and The CUMIS Group have entered into a definitive agreement to merge the businesses of their wealth management investees, Credential Financial Inc. (Credential), Qtrade Canada Inc. and NEI Investments (NEI). The new entity, Aviso Wealth, will be jointly owned by Desjardins and a limited partnership comprised of the Centrals and CUMIS, with each holding a 50% stake. The three merging business are owned by one or a combination of the Aviso Wealth equity holders. SaskCentral has an 8.19% interest in each Credential and NEI and will hold a 10.9% ownership in the limited partnership.

The transaction is expected to close in 2018 and is subject to approval from regulators and compliance with customary closing conditions. Due to the early stage of the transaction, an estimate of the financial effect of this proposed merger cannot be made reliably.

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