

Separate Management Discussion and Analysis

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

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



Separate Management Discussion and Analysis

The separate financial statements are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards (IFRS). This MD&A is dated February 27, 2018 and provides comments regarding SaskCentral's financial and operating results, risk management, capital management and business outlook.

Caution Regarding Forward-Looking Statements

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

By their very nature, forward-looking statements involve numerous assumptions. A variety of factors, many of which are beyond SaskCentral's control, may cause actual results to differ materially from the expectations expressed in the forward-looking statements. These factors include, but are not limited to, changes in economic and political conditions, legislative and regulatory developments, alignment of strategies of potential partners, legal developments, the accuracy of and completeness of information SaskCentral receives from counterparties, the ability to attract and retain key personnel, and management's ability to anticipate and manage the risks associated with these factors. The preceding list is not exhaustive of possible factors. These and other factors should be

considered carefully and readers are cautioned not to place undue reliance on these forward-looking statements. SaskCentral does not undertake to update any forward-looking statements, whether written or verbal, that may be made from time to time by it or on its behalf.

Company Profile

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

Economic Overview

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

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

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Saskatchewan Credit Union System Performance

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

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

Credit unions operate within a comprehensive regulatory framework to ensure depositors' funds are fully guaranteed and completely secure. CUDGC establishes standards of sound business practice that are aligned with federal and international regulatory approaches, and monitors credit unions to ensure they are operating according to those standards. For more information, please visit their website: <http://www.cudgc.sk.ca>.

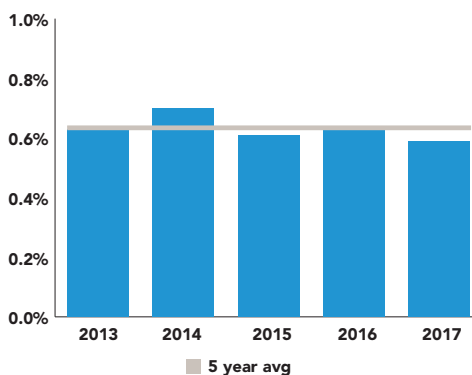
Results Overview

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

Profitability

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

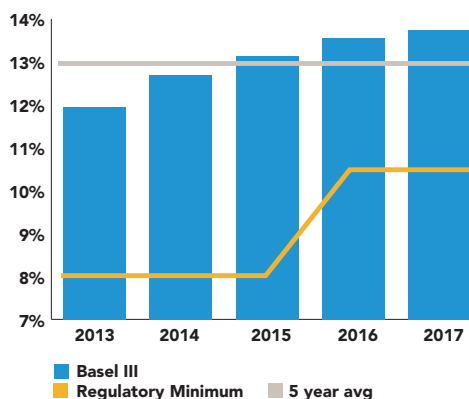
Return on Average Assets



Capital

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

Basel III Total Eligible Capital (%RWA)

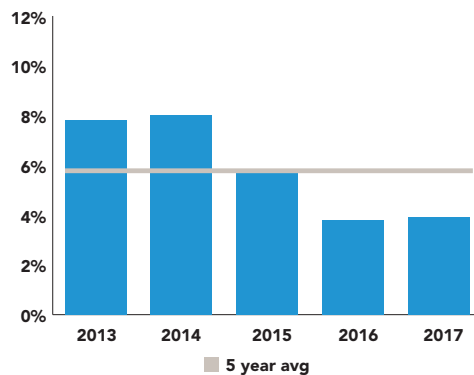


Separate Management Discussion and Analysis

Growth

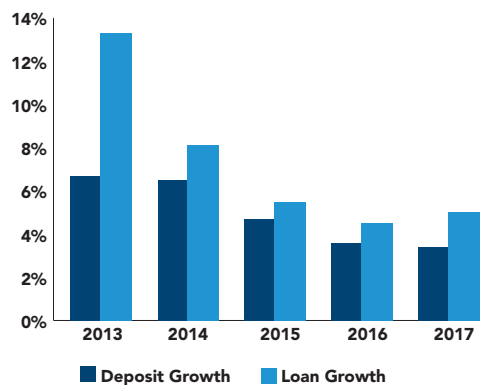
In 2017, asset and loan growth exceeded levels achieved in 2016, while deposit growth fell slightly below that of 2016. The decrease in deposit growth is consistent with Saskatchewan's recent economic conditions. Assets grew by 3.9% to \$22.4 billion (2016 - \$21.6 billion), behind the five-year average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

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.

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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

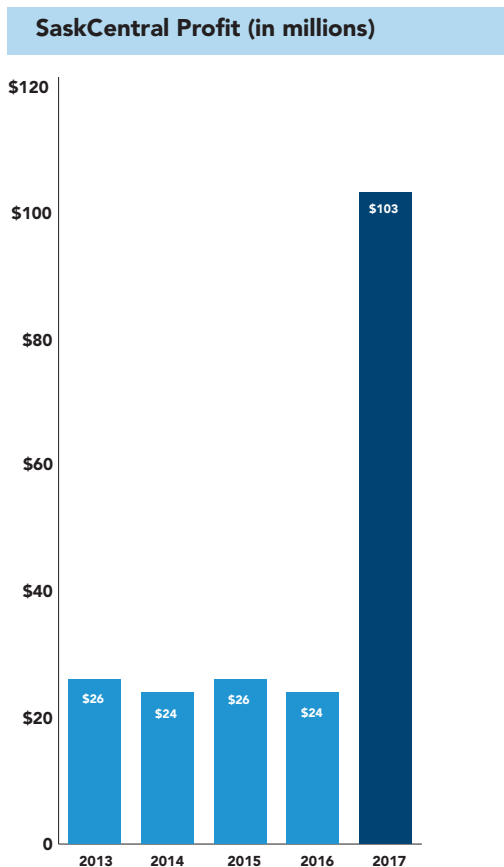
2017 SaskCentral Separate Financial Performance

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.



Separate Management Discussion and Analysis

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

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

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

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

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

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

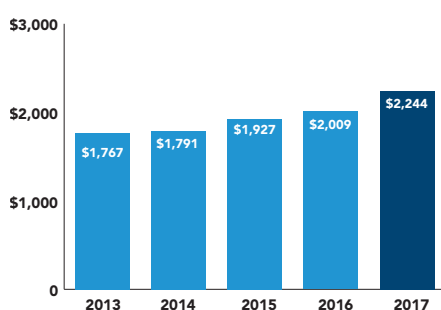
SaskCentral paid a dividend to credit unions in April 2017 of \$5.1 million (2016 – \$8.1 million) based on SaskCentral's 2016 earnings, representing a 3.7% (2016 – 5.8%) return on investment. SaskCentral also distributed to credit unions the dividends received from Concentra Bank of \$9.0 million (2016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

Separate Management Discussion and Analysis

Growth

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

SaskCentral Deposits (in millions)



Liquidity

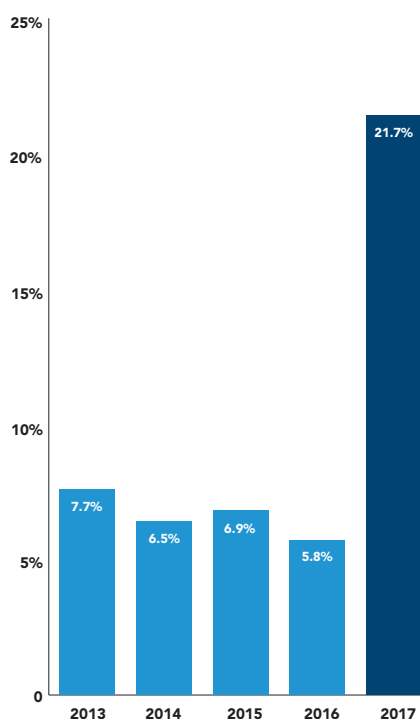
SaskCentral continued to hold a strong liquidity position in 2017. Cash and securities totalled \$2.5 billion, or 86.6% of assets (2016 – \$2.2 billion or 87.1%).

Return on Equity

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

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

SaskCentral Return on Equity



Separate Management Discussion and Analysis

Liquidity Management

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

Two measures are used to monitor SaskCentral's liquidity risk position. First, a liquidity coverage ratio compares liquid assets to potential outflows on a system-wide and stand-alone basis. SaskCentral's liquidity coverage ratio is modeled after the Liquidity Adequacy Requirements of the Office of the Superintendent of Financial Institutions (OSFI); however, the ratio was modified to recognize SaskCentral's unique attributes. Second, a liquidity score is calculated on SaskCentral's investment portfolio. Both measures are used to assess SaskCentral's liquidity position and all policy requirements have been met in 2017. Refer to Note 4 of the separate financial statements for further information.

SaskCentral is supporting CUDGC and credit unions in the implementation of credit union liquidity standards. CUDGC has aligned its liquidity requirements for credit unions with those set by the OSFI for federally regulated financial institutions. *The Standards of Sound Business Practice – Liquidity Adequacy Requirements* were implemented on January 1, 2017. Key to the framework is the introduction of

the Liquidity Coverage Ratio where the stock of HQLA is compared to expected net cash outflows over 30 calendar days. A credit union's stock of HQLA includes securities held directly as well as those held indirectly in the form of statutory liquidity deposits with SaskCentral. A credit union may allocate the amount of its statutory liquidity deposits to each category of HQLA and other liquid assets on a 'look-through' basis in accordance with the investment allocation of the liquidity pool.

A Change to SaskCentral's Regulator

In February 2014, the Government of Canada announced plans to clarify the federal regulatory regime for credit unions, including cessation of the OSFI Supervision of Provincial Credit Union Centrals through repealing Part XVI of the *Cooperative Credit Associations Act (Canada)*, which allowed for voluntary registration of provincial centrals under the federal regulatory regime.

As a consequence of this repeal, the Government of Saskatchewan enacted legislation that provided on-going prudential regulation of SaskCentral. Under *The Credit Union Central of Saskatchewan Act, 2016* (the Act), which was effective January 15, 2017, each of the Registrar of Credit Unions and CUDGC is responsible for the provision of prudential standards for the operation of SaskCentral. The Financial and Consumer Affairs Authority of

Separate Management Discussion and Analysis

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

Capital Management

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

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

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

provide flexibility for changes in business plans; signal financial strength to stakeholders; and provide dividend options.

Regulatory Capital and Capital Ratios

Capital levels are regulated pursuant to guidelines issued by CUDGC. Regulatory capital is allocated to two tiers. Tier 1 capital comprises the highest quality capital and is a core measure of SaskCentral's financial strength. It consists of more permanent components of capital, is free of mandatory fixed charges against earnings and has a subordinate legal position to the rights of depositors and other creditors. SaskCentral's Tier 1 capital is comprised of credit union membership shares and retained earnings. Tier 2 capital includes supplementary capital instruments that contribute to the overall strength of SaskCentral as a going concern but fall short of meeting the Tier 1 requirements. Total capital is defined as the sum of Tier 1 and Tier 2 capital. For further details on the terms and conditions of the various capital components, refer to Note 6 in the separate financial statements.

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

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Borrowing Multiple

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

below that of CUDGC. The *Financial Management Policy* sets a limit of 17.0:1, at which point the board must take immediate mitigating action to make certain the borrowing multiple does not exceed CUDGC's limit. The *Financial Management Policy* also describes a management limit of 16.0:1, at which point management will outline actions to assuage the situation. As of December 31, 2017, the borrowing multiple was 12.2:1 (2016 – 11.9:1).

Regulatory Capital and Ratios

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

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

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Capital Management

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

SaskCentral's bylaws require member credit unions to maintain membership share capital in SaskCentral at 1% of the previous year's system assets. The bylaw gives SaskCentral the discretion to make this annual true-up in whole or in part. It does not prohibit or prevent either a request from SaskCentral for a voluntary share subscription or a credit union from voluntarily subscribing to additional membership share capital. In 2017, credit unions voluntarily subscribed to \$0.4 million in additional membership share capital.

SaskCentral would not exercise the authority to require membership share capital subscriptions unless its capital plan indicated a projected borrowing multiple in excess of 16.0:1 in the subsequent year. In that case, SaskCentral would only exercise this authority to the extent that the required subscriptions would bring the projected borrowing multiple to 16.0:1 or to 1.0% of system assets, whichever was first met. At December 31, 2017 credit union membership share capital represented 0.75% of 2016 system assets (0.72% of 2017 system assets).

SaskCentral remains well capitalized and able to support a strong, growing credit union system. Based on the projected borrowing multiple at the end of 2017, SaskCentral would be able to withstand additional capital shocks of \$53.6 million before reaching the board policy limit of 17.0:1.

Capital Requirements

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

Uses of Capital

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

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

Future Capital Environment

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

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Enterprise Risk Management

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

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

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

In 2017, SaskCentral's strategy map included the following objectives:

- Address evolving regulatory developments to clearing and liquidity structures;
- Integrate trade services functions within CCUA;
- Support strategic investee's alignment to the national mandate;
- Engage Concentra Bank and Central 1 in exploring development of a single consolidated national wholesale provider;
- Develop a national fee for service product and service model for the small and medium

credit union market;

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

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

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

The *Financial Management Policy* contains policies for capital impairment, annual earnings distribution and the quantity of capital that the organization is required to maintain to comply with regulatory requirements. As a financial institution, SaskCentral takes on risk to create

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

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

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

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

of the business continuity planning process are considered for inclusion in the corporate risk register if the impact merits it.

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

2018 Outlook

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

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

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

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

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

The 2018 Business Plan is broken down into four separate focus areas:

Strategic

The goal of the Strategic focus area is to demonstrate leadership in delivering transformational change nationally to position credit unions for success. In 2018, SaskCentral has identified three critical national objectives that support this goal: demonstrate leadership in the functional integration of the National Tier II; support strategic investees' alignment to the national mandate; and address evolving developments to payments, clearing and settlement.

Credit Union

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

Financial

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

People

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

Accounting Matters

Critical Accounting Estimates and Assumptions

The accompanying separate financial statements have been prepared in accordance with IFRS. The significant accounting policies used in the preparation of the separate financial statements are described in Note 2. The preparation of the separate financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses at year end. Critical accounting estimates and judgments are described in Note 3 in the separate financial statements.

Subsequent Events

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

Management's Responsibility For Financial Reporting

To the Members of Credit Union Central of Saskatchewan

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

In discharging its responsibilities for the integrity and fairness of the separate financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded and proper records maintained. The system of internal controls is further supported by Audit Services staff, who regularly reviews all aspects of SaskCentral's operations. The board of directors and the Audit and Risk Committee are composed entirely of directors who are neither management nor employees of SaskCentral. The Audit and Risk Committee is appointed by the board to review the separate financial statements

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

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

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



Keith Nixon,
Chief Executive Officer



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

Separate Audit and Risk Committee Report to the Members

To the Members of Credit Union Central of Saskatchewan

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

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

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

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

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

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



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

Independant Auditor's Report



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Independent Auditor's Report

To the Members of Credit Union Central of Saskatchewan

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

Management's Responsibility for the Separate Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Independant Auditor's Report

Other Matters

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

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

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

Credit Union Central of Saskatchewan

Credit Union Central of Saskatchewan

SEPARATE BALANCE SHEET

[In thousands of Canadian dollars]

As at December 31

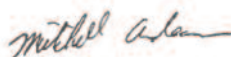
	2017	2016
	\$	\$
Assets		
Cash and cash equivalents [note 7]	256,352	104,667
Securities [note 8]	2,237,325	2,130,961
Derivative assets [note 9]	9,399	11,122
Loans [note 10]	31,169	45,057
Trade and other receivables	365	424
Other assets	543	325
Investments in subsidiaries, associates and joint operations [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

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

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)		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
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

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

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.

Notes to the Separate Financial Statements

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.

Notes to the Separate Financial Statements

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.

Notes to the Separate Financial Statements

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.

Notes to the Separate Financial Statements

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.

Notes to the Separate Financial Statements

December 31, 2017
in thousands of Canadian dollars

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 <ul style="list-style-type: none"> 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 <ul style="list-style-type: none"> Derivative liabilities
	Other financial liabilities	Deposits Loans payable Notes payable Trade and other payables

Notes to the Separate Financial Statements

December 31, 2017
in thousands of Canadian dollars

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.

Notes to the Separate Financial Statements

December 31, 2017
in thousands of Canadian dollars

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.

Notes to the Separate Financial Statements

December 31, 2017
in thousands of Canadian dollars

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.

Notes to the Separate Financial Statements

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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.

Notes to the Separate Financial Statements

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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.

Notes to the Separate Financial Statements

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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).

Notes to the Separate Financial Statements

December 31, 2017
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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.

Notes to the Separate Financial Statements

December 31, 2017
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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.

Notes to the Separate Financial Statements

December 31, 2017
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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.

Notes to the Separate Financial Statements

December 31, 2017
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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.

Notes to the Separate Financial Statements

December 31, 2017
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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

Notes to the Separate Financial Statements

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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.

Notes to the Separate Financial Statements

December 31, 2017
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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.

Notes to the Separate Financial Statements

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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%.

Notes to the Separate Financial Statements

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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%	120%	110%
Actual	214%	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 \$	2016 \$	Fair value hierarchy	Valuation technique(s) and key Input(s)	Significant unobservable Input(s)
Financial assets					
<i>Available-for-sale ⁽¹⁾</i>					
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 \$	2016 \$	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Financial assets (continued)					
<i>Available-for-sale securities (continued)</i>					
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
<i>FVTPL securities</i>					
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
<i>Derivative assets</i>					
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					
<i>Derivative liabilities</i>					
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		Fair value hierarchy	Valuation technique(s)
	2017	2016	2017	2016		
	\$	\$	\$	\$		
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	Negative
Index-linked term deposits	9,399	9,399	11,122

Amounts expected to be recovered or settled

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

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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

Notes to the Separate Financial Statements

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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

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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

Notes to the Separate Financial Statements

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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

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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.

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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

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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

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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'.

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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.