SASKCENTRAL®
Dedicated to Credit Union Success

Annual Report 2012

GREAT PLACE TO WORK® Best Workplaces 2012 Canada

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- *Honest*
- *Trustworthy*
- *Co-operative*
- *Enterprising*

LONG-TERM POSITIONING

SaskCentral will work toward the achievement of a nationally unified and internationally capable co-operative financial network.

Letter from the President and the CEO

Don Blocka, President

Keith Nixon, CEO

It is our pleasure to present SaskCentral's 2012 Annual Report.

2012 was a unique year in that it marked the 75th anniversary of credit unions in Saskatchewan. Coincidentally, it was also named by the United Nations as being the International Year of Co-operatives (IYC). This designation helped to spark increased public interest in co-operatives and in their role in creating economic opportunity and supporting social justice. SaskCentral was an active participant in IYC, with the majority of our board attending the 2012 Summit of Co-operatives in Quebec City. For those of us who work daily in the credit union system, the year was an encouragement to step back and reflect on the unique nature of co-operatives, which have, as their primary focus, the betterment of communities and the enhancement of quality of life for everyone.

Credit unions as member-owned financial co-operatives embody those principles. The first credit unions began as a way to provide loans where none were being offered by traditional lenders. Over the course of 75 years, their sophistication and range of services have expanded exponentially. What has not changed over that period is their sense of connection to community and responsibility to their members. Credit unions are the people that they serve.

In 2012, credit unions in Saskatchewan faced both challenges and opportunities. The challenges included lingering low interest rates, which put downward pressure on margins; the skyrocketing cost of new technology; and the difficult task of complying with new and more complex regulations. The opportunities included the overall strong Canadian economy with Saskatchewan at the front, a much welcomed growth in our population and the success of credit unions in managing expenses. The net result saw credit union income exceed $110 million and assets increase to $16.9 billion, an 8% increase over the previous year. As is usual within the credit union system, a portion of the year's profit was returned directly to members in the form of dividends based on account balance and use. In 2012, this amounted to almost $16 million.

Although SaskCentral was affected by many of the same pressures experienced by credit unions, including changes at the executive level, we are pleased to report that 2012 was another positive year financially. Consolidated net earnings were $28.2 million largely as a result of the performance of our strategic investments. This, and the strong prior year's earnings, enabled our board to declare two dividends to our member credit unions totaling $8.2 million.

SaskCentral's long-term positioning strategy is to *work toward the achievement of a nationally unified and internationally capable financial co-operative*. This lays out the direction we are travelling as a financial service organization. Our current key initiative under this is to migrate our organization from being provincially incorporated to being federally incorporated under the Cooperative Credit Associations (CCA) Act. The expectation is that achievement of this milestone would strengthen our ability to enter into a variety of co-operative business arrangements with potential Canadian partners and better align our business plan with the plans of our strategic partners. These changes would in turn result in greater capacity to meet the growing requirements of our credit unions and would leave SaskCentral well positioned to serve any credit unions, large or small, federal or provincial.

While application was made in 2012, the review of the application by our regulators has extended into 2013 and will be an activity of continued focus in that year.

Letter from the President and the CEO *continued...*

As the trade association, liquidity manager and key services provider to Saskatchewan credit unions, SaskCentral's success is primarily measured by the degree to which we are meeting the needs of our credit unions. Throughout the year, we carried forward on our client-focused strategy, which is to continually improve the experience that credit unions have in their service relationship with SaskCentral.

Part of this commitment took the form of seven areas of focus, which had been identified by credit unions as high priority. These included a review of our statutory liquidity program, competitive pricing on non-financial products, supporting credit unions in dealing with regulatory changes, back-office facilitation, SaskCentral-credit union CEO engagement, strategic investment review and effective lobbying. Of those seven activities, the work completed on four was such that they have now become part of SaskCentral's ongoing operations. For the remaining three – competitive pricing; back-office support; and statutory liquidity – good progress was made on them in 2012 and they have been included in SaskCentral's business plan for full implementation in 2013.

Our efforts to enhance service levels are dependent on having a highly motivated workforce, and one in which we have integrated all aspects of employee recruitment, training and performance management with our strategic goal of creating a focused service culture. A yardstick of our success in this area comes by way of regular surveys. One of these is independently conducted by the Great Place to Work Institute Canada and involves direct input from employees. In 2012, the Institute gave SaskCentral the designation of #1 Best Workplace in Canada among all participating organizations that have fewer than 1,000 employees. This is a remarkable accomplishment and a strong incentive to maintain and build upon SaskCentral's progressive employment policies.

As a co-operative, we are fortunate to be part of a system that is able to come together to accomplish tasks that are beyond the scope of any single credit union. In 2012, we saw the *Hike the Hill at Home* initiative by credit union representatives and SaskCentral that took place in Saskatchewan. The purpose of this was to promote financial literacy and to push for the inclusion of financial literacy education in the Saskatchewan high-school curriculum. This is broadly seen as one of the most effective ways of ensuring the financial soundness of our province and our nation, by creating today the financially aware adults of tomorrow.

We applaud the efforts of our system representatives. In carrying forward the messages from their credit unions they are also upholding the co-operative values of fairness, inclusion and education. And we are again reminded, looking back on the close of the International Year of Co-operatives, that there is a fundamental difference in credit unions. In a world casting about for alternative business models, it is a difference that is becoming increasingly important.

Don Blocka
Board President

Keith Nixon
CEO

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

Board of Directors

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

From left to right: Ed Gebert, Gordon Young, George Keter, Gilles Colbert, Gordon Lightfoot, Loretta Elford, Al Meyer, Don Blocka, Scott Flavel, Ken Sherwin, Pieter McNair, Dean Walde.

Don Blocka, *President*

Elected to SaskCentral Board of Directors in 2002. Agricultural producer. Director, Conexus Credit Union and Concentra Financial.

- Term expires: 2013
- Meetings attended: 12/12

Al Meyer, *First Vice-President*

Elected to SaskCentral Board of Directors in 2007. CEO, Prairie Centre Credit Union. Director, Celero Solutions and Co-operative Superannuation Society.

- Term expires: 2014
- Meetings attended: 12/12

Dean Walde, *Second Vice-President*

Elected to SaskCentral Board of Directors in 2006. Agricultural producer. Director, Synergy Credit Union and Concentra Financial.

- Term expires: 2015
- Meetings attended: 12/12

Gilles Colbert

Elected to SaskCentral Board of Directors in 2009. Retired Manager, Unity Credit Union Limited. Director, Concentra Financial. Delegate, The Co-operators and Canadian Co-operative Association.

- Term expires: 2015
- Meetings attended: 12/12

Loretta Elford

Elected to SaskCentral Board of Directors in 2007. Retired Director of Education, Regina Public Schools. Director, Conexus Credit Union, Concentra Financial and Credit Union Central of Canada.

- Term expires: 2014
- Meetings attended: 12/12

Scott Flavel

Elected to SaskCentral Board of Directors in 2009. Agricultural producer. Director, Affinity Credit Union. Delegate, Canadian Co-operative Association.

- Term expires: 2015
- Meetings attended: 12/12

Ed Gebert

Elected to SaskCentral Board of Directors in 2007. Retired President and CEO, Co-operative Trust Company of Canada. Director, Conexus Credit Union. Chair, Credit Union Deposit Guarantee Corporation. Delegate, The Co-operators.

- Term expires: 2015
- Meetings attended: 12/12

George Keter

Elected to SaskCentral Board of Directors in 2007. Retired CEO, Affinity Credit Union. Director, Concentra Financial.

- Term expires: 2013
- Meetings attended: 9/12

Gordon Lightfoot

Elected to SaskCentral Board of Directors in 1994. Agricultural producer. Director, Innovation Credit Union and Concentra Financial.

- Term expires: 2013
- Meetings attended: 12/12

Pieter McNair

Elected to SaskCentral Board of Directors in 2012. Retired GM, Kelvington Credit Union. Delegate, Co-operative Superannuation Society and Saskatchewan Co-operative Association.

- Term expires: 2015
- Meetings attended: 10/12

Ken Sherwin

Elected to SaskCentral Board of Directors in 2008. Retired school administrator, Yorkton School Division. President, Cornerstone Credit Union Board of Directors. Director, Saskatchewan Co-operative Association and Centre for the Study of Co-operatives. Delegate, Canadian Co-operative Association.

- Term expires: 2014
- Meetings attended: 12/12

Gordon Young

Elected to SaskCentral Board of Directors in 2007. Retired Secretary-Treasurer, Weyburn Public School Division. President, Radius Credit Union Board of Directors. Director, The Co-operators and Canadian Co-operative Association.

- Term expires: 2014
- Meetings attended: 11/12

Board Charter and Director Profile

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

Compensation

Board compensation is determined annually, led by the SaskCentral Board Executive Committee, and in consideration of board compensation survey data among similar organizations. In 2012, board members in aggregate received remuneration for board and committee work totaling $387,744, and were reimbursed for expenses totaling $150,737.

Board Evaluation

A board evaluation was facilitated by MNP in 2011. The board maintains a director development policy aimed at providing resources to support ongoing personal development. Board development activities in 2012 focused on partner engagement.

Code of Conduct

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

Whistle Blower Policy

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

CEO Position Description

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

Committees

Executive Committee

Role:

- Demonstrates leadership on behalf of the board of directors while representing the business affairs of SaskCentral.
- Supports the board with director recruitment and succession, committee appointments and review of remuneration policies.

Members:

	Meetings Attended
• Don Blocka, President	5/6
• Al Meyer, First Vice-President	5/6
• Dean Walde, Second Vice-President	6/6
• Loretta Elford, Executive Member	6/6
• Scott Flavel, Executive Member	6/6

Audit and Risk Committee

Role:

- Ensures an independent review of SaskCentral's financial operation in areas deemed necessary to maintain the integrity of financial data, adequacy of internal controls and adherence to sound business practices.
- Oversees the effectiveness of the governance and management control environment within SaskCentral.
- Ensures SaskCentral's enterprise risk management framework is appropriate to optimize liquidity, market, credit, legal and regulatory, operational and strategic risk for the protection and creation of shareholder value.

Members:

	Meetings Attended
• Ed Gebert, Chair	5/5
• Gilles Colbert, Vice-Chair	5/5
• Al Meyer, Table Officer	5/5
• Scott Flavel	4/5
• Dean Walde	5/5

Delegate Engagement Committee

Role:

- Encourages delegate participation in SaskCentral and credit union system policy debate, assists in planning provincial debate and assists in planning provincial delegate forums.
- Supports the submission of resolutions for presentation to delegates and monitors action on resolutions that have been passed by delegates.

Members:

	Meetings Attended
• Dean Walde, Chair	4/4
• Al Meyer	4/4
• Ken Sherwin	4/4
• Don Blocka	2/4
• Alan Kiefer, Delegate – North District, Peer Group C	4/4
• Gerald Unger, Delegate – Conexus District, Peer Group A	3/4
• Karen Yurko, Delegate – North District, Peer Group D	1/2 (Apr – Dec)

Governance and Conduct Review Committee

Role:

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

Members:

	Meetings Attended
• Gordon Lightfoot, Chair	2/2
• Don Blocka, President	2/2
• Pieter McNair	2/2
• Gordon Young	2/2

Public Policy Committee

Role:

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

Members:

	Meetings Attended
• Loretta Elford, Chair	4/5
• Don Blocka, President	3/5
• Pieter McNair	5/5
• Ken Sherwin	5/5
• Hugh Sampson, Delegate – North District, Peer Group B	5/5
• Ann Favreau, Manager – South District, Peer Group D	5/5
• Glenn Hepp, Board Member – Conexus Credit Union, Peer Group A	2/5
• Donna Overland, Board Member – South District, Peer Group C	3/5
• Jim Rediger, Manager – North District, Peer Group B	4/5
• Darryl Sande, Delegate – North District, Peer Group B	4/5

Consolidated Financial Highlights

December 31 (in thousands)	IFRS 2012 $	IFRS 2011 $	IFRS 2010 $	Canadian GAAP 2010 $	Canadian GAAP 2009 $	Canadian GAAP 2008 $
Income from continuing operations						
Net interest income after loan impairment charges	10,540	9,927	11,461	69,885	64,400	46,254
Non-interest income	60,112	55,726	67,193	56,613	76,786	(13,923)
Non-interest expense	36,247	35,127	37,888	91,634	85,136	83,504
Income taxes and non-controlling interest	6,164	4,120	6,252	13,511	7,867	2,750
Net income from continuing operations	28,241	26,406	34,514	21,353	48,183	(53,923)
Income from discontinuing operations	–	807	(119)	1,642	2,792	8,684
Net income (loss)	28,241	27,213	34,395	22,995	50,975	(45,239)
Distribution of income						
Dividends	8,170	9,884	19,856	19,856	750	15,000
Distribution as a % of average share capital	6.4%	7.8%	15.8%	15.8%	0.6%	18.6%
Financial position – continuing operations						
Securities	1,889,865	1,846,740	1,667,340	2,494,155	2,529,448	2,160,536
Loans	58,927	94,277	28,995	2,626,519	2,673,759	2,952,680
Deposits	1,691,507	1,631,789	1,397,811	4,515,437	4,398,336	4,730,351
Total equity	340,628	323,479	291,562	295,765	287,617	189,660
Financial position – discontinued operations						
Total assets	–	–	1,986	3,994	8,883	9,113

Executive Team

01

02

03

04

01 Keith Nixon
CEO

02 Sheri Lucas
CFO/EVP, Finance

03 Debbie Lane
EVP, Market Solutions

04 Pam Skotnitsky
EVP, Corporate and Community Affairs/Corporate Secretary

SaskCentral develops a wide range of business and financial solutions and undertakes numerous activities for and on behalf of Saskatchewan credit unions. Its core services are those business functions that are critical and closely related to an organization's strategy, while the ancillary services are those activities that are responses to current and emerging opportunities and needs of credit unions.

Core Services

Liquidity Management

SaskCentral is the system statutory liquidity manager. As such, it is responsible for the oversight and financial management of the statutory liquidity held at SaskCentral on behalf of Saskatchewan credit unions. The liquidity function is necessary to ensure clearing and settlement and to connect credit unions to the Canadian payment system.

Trade Association

The overarching role of Trade Association is to recognize where there is strength in shared action and to facilitate these opportunities. Overall objectives are to: provide leadership through collective action and strategic policy direction; undertake credit union advocacy; represent Saskatchewan credit unions with provincial and federal governments and within the Canadian credit union system; and assist credit unions in developing and leading system-wide initiatives in response to emerging trends and regulatory compliance requirements.

Trade association areas of focus include:

System Engagement

This encompasses SaskCentral's role in gathering credit union input on corporate and system initiatives. This is accomplished through activities such as credit union spring and fall business meetings.

System Governance

This includes activities to support the governance services, such as board training and coordination of delegate meetings.

Government Affairs

This area focuses on building effective relationships with provincial and federal government regulators and relevant government departments. The objective of this role is to positively influence legislation and regulation by ensuring member credit unions' interests are known and clearly understood.

Compliance Support

Recognizing the cost and regulatory burden credit unions face in managing increasing compliance requirements, this function develops collective solutions in areas such as anti-money laundering, anti-terrorist financing and privacy.

Communications and Public Relations

Examples of the activities in this area include management of an extranet and public website, system sponsorships, and system and media relations.

Research

This function provides analysis of economic, market and social trends to assist credit unions with strategic planning.

Ancillary Services

Strategic Investment Management

SaskCentral, on behalf of the Saskatchewan credit union system, holds ownership positions in entities that provide key services to credit unions. These partner entities are referred to as strategic investments and the oversight of investment in these partners is a SaskCentral responsibility.

Ownership investment allows SaskCentral to provide competitive services and high quality support to Saskatchewan credit unions and contribute to the well-being of their members and communities. SaskCentral's investment in its partners also gives Saskatchewan credit unions a voice in partner decisions. *[See Strategic Partners – pg. 23, for a complete listing.]*

Non-Financial Products and Services

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

Core non-financial products and services include:

Client Relations

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

Strategic Solutions

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

Operational Solutions

Operational Solutions give credit unions the means to improve the effectiveness and efficiency of their business procedures. Examples include fraud management, management support services, and lending and deposit support.

Assurance Services

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

Human Capital Solutions

This area encompasses a wide array of human capital solutions that support credit unions in identifying, recruiting and retaining qualified employees. Examples of services include change management, executive recruitment and mentorship and coaching programs.

Promotions Plus

This includes a broad product line of stationery, promotional items and materials to support credit union marketing and brand identity activities.

Credit Union Priority Activities

Beginning in 2011, SaskCentral undertook an intensive consultation process with credit union CEOs and GMs to determine the areas where increased attention by SaskCentral could provide the greatest value. From this process, seven key areas were identified.

1. Liquidity

Objective: Review SaskCentral's statutory liquidity framework to ensure the best possible returns for credit unions.

Results: 2012 results described under the *Growth* focus area of *SaskCentral Initiatives* *[pg. 17]* in this report.

2. Pricing

Objective: Ensure competitive pricing on all fee-for-service products offered to credit unions.

Results: 2012 results described under the *Business* focus area of *SaskCentral Initiatives* *[pg. 17]* in this report.

3. Regulatory and Compliance Support

Objective: Provide high level strategic guidance and legal direction on regulatory changes and compliance issues; provide access to a full range of model policies, examples and templates for various compliance issues.

Results: This area saw a great deal of activity by SaskCentral in 2012. This included:

- initiation of an aggressive governance and compliance plan
- assistance from SaskCentral in modernizing credit union bylaws
- support to a credit union working group set up to review the Market Code
- comprehensive review of credit union policies and procedures
- support to a credit union legislative compliance management working group, the purpose of which will be to scope the requirements for a system to easily track regulatory compliance, identify gaps and follow-up.

4. Back Office

Objective: Lead the sourcing of back office solutions to help credit unions reduce costs.

Results: A regional support model was developed to assist a group of credit unions comply with anti-money laundering requirements. By Dec. 31, 2012, 12 credit unions had signed on to participate in this initiative. Anti-money laundering training was also coordinated by SaskCentral and offered to credit unions, with a good turn out of 58 participants.

5. CEO-Executive Contact

Objective: Hold regular, proactive one-on-one meetings between CEO and senior executive of SaskCentral and credit unions, with SaskCentral taking a leadership role on matters of common concern.

Results: A CEO advisory committee, comprised of credit union representatives, was formed to provided focused input to SaskCentral on topical matters.

6. Strategic Investments

Objective: For strategic investments made by SaskCentral, have clearly aligned strategic direction and effectively manage both profitability and service levels.

Results: A reporting framework was developed that communicates strategic investee results to owners and users.

7. Effective Lobbying

Objective: Reduce the amount of regulation and compliance required by government and regulatory bodies. Create a level playing field in areas where there are clear competitive inequalities, especially in the areas of insurance and agricultural lending.

Results: 2012 results described under the *Government Relations* section *[pg. 22]* of this report.

Working toward clear objectives is a key part of SaskCentral's planning and evaluation process. Each year, SaskCentral's business plan describes specific targets, as measured by a variety of evaluation tools, to be achieved within four focus areas: People, Growth, Business and Financial. Where applicable, specific initiatives that are beyond normal day-to-day operations are carried out under those focus areas. All Financial results and supporting information is contained within the annual report sections: Consolidated Financial Statements; Notes to the Consolidated Financial Statements; and Management Discussion and Analysis.

People

The *People* area of our plan focuses on maintaining an engaged workforce with the competencies needed to facilitate the achievement of SaskCentral's strategic objectives.

Align Workforce to Support Client Experience Strategy

The key initiative for this area in 2012 was to align the workforce to support delivery of SaskCentral's *client experience* strategy. Development of the right employee behavioural competencies was a critical component of this plan. Toward this end, new tools were developed to evaluate the competencies required. SaskCentral employees took part in *The Heart of Coaching* program, designed to create a workforce aligned with giving and receiving constructive feedback. Additionally, all employees participated in performance management workshops that introduced the behavioural competencies SaskCentral will be focusing on in the coming year, the measurement tools that will be used, the targets expected and how individual performance contributes to the "big picture" of the high-performing, client-centric service culture SaskCentral is working to develop.

2012 Results

Staff Satisfaction Survey

- Target: 80-84%
- Result: 90%

Staff Turnover Rate (voluntary)

- Target: 14-9%
- Result: 7.45%

Respectful Workplace Survey

- Target: 80-84% (composite score)
- Result: 87.6%

Growth

The *Growth* area is focused on strategic initiatives that assist Saskatchewan credit unions in achieving their own success and business goals.

Federal Incorporation

Within this area, a key activity was the federal incorporation of SaskCentral under the CCA Act. The enhanced opportunity for partnerships and co-operative business arrangements such a structure would provide SaskCentral is expected to positively affect the organization's capacity to serve the rapidly expanding needs of our province's credit unions. While application to SaskCentral's regulator (OSFI) was made in 2012, the review process carried on longer than anticipated, such that any regulatory approval would not occur until 2013.

Liquidity

As requested by credit unions, in 2012 SaskCentral completed a review of its statutory liquidity structure. This was carried out in consultation with a representative group of financial experts drawn from four Saskatchewan credit unions.

Following the review, a series of webinars was delivered to credit unions. These covered a range of topics related to statutory liquidity, including cash flow aggregation, clearing and settlement, liquidity stress testing, SaskCentral's liquidity crisis management plan and the various funding tools available. Two webinars, SaskCentral's statutory liquidity framework review and the Inter-Central Liquidity Agreement, will be delivered in 2013.

2012 Results

Quality Measurement Survey – measures credit union satisfaction across a range of SaskCentral activities and services.

- Target: 76-80% (composite score)
- Result: 85%

Business

Business is the focus area dealing with internal business processes intended to maintain SaskCentral as a high performing and successful organization.

Pricing Model

During the year, the key strategic Business initiative was the development of a transparent, consistent and market-competitive pricing model. The first phase of this initiative focused on understanding SaskCentral's current environment in terms of product, price, cost and market. A review of the Market Solutions division pricing was completed in 2012. The other factors of product, cost and market will be completed in 2013, as well as pricing recommendations determined. The resultant formula will be applied across the entire organization.

2012 Results

Efficiency – excluding investee income

- Target: 88.1%
- Result: 85.1%

Efficiency – including investee income

- Target: 48.7%
- Result: 43.9%

Contribution to Imagine Canada

- Target: 1% of pre-tax profits
- Result: >1%

Governance Effectiveness Index

- Target: 80-84%
- Result: 90.4%

Corporate social responsibility (CSR) is the way an organization integrates social, environmental and economic concerns into its values, culture, decision making, strategy and operations in a transparent and accountable manner. It also involves balancing the needs of stakeholders in decision-making processes and activities.

CSR typically includes commitments and activities that pertain to:

- Corporate governance and ethics
- Employee health and safety and human rights
- Environmental stewardship
- Community involvement
- Employee volunteering
- Customer satisfaction
- Supplier relationships

SaskCentral's CSR activities are guided by a three-year CSR plan that was approved by the SaskCentral Board of Directors in 2010. The three categories outlined by the plan include society, environment and the economy. For each of these categories, annual targets are established and activities are set to achieve those targets.

2012 CSR Targets and Results

Society

Imagine Canada Caring Company Program

This is Canada's leading corporate citizenship initiative. Caring Company membership assures customers, employees, shareholders and the public that a business is committed to investing in communities. SaskCentral is one of over 100 Canadian businesses that are members of the Caring Company program.

Imagine Caring Company Une entreprise généreuse

Target	Achieved
Donation of 1% pre-tax profits to charitable and non-profit organizations.	A 1.4% donation level for 2012, including financial contributions, volunteer hours and in-kind donations.

Corporate Social Responsibility *continued...*

Volunteerism

In 2012, SaskCentral issued four grants through its volunteer grant program. Employees that volunteer a minimum of 40 hours with a charity or non-profit organization can request that a $250 grant be given to that organization on their behalf. The following organizations received a grant: Regina Community Clinic, Regina Ringette Association, Regina Diving Club and the Children's Wish Foundation.

Target	Achieved
Achieve 40% of employees volunteering in the community and using 20% of the available volunteer hours. (SaskCentral allows employees to use up to 22.5 hours per year of work time to volunteer.)	63% of employees volunteering and using 32% (655) of the available hours.

Environment

BOMA BESt – Building Certification

BOMA BESt is the Canadian industry standard for commercial building sustainability certification, which is based on the internationally recognized and accepted Green Globes™ environmental assessment platform.

Building Environmental Standards BOMA BESt

Target	Achieved
Address opportunities for improvement identified during the BOMA BESt application process so that we can maintain or increase our building certification level when we recertify in 2014.	In 2012, we made improvements to ventilation fans, installed new weather stripping on exterior doors and replaced several windows – changes that improved the energy efficiency of the building. We reduced building consumption of water by 9.2%, power by 9.3% and natural gas by 11%.

Paper Consumption

Target	Achieved
Reduce new paper consumption by 10% based on the 2011 benchmark.	Achieved a 28% reduction in new paper consumption.

Greenhouse Gas Emissions

Target	Achieved
With a view to long-term greenhouse gas emission reduction, use the results of the 2011 travel survey to explore incentives to assist employees to make positive changes to their work-related travel habits.	In 2012, SaskCentral implemented a guaranteed ride home program. The program provides commuters who regularly car pool, ride the bus, bike or walk to work with a reliable ride home when an unexpected emergency arises. Employees are able to use a guaranteed ride home for emergencies up to a maximum of three times per calendar year.

SaskCentral also partnered with www.carpool.ca, a website that allows employees to find a carpool match and keep track of their mileage and GHG emissions.

Economy

Support Local Co-operatives

Target	Achieved
Explore a one to three year partnership with one or two local co-operatives to assist with their development.	Financial contributions were made to: Regina Car Share Co-operative and Furrows & Faith Retirement Co-operative.

Sponsorships Managed by SaskCentral

Each Saskatchewan credit union is an independent financial co-operative that supports important community events and initiatives through its local community relations program.

Over the past four years (2008 to 2011 figures combined), Saskatchewan credit unions have contributed $26.6 million to growing communities. Fundraising efforts brought in nearly $2 million for causes like the Children's Hospital Foundation of Saskatchewan, Red Cross Disaster Relief, Terry Fox Run and Telemiracle, and credit union employees logged more than 285,000 hours of volunteer time for community organizations.

SaskCentral, as the trade association for Saskatchewan credit unions, manages a number of sponsorships that credit unions support collectively. The approach to these local and provincial sponsorships reflects a commitment to helping Saskatchewan communities thrive in ways that make a genuine contribution to building lives and fulfilling dreams.

Sponsorships in 2012 included:

Arts and Culture

- Art Gallery of Regina
- Do It With Class Theatre
- Globe Theatre

Community

- Children's Wish Foundation
- Chili for Children
- Family Service Regina
- Regina and District Association for Community Living
- Regina Food Bank
- Regina Open Door Society
- Sofia House
- YMCA – Tomorrow's Y's Leaders

Economic Development

- Canadian Western Agribition
- Western Canadian Crop Production Show
- Western Canadian Farm Progress Show

Education

- Canadian Red Cross Bullying Prevention Program
- Ignite Adult Learning Corporation
- Junior Achievement
- SCA Co-operative Youth Seminars
- SIAST Aboriginal Student Scholarships

Health and Wellness

- Canadian Blood Services
- Four Directions Health Centre
- Regina Therapeutic Riding Association
- Regina Humane Society Pet Therapy Program
- Teddy Bears Anonymous
- United Way
- YOGA in the Park (Arthritis Society)
- Z99 Radiothon

Sports

- Canadian Gymnastics Championships
- Credit Union Queen City Marathon
- Credit Union Eventplex
- Saskatchewan High Schools Athletic Association

As part of its trade association mandate, SaskCentral maintains clear and effective channels of communication with governments, regulators and elected officials. Discussions are carried out throughout the year in the understanding that the interests of the province's more than 500,000 credit union members are best served by a business and regulatory environment that recognizes the crucial role of credit unions to the economic well-being of Saskatchewan and its communities.

Government Engagement Strategy

SaskCentral introduced an enhanced government engagement strategy in response to our changing environment and the need to increase the effectiveness of the credit union system's ability to influence public policy and regulatory affairs. In addition to the ongoing consultation and public policy development activities, some of the enhancements include expanded range of relationships, use of social media to convey system messages, and increased collaboration with CUCC to build the CU Nation[1]. A further activity has been a review of regulatory roles by SaskCentral, CUDGC, and Financial and Consumer Affairs Authority (formerly known as the Saskatchewan Financial Services Commission).

Government Engagement Package

On behalf of Saskatchewan credit unions, SaskCentral issued a government engagement package to all provincial Members of the Legislative Assembly (MLAs) and all Saskatchewan Members of Parliament (MPs). This package communicates the significant contribution made by credit unions, builds top-of-mind awareness among elected officials and ensures the credit union system interests are known and understood.

Financial literacy has been a key issue for the credit union system since 2008. Our request is for the Ministry of Education to implement financial literacy as part of the core curriculum for all Saskatchewan students. Delegates shared this key message with provincial MLAs during local constituency meetings. A YouTube clip was also developed conveying our request respecting financial literacy.

In the Saskatchewan Plan for Growth, government committed to ensuring Saskatchewan students receive the information, education and experience needed to gain financial literacy by expanding financial literacy in the K-12 system. SaskCentral continues to monitor the progress of this commitment.

Credit Union Central of Canada – *Hike the Hill*

As a co-operative, we are fortunate to be part of a system that is able to come together to accomplish tasks that are beyond the scope of any single credit union. In 2012, Saskatchewan credit union system advocates were part of an inaugural event called Hike the Hill at Home. This event enabled CU Nation advocates from Saskatchewan to meet with federal Members of Parliament in local ridings to discuss key issues of importance to the system that are federal in nature. This type of grassroots advocacy is another example of the credit union difference.

Participation in FCC Liaison Committee

SaskCentral leads meetings with Farm Credit Canada and agricultural lenders representing the system. The purpose of these discussions is to further the objective of the FCC Liaison Committee to identify opportunities whereby FCC and Saskatchewan credit unions can work collaboratively.

1 The CU Nation is Credit Union Central of Canada's network of grassroots advocates.

Strategic Partners

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

Concentra Financial

Share ownership by SaskCentral: 84.3%

A longstanding member of the Canadian co-operative financial community, Concentra Financial provides financial intermediation and trust solutions to credit unions from coast-to-coast. Concentra helps credit unions achieve their business goals and deliver a full line of competitive, high-quality financial services to their members.

Financial Solutions – Corporate financial solutions and financial management consulting from Concentra support day-to-day credit union operations, excess liquidity management and investments, and effective risk management while enhancing opportunities for credit unions' growth and diversification. As a partner with credit unions, Concentra seeks to expand the scale and selection of financial solutions offered to credit unions' business and consumer members.

Trust Solutions – From estate planning and administration to the delivery of registered plans and specialized corporate trusts, credit unions can assist both consumer and business members through trust solutions provided by Concentra Trust, a wholly owned subsidiary of Concentra Financial.

Credit Union Payment Services (CUPS)

Joint venture participation by SaskCentral: 50%

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

Celero Solutions

Share ownership by SaskCentral: 31.4%

Celero Solutions is a joint venture between four Canadian prairie co-operative organizations: Alberta Central, Manitoba Central, Concentra Financial and SaskCentral. Celero delivers reliable, innovative and cost-effective information technology solutions to the joint venture partners and prairie credit unions in the areas of switching, telecommunications and banking.

Group Clearing Joint Venture

Joint venture participation by SaskCentral: 16.7%

Arising from inter-central discussions initiated in 2010, Group Clearing is a joint venture of SaskCentral, Central 1, Alberta Central and Manitoba Central that replaces the clearing previously performed by Canadian Central. The joint venture's purpose is to govern and operate the clearing function for credit unions across the country.

Credit Union Central of Canada (CUCC)

Share ownership by SaskCentral: 10.5%

CUCC is the national voice and trade association of the Canadian credit union system. With guidance from provincial members, CUCC speaks on behalf of all members and provides services through their partners to ensure best practices are available to all credit unions.

Credential Financial Inc.

Share ownership by SaskCentral: 8.2%

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

Northwest & Ethical Investments L.P. (NEI)

Share ownership by SaskCentral: 8.2%

NEI is a mutual fund company that makes independent portfolio managers accessible to Canadian retail investors through two fund families: Northwest Funds and Ethical Funds.

NEI is a fully Canadian-owned company, owned 50% by Desjardins Group and 50% by the provincial credit union centrals. This backing of experience and support provides the company with stability and the resources to actively pursue business growth through credit unions and independent financial advisors across Canada.

The Co-operators Group Limited

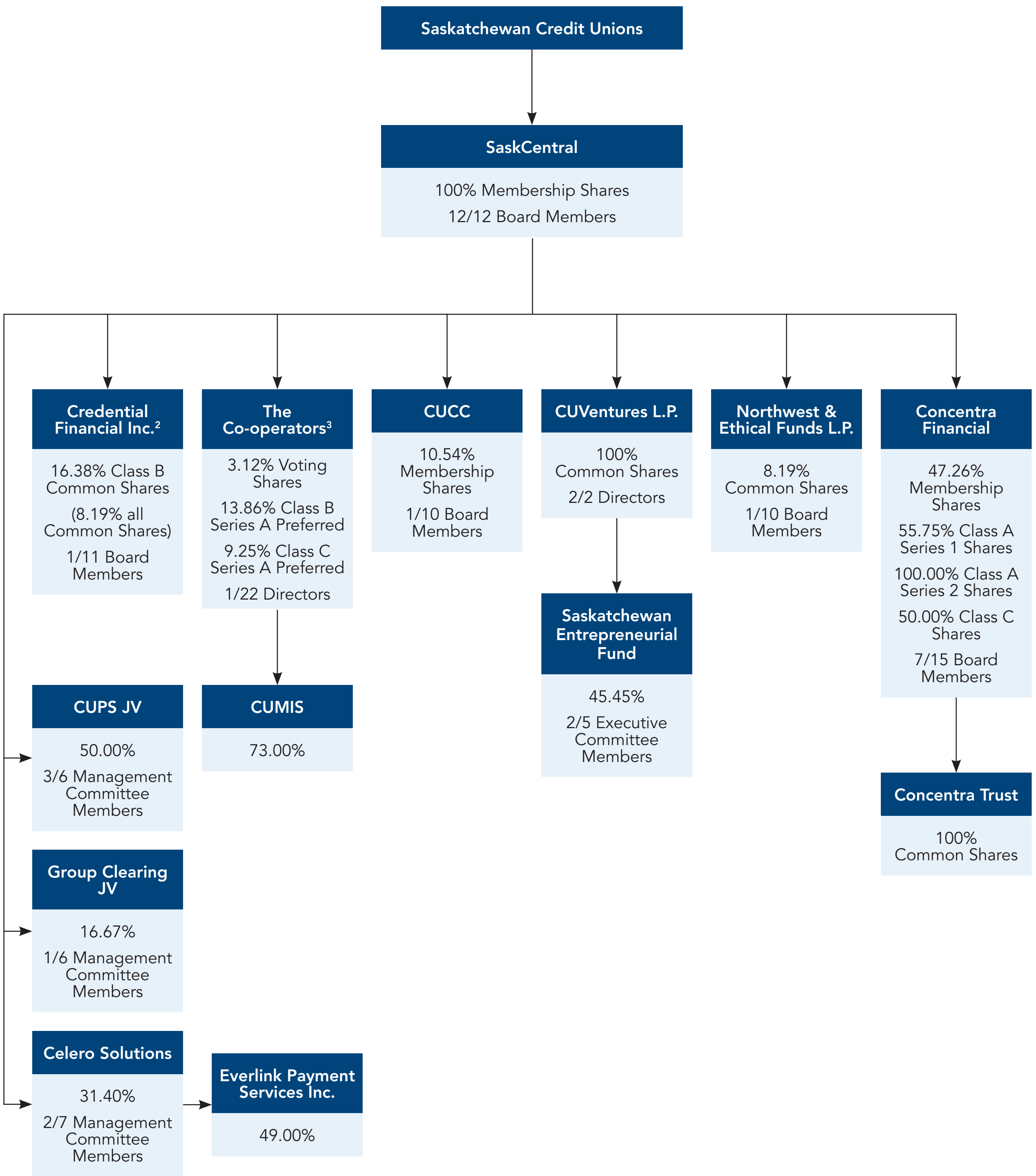
Share ownership by SaskCentral: 3.1%

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

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

Investment and Governance

as at December 31, 2012



2 SaskCentral has defacto representation through Alberta Central's board representative.
3 Director represents all Saskatchewan member-owners.

This section of the annual report, providing management's discussion and analysis (MD&A) of the consolidated results of SaskCentral, should be read in conjunction with the audited consolidated financial statements and notes as at and for the year ended December 31, 2012. The consolidated financial statements are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards (IFRS). This MD&A is dated February 27, 2013 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, 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, 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 a financial services co-operative which provides liquidity management, consulting services, research and support to Saskatchewan credit unions. SaskCentral functions as a trade association on behalf of the province's credit unions to provide a unified voice in matters of common interest. The primary services provided to credit unions by SaskCentral are:

- to facilitate clearing and settlement through the Bank of Canada;
- to manage mandatory liquidity on a national and provincial level on behalf of the system and work with credit unions to support compliance with legislation and regulations;
- to provide strategic investment management through continual development of joint products and services that assist credit unions in serving their members;

- to offer democratic governance support to ensure efficient and effective co-operative governance;
- to provide advocacy services, representing Saskatchewan credit unions with the provincial and federal governments and within the Canadian credit union system;
- to conduct strategic market research and assist credit unions in developing and leading system-wide initiatives in response to emerging trends; and
- to offer consulting services that provide innovative solutions to help credit unions strengthen their competitive positioning.

SaskCentral's Role in Liquidity Support

Liquidity is the ability of an institution to generate or obtain sufficient cash or its equivalents in a timely manner at a reasonable price to meet its commitments as they fall due. SaskCentral manages system-wide liquidity on behalf of Saskatchewan credit unions directly and through investees.

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

At the national level, the Canadian Payments Association sets the requirements for accessing the Bank of Canada and outlines roles and responsibilities. Credit union centrals are represented by one central which acts as the Group Clearer. Central 1 Credit Union (Central 1) is the Group Clearer. A Group Clearing Joint Venture oversees the functioning of the Group Clearer and consists of representatives from Central 1, Alberta Central, SaskCentral and Credit Union Central of Manitoba. Centrals pledge collateral to the Bank of Canada and in return the Bank of Canada issues a current account and a line of credit to the Group Clearer to facilitate the flow of funds to or from financial institutions.

Statutory Liquidity Deposits

Credit unions hold 10% of their liabilities on deposit with SaskCentral. These are known as statutory liquidity deposits. SaskCentral's statutory liquidity program supports credit union liquidity by:

- enabling participation in the national payment system;
- providing protection to national credit union system liquidity and comfort to financial industry participants regarding the strength of the Saskatchewan credit union system; and
- mitigating system liquidity risk.

On a daily basis, statutory liquidity deposits facilitate the external funding of liquidity. SaskCentral has three funding tools. Securities repurchase agreements allow SaskCentral to generate cash by selling securities to major Canadian banks with the agreement to repurchase within days. The commercial paper program allows SaskCentral to issue short-term securities to generate cash. This program is supported by SaskCentral's R1-low rating with DBRS. Finally, SaskCentral has a secured line of credit with a major Canadian bank.

On an emergency basis, SaskCentral will support a credit union's liquidity needs until SaskCentral has exhausted all liquidity resources. Credit unions may be supported more than their 10% statutory liquidity deposit.

SaskCentral's emergency plans consider selling investments or accessing emergency funding tools, including the *Inter-Central Liquidity Agreement* (ICLA) and government support. These external resources are uncommitted and will be negotiated as a crisis arises. The type of facilities established will be dependent on the type, severity and expected duration of the liquidity event.

The ICLA is a lending syndicate between Central 1 (covering the jurisdictions of British Columbia and Ontario), Alberta Central, SaskCentral, and Credit Union Central of Manitoba. Each central provides an uncommitted line of credit that may be used by any of the centrals in the event of a liquidity crisis. SaskCentral may access up to $400 million. In accordance with the ICLA, each central is required to maintain 6% of their provincial system assets in eligible investments.

The quality of the statutory liquidity program depends on the quality of the underlying investments. Deposits are invested in highly liquid securities and liquidity risk is actively managed.

Products and Services for Credit Unions

As the statutory liquidity manager to the Saskatchewan credit union system, SaskCentral provides a variety of products and services to member credit unions.

These products and services are primarily focused on the delivery of short-term tools and resources to support credit unions in managing daily clearing and settlement activities and related liquidity management needs. Services include settlement lines of credit, short-term credit facilities, deposit support programs, and foreign exchange processing.

In addition, SaskCentral provides statutory liquidity management for the Saskatchewan credit union system. By regulation, credit unions are required to hold a portion of their deposits with SaskCentral in an amount set by SaskCentral, currently 10% of liabilities. These funds are placed on deposit across a variety of deposit offerings including both fixed and variable rate products.

SaskCentral's year-over-year results are best understood when viewed in conjunction with an overview of the Saskatchewan economy and the Saskatchewan credit union system.

Economic Overview

The two economic factors that have most influenced SaskCentral in 2012 are Saskatchewan growth and the level of interest rates. Growth contributed to a stronger balance sheet, while constrained interest rates have affected income.

Saskatchewan's economic growth has led Canada. The key factors driving growth are consumer spending, business investments (particularly in the resource sector) and exports. Growth fuels higher deposits at credit unions and SaskCentral.

Canada's low interest rate environment continued throughout 2012. With both growth and inflation tracking below the Bank of Canada's expectations, the Canadian economy is in a weaker place than policy makers would have liked. Economic softness was the key reason that the Bank of Canada continued to hold interest rates near historical lows and this is expected to continue into 2013. Sustained margin pressures impact profitability of credit unions and SaskCentral.

Saskatchewan Credit Union System Performance

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 fourth quarter system highlights report.

Credit unions operate within a comprehensive regulatory framework to ensure depositors' funds are fully guaranteed and completely secure. The corporation 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: www.cudgc.sk.ca.

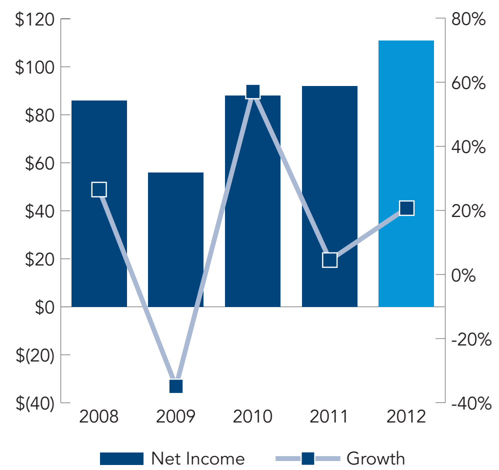
Results Overview

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

Credit unions earned $111 million in 2012, after returning $16 million to members through dividends and patronage programs. This represents a return on average assets (ROA) of 0.68% (2011 – 0.62%).

Credit Unions of Saskatchewan Net Income
(in millions)



The improvement in ROA and net earnings can be attributed to the decline in operating expenses. The efforts made to contain costs have allowed credit unions to strengthen earnings despite net interest margin and non-interest revenue falling below 2011 results. By containing costs, operating efficiency improved to 74.9% (2011 – 78.8%). As a result, credit unions were able to return money to members while maintaining strong capital and liquidity positions.

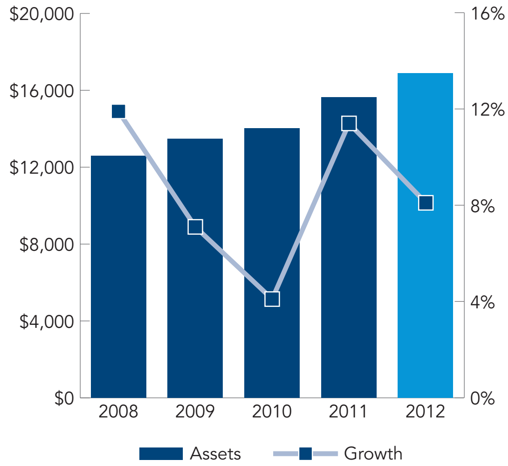
Capital

Risk-weighted capital (RWC) increased to 12.42% (2011 – 12.32%) and Tier 1 capital to assets increased to 7.75% (2011 – 7.66%). Despite higher than anticipated asset growth, strong profitability in 2012 contributed to the growth in both RWC and Tier 1 capital. As the new Standards of Sound Business Practice requirements come into effect in July of 2013, this positive trend in capital allows credit unions to be well positioned for the forthcoming changes to the capital requirements.

Growth

Assets grew by 8.3% to $16.9 billion. The growth in assets was primarily in new loans and cash. This growth can be partly attributable to the strong provincial economy.

Credit Unions of Saskatchewan Assets
(in millions)



Liquidity Risk

Liquidity decreased slightly in 2012 with new loans exceeding new deposits. As a result cash and investments to assets decreased slightly, while net loans to assets increased slightly. Lent out ratios have remained within an acceptable range.

Credit Risk

Delinquencies in 2012 were 0.54%, which was well below the five year average of 0.88% and are at historical lows. As such, provisions for credit losses were also below 2011 levels.

Interest Rate Risk

Given the low interest rate environment and market conditions, interest rate risk increased modestly. For a 1% increase in interest rates, the net market value change to assets increased to -0.48% (-0.43% in 2011) but continues to remain within an acceptable range.

Statistical Review of Credit Unions

	2008	2009	2010	2011	2012
Credit Unions	66	65	64	61	60
Service Outlets	313	310	304	302	299
Employees	3,537	3,590	3,548	3,516	3,479

2012 SaskCentral Consolidated Financial Performance

Results Overview

SaskCentral's consolidated financial performance includes results from subsidiaries, associates and jointly controlled entities of which SaskCentral is determined to be the primary beneficiary. The financial performance and stability of SaskCentral is summarized according to the following key performance indicators: profitability, capital, growth, liquidity risk, credit risk and interest rate risk.

Historical trends are impacted by the transition to International Financial Reporting Standards (IFRS) in 2010. Before 2010, SaskCentral's balance sheet includes Concentra Financial's assets and liabilities.

Growth

Deposits were stable. At $1,510, statutory liquidity deposits comprise the majority of deposits and statutory liquidity deposits increased 4.2% over 2011.

SaskCentral Deposits
(in millions)

Profitability

SaskCentral's consolidated net income was $28.2 million (2011 – $27.2 million).

SaskCentral Net Income
(in millions)

Despite the continuation of the low interest rate environment, net interest income increased to $10.5 million (2011 – $9.9 million). SaskCentral was able to achieve higher interest income for two reasons. First, Saskatchewan growth contributed to a higher statutory liquidity deposit base. Second, SaskCentral implemented proactive asset / liability management strategies to exploit all opportunities to maintain margin.

Non-interest income, derived from dues revenue, fee for services revenue generated from third parties, securities and derivative transactions, and SaskCentral's share of profits from associates, was $60.1 million (2011 – $55.7 million).

Gains on securities was $2.5 million (2011 – $1.5 million). Gains and losses arise from portfolio repositioning for asset / liability management purposes and MAV note dispositions. One MAV note with a par value of $4.8 million was sold in 2012 for a gain of $0.7 million.

The share of profits of associates (which represents SaskCentral's share of Concentra Financial's and Saskatchewan Entrepreneurial Fund's net income) increased to $27.9 million (2011 – $23.4 million). Concentra Financial posted strong net earnings for the fourth straight year and paid a $5.6 million dividend on 2011 earnings. This dividend represented a 5.0% return on credit union's investment in Concentra Financial through SaskCentral.

Concentra Financial's strategic objectives are market relevance, sustainable profitability and sound and prudent business practices in order to better serve credit unions. Its long term vision is to be the premier trust and wholesale financial provider for the credit union system across the country. Saskatchewan credit unions continue to benefit from the value created through these relationships and partnerships.

CUPS strives to broaden awareness of changing payments technology through regular presentations to credit union executives and management and participation in national payments initiatives and working groups. They partner with Celero Solutions (Celero) and other key players in the payments industry to offer innovative solutions to best meet credit union needs. In 2012, these partnerships led CUPS to the highest earnings since their inception.

Non-interest expenses represent expenditures incurred to fund dues-related products and generate fee for service and foreign exchange revenue, as well as general operating expenses such as salaries and benefits and occupancy costs. Non-interest expenses were $36.2 million (2011 – $35.1 million).

The share of losses of associates (which represents SaskCentral's share of Celero's losses) was $0.7 million (2011 – $0.5 million loss). In 2012, Celero continued to focus on developing long term profitable growth, improving customer service delivery and creating an employee culture of performance and engagement. As credit unions tighten their discretionary spending, information technology has become an important area in which they can realize cost savings. In 2012 this translated into a slowdown in a number of aspects of Celero's business, resulting in Celero falling short of its net earnings target.

SaskCentral paid a dividend to credit unions in March 2012 of $2.6 million, representing a 2.0% return on investment. SaskCentral also paid out a flow-through of the dividend received from Concentra Financial of $5.6 million to credit unions in October for a total return on investment of 6.4%.

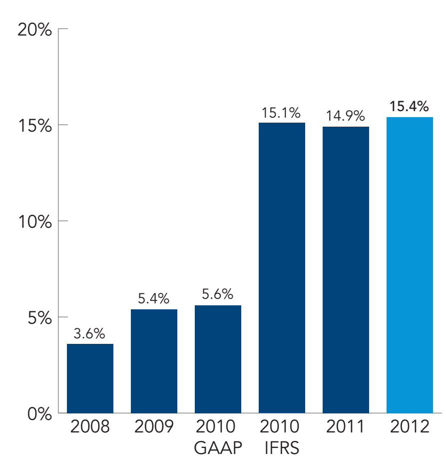
Liquidity

SaskCentral continued to hold a strong liquidity position in 2012. Consolidated cash and securities totalled $1.9 billion, or 87% of assets (2011 – 86%).

Equity

Equity increased by $17.1 million over 2011. Strong earnings resulted in an increase in retained earnings of $22.3 million. Accumulated other comprehensive income (AOCI) decreased $8.3 million, reflecting lower valuations in the securities portfolio. At the end of the year, equity was 15.4% of assets (2011 – 14.9%).

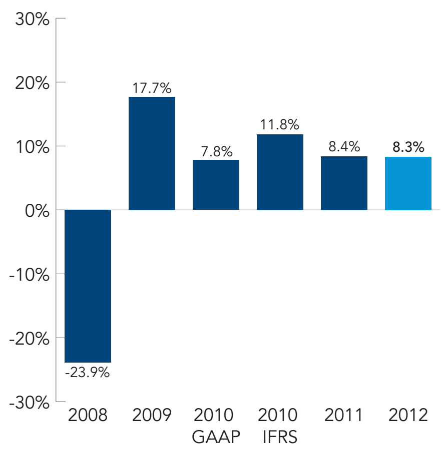
SaskCentral Equity as a % of Assets



Return on Equity

Return on Equity (ROE) is a measure which reveals how much profit a company generates for shareholders. For 2012, SaskCentral's ROE was 8.3% (2011 – 8.4%).

SaskCentral Return on Equity



Liquidity Management

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

Three measures are used to monitor SaskCentral's liquidity risk position. Calculation of the ratio of liquid assets as a percentage of credit union system assets is one measure used. The ratio of liquid assets as a percentage of SaskCentral's short-term liabilities is the second measurement taken. Finally, a liquidity score is calculated on SaskCentral's investment portfolio. All three measures are used to assess SaskCentral's liquidity position and all policy requirements have been met in 2012.

Emergency liquidity sufficiency is evaluated through the use of stress testing. A group of credit union finance and risk experts provided insight and expertise to develop a system-wide liquidity stress test. The test confirmed that sources of liquidity were sufficient to meet potential outflows under a variety of scenarios. Results of the stress test will be used to further liquidity discussions with credit union leaders in 2013.

Stress testing processes were shared with credit unions through two webinars. The Liquidity 101 webinar explained clearing and settlement at the national, provincial and credit union level and provided a base understanding to system-wide liquidity. The Stress Testing webinar outlined the stress testing model and supporting processes and can be used to supplement credit union stress testing programs.

Emergency liquidity processes were refreshed in 2012. SaskCentral shared processes with credit unions through two webinars, the Liquidity Crisis Management Plan (LCMP) webinar and the Funding Programs webinar. The LCMP outlines the triggers of a liquidity crisis, the roles and responsibilities, and the crisis communication plan. The Funding Programs outlines the funding tools available to credit unions and SaskCentral and describes SaskCentral's liquidity capacity for a variety of emergency scenarios. Together, the LCMP and the Funding Programs provide a basis for navigating through a liquidity crisis in a speedy and appropriate manner.

Future Liquidity Environment

In response to the 2008 financial market disruption, the Basel Committee on Banking Supervision developed new international capital and liquidity guidelines (commonly known as Basel III). The goal is to promote a more resilient financial sector by improving the ability to absorb shocks.

Basel issued principles for sound liquidity risk management and supervision in 2008. These principles include board and senior management oversight, policies that state risk tolerances, stress testing, contingency funding planning, and maintenance of a cushion of high-quality liquid assets. In addition, Basel III outlined two minimum liquidity standards to address short-term and medium-term liquidity strength.

Both the Office of the Superintendent of Financial Institutions of Canada (OSFI) and CUDGC intend to follow these international guidelines. SaskCentral will continue working with credit unions to respond to regulatory developments in liquidity oversight.

Capital Management

Capital management consists of maintaining the capital required to cover risks and comply with the regulatory capital ratios defined by OSFI. 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.

Capital 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 OSFI. 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. SaskCentral's Tier 2 capital consists of subordinated debt issued to member credit unions. Total capital is defined as the sum of Tier 1 and Tier 2 capital. The components of Tier 1 and Tier 2 capital are listed in the table that follows. For further details on the terms and conditions of the various capital components, refer to Notes 5 and 23 in the Consolidated Financial Statements.

Regulatory capital is adjusted for investments in unconsolidated subsidiaries. The investment in Concentra is deducted from SaskCentral's regulatory capital. This allows OSFI to monitor the capital strength of SaskCentral's stand-alone operations. Concentra Financial is a regulated financial institution – it reports separately to and is regulated directly by OSFI.

Borrowing Multiple

Regulatory capital adequacy is measured by OSFI through the borrowing multiple. The borrowing multiple is calculated by dividing Tier 1 and Tier 2 regulatory capital by total borrowings. OSFI sets a limit of 20:1 that the borrowing multiple must not exceed. SaskCentral has set its own maximums that are below that of OSFI. The *Balance Sheet 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 OSFI's limit. The *Balance Sheet Operating Policy* goes one step further, setting a limit of 14.0:1, at which point management will outline actions to assuage the situation. As of December 31, 2012, the borrowing multiple was 12.1:1 (2011 – 12.1:1).

Regulatory Capital and Ratios

	2012	2011
Tier 1 Capital	**319,407**	293,075
Total Borrowing Multiple Capital	**149,523**	149,339
Total Borrowings	**1,813,698**	1,800,035
Actual Borrowing Multiple	**12.1:1**	12.1:1
SaskCentral Policy Limit	**17.0:1**	17.0:1
Tier 1 Regulatory Capital		
Membership shares	**128,600**	125,926
Retained earnings	**194,678**	172,400
IFRS related reclassification[1]	**(3,871)**	(5,251)
Total Tier 1 Capital	**319,407**	293,075
Tier 2 Regulatory Capital		
Subordinated debt[2]	**18,000**	24,000
IFRS related reclassification[1]	**3,871**	5,251
Total Tier 2 Capital	**21,871**	29,251
Total Tier 1 and Tier 2 Capital	**341,278**	322,326
Deduct:		
Investments in unconsolidated subsidiaries	**190,214**	171,739
Assets of little or no realizable value	**1,541**	1,248
Total Tier 1 and Tier 2 Capital	**149,523**	149,339

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

[2] Subordinated debt amortizes at 20% per year over the last five years beginning in 2011.

SaskCentral is not required to file or meet OSFI regulatory capital to risk-weighted asset ratios. However, this information is tracked as a matter of industry best practice. At year end, SaskCentral's ratios substantially exceeded OSFI's minimum regulatory limits.

Capital Management

SaskCentral's borrowing multiple is expected to increase due to system growth and amortization of subordinated debt for regulatory purposes. As the system grows, so does the requirement to hold regulatory capital. In addition, the subordinated debt component of regulatory capital is decreased over the final five years before the debt matures. SaskCentral's capital plan evaluates projected capital adequacy and considers capital options, including membership share true-up, issuing subordinated debt and organic growth of retained earnings.

SaskCentral's bylaws require member credit unions to maintain membership share capital 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 capital contribution or a credit union from contributing capital voluntarily. In 2012 credit unions voluntarily contributed $2.7 million in additional membership share capital.

SaskCentral would not exercise this authority to require membership share capital contributions unless its capital plan indicated a projected borrowing multiple in excess of 15.0:1 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 15.0:1 or to 1.0% of system assets, whichever was first met. At December 31, 2012 credit union membership share capital represented 0.8% of prior year's system assets, thus additional capital contributions are not required.

SaskCentral remains well capitalized and able to support a strong, growing credit union system. Based on the projected borrowing multiple at the end of 2013, SaskCentral would be able to withstand additional shocks of $29.4 million before reaching the board policy limit of 17.0:1.

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, Celero, CUPS, Northwest and Ethical Funds, Credential Financial, The Co-operators Group Ltd., Central 1 Credit Union, CUCC and CUVentures.

Excess capital is returned to the credit unions as a dividend. SaskCentral's dividend policy provides a market rate based return to credit unions, subject to profitability and board approval. In 2012, a dividend of $2.6 million was paid based on SaskCentral's 2011 eligible earnings. In addition, a $5.6 million dividend was paid, representing a flow through of Concentra Class A dividends.

Future Capital Environment

Basel III tightens the definition of qualifying regulatory capital and outlines higher minimum thresholds for qualifying capital to risk-weighted assets. OSFI is following the Basel III guidelines. However, OSFI has not indicated when the guidelines will be applied to Canadian centrals.

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 our capital management strategies to reflect any changes.

Risk Management

SaskCentral defines enterprise risk management (ERM) as an approach to measuring, monitoring and managing risk on an aggregate basis to support corporate decision-making.

The ERM objectives for SaskCentral are:

- to improve member shareholder value through optimization of risk and capital and risk-based decision-making; and
- to perform well in a risk-based regulatory environment. Key elements of the organization's risk management framework include corporate governance and structure, policy, reporting, risk culture and risk categorization. SaskCentral's strong governance, ethics, values and principles provide a firm foundation for its risk culture.

Risk Categories

SaskCentral is exposed to risks which are classified within one of the following categories: credit, market, liquidity, strategic and operational and legal and regulatory.

Credit Risk

Credit risk arises from a counterparty's inability or unwillingness to fully meet its on and off-balance sheet 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's policies for managing credit risk are described in Note 3 to the Financial Statements.

Market Risk

Market risk is comprised of interest rate, price and foreign exchange risks. Interest rate risk is the risk of exposure to movements in interest rates from timing differences in the re-pricing of assets and liabilities (both on and off-balance sheet) as they mature or contractually re-price. Price risk is the risk that the value of an asset or liability will fluctuate because of changes in the market price. Foreign exchange risk results from movements in foreign currency exchange rates. SaskCentral's polices for managing market risk are described in Note 3 to the Financial Statements.

Liquidity Risk

Liquidity risk is the inability to generate or obtain necessary cash or equivalents in a timely manner, at a reasonable price, and to meet on and off-balance sheet commitments as they come due, without incurring unacceptable losses. SaskCentral's policies for managing liquidity risk are described in Note 3 to the Financial Statements.

Strategic and Operational Risk

Strategic risk arises from the inability to implement business plans, strategies, decision-making and resource allocation, as well as the inability to adapt to changes in the business environment.

Operational risk occurs when there are problems in the performance of business functions or processes. Exposures to this risk result from deficiencies or breakdown in internal controls or processes, technology failures, human errors or dishonesty, or natural catastrophes. Operational risk also includes reputation risk, which arises from a lack of confidence in the organization by key stakeholders.

Strategic planning is conducted by the board on a regular basis. Operational planning and budgeting is conducted by management to develop the annual business plan, which is presented to the board with the Business Plan Risk Report.

Risk profiling is used by executive management to identify key strategic and operational risks affecting the successful achievement of the organization's strategic goals. Identified risks are scored according to the probability of the risk occurring and the impact to the organization if the risk were to occur. Action plans are developed to monitor and manage the risks identified and responsibility is assigned to members of executive management to ensure that the probability of the risk occurring will be reduced to an acceptable level. In support of its member credit unions, SaskCentral maintains a downstream strategic investment portfolio. Oversight of the risks in this portfolio is provided through the organization's strategic investment management framework.

Legal and Regulatory Risk

Legal and regulatory risk arises from potential non-conformance with laws, rules and regulations, prescribed practices or ethical standards in the jurisdiction in which the organization operates.

SaskCentral has a board-approved conflict of interest policy and a code of conduct that must be followed by all employees, directors and delegates. 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 Balance Sheet Management Policy (BSMP) contains policies for capital impairment, annual earnings distribution and the quantity of capital that the organization is required to maintain to comply with regulatory requirements.

As a financial institution, SaskCentral takes on risk to create value for its shareholders. Credit and market risk are undertaken within the risk tolerance levels outlined in the board's risk policy. 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. Effective management of operational, strategic, liquidity and legal and regulatory 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 shareholders.

Business Continuity Planning

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.

In 2012, the business continuity team performed business impact analysis on all of the critical functions within SaskCentral. Every critical system was investigated to determine how quickly each system could be brought up and running following a disaster and to which point in time the system would be restored. This analysis helped SaskCentral establish the level of acceptable risk for each function. It was determined that our critical functions are at the appropriate level. Recovery procedures will be reviewed in 2013 to ensure completeness.

2013 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 MD&A.*

SaskCentral's overall corporate direction is expressed through two components: client experience and long-term positioning. Client relationships are continually enhanced by acting on client-requested improvements and aligning business operations to facilitate the desired client experience. Improving the client experience is the cornerstone of SaskCentral's ongoing strategic objectives, elements of which permeate each of the business plan's four main focus areas: client, financial, internal business processes and people.

SaskCentral's long-term positioning strategy is to work toward the achievement of a nationally unified and internationally capable co-operative financial network. The first step in this direction is to change from provincial to federal incorporation. Continuance as a federal association creates a more attractive business structure that could be used to facilitate future mergers and partnerships with other provincial centrals or credit union service providers. As a federal association, SaskCentral would be in a position to provide the scope and scale necessary to deliver services to federal credit unions and an open holding structure capable of substantial investment in other federal associations.

SaskCentral has identified opportunities to put these strategies into action in each of the four main focus areas as follows.

Client

The goal of the Client focus area is to contribute to credit unions' ability to win in their market and foster a high degree of client satisfaction. In 2013, the partner engagement initiative will establish new relationships and partnerships that result in increased capacity to serve the needs of credit unions. This will be accomplished through: engaging the Canadian co-operative financial system to understand the advantages and opportunities of business relationships with SaskCentral as a federal association; identifying and prioritizing potential partnerships with the greatest likelihood of supporting SaskCentral's long term direction; exploring the mutual value of partnerships with targeted organizations; and establishing memorandums of understanding with potential partners.

Financial

As financial institutions continue to be challenged by market conditions, capital constraints and competition, SaskCentral's financial focus will be centered on optimizing liquidity and capital to maintain a position of financial strength to enable the achievement of its strategic objectives.

Internal Business Processes

The focus of the Internal Business Processes area is to maintain an efficient and high performing business model that enables organizational success. The continuance initiative will position SaskCentral to pursue the partnership engagement. Success will be achieved as SaskCentral finalizes the federal association structure through which to engage with partners; co-ordinates with Concentra to approve bylaw changes and establish closer synergies; and communicates with stakeholders to ensure understanding of the benefits of the federal association structure.

People

SaskCentral places top priority on employee satisfaction and engagement. Therefore, the focus for the People area is to maintain an engaged workforce with the competencies required to facilitate the achievement of its strategic objectives. The second phase of the competency framework that was developed in 2011 will be implemented and will support the enhancement of behaviours that support the client experience strategy. Competencies will be integrated into rewards and recognition to ensure that client results (both internal and external) are the basis for evaluation and accountability. A succession plan will be developed and implemented and will also be aligned to the client experience.

Accounting Matters

Critical Accounting Estimates and Assumptions

The accompanying consolidated financial statements have been prepared in accordance with IFRS. The significant accounting policies used in the preparation of the financial statements are described in Note 2. The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses at year end. Certain estimates, including allowance for credit losses, fair value of financial instruments and income taxes require management to make subjective or complex judgments. Accordingly, actual results could differ from those estimates.

Accounting Policy Changes

Changes made to our accounting policies during the year are described, along with their impacts and future accounting changes, in Note 2.

Management's Responsibility for Financial Reporting

To the Members of Credit Union Central of Saskatchewan

Management has responsibility for preparing the accompanying consolidated financial statements and ensuring that all information in the annual report is consistent with the consolidated financial statements. This responsibility includes selecting appropriate accounting principles and making objective judgements and estimates in accordance with International Financial Reporting Standards.

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

The Office of the Superintendent of Financial Institutions Canada reviews the activities of SaskCentral to ensure compliance with the Cooperative Credit Associations Act, to ensure the safety of depositors and members of SaskCentral and to ensure that SaskCentral is in sound financial condition. Their findings are reported directly to management.

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

Keith Nixon
Chief Executive Officer

Sheri Lucas
Chief Financial Officer /
Executive Vice-President of Finance

February 27, 2013

Audit and Risk Committee Report to the Members

To the Members of Credit Union Central of Saskatchewan

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

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

The Audit and Risk Committee requires management to implement and maintain appropriate internal control procedures, and reviews, evaluates and approves those procedures. Annually, management prepares amendments to the balance sheet 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 balance sheet management policy. In addition, any significant transactions that could affect the well-being of SaskCentral are reviewed by the Audit and Risk Committee.

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

The annual return prepared by management for the Office of the Superintendent of Financial Institutions is reviewed by the Audit and Risk Committee prior to filing. Also, management letter recommendations received from OSFI are reviewed by the Audit and Risk Committee.

Ed Gebert
Chair, Audit and Risk Committee
February 27, 2013

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INDEPENDENT AUDITOR'S REPORT

To the Members of
Credit Union Central of Saskatchewan

We have audited the accompanying consolidated financial statements of Credit Union Central of Saskatchewan, which comprise the consolidated balance sheet as at December 31, 2012, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year ended December 31, 2012 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Credit Union Central of Saskatchewan as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Accountants

Regina, Saskatchewan
February 27, 2013

Consolidated Balance Sheet

[in thousands of Canadian dollars]

As at December 31

	2012 $	2011 $
Assets		
Cash and cash equivalents [note 7]	**29,481**	20,459
Securities [note 8]	**1,889,865**	1,846,740
Derivative assets [note 9]	**11,999**	12,127
Loans [note 10]	**58,927**	94,277
Trade and other receivables	**1,146**	1,193
Other assets [note 11]	**774**	822
Investments in associates [note 12]	**200,114**	183,621
Property, plant and equipment [note 13]	**4,255**	3,995
Investment property [note 14]	**10,636**	10,907
Other intangible assets [note 15]	**1,229**	1,737
	2,208,426	2,175,878
Liabilities		
Deposits [note 18]	**1,691,507**	1,631,789
Derivative liabilities [note 9]	**12,017**	12,238
Loans payable [note 19]	**107,179**	118,169
Notes payable [note 20]	**14,993**	49,966
Trade and other payables	**4,610**	4,232
Other liabilities [note 21]	**105**	230
Deferred income tax liabilities [note 16]	**6,595**	4,839
Subordinated debentures [note 22]	**30,792**	30,936
	1,867,798	1,852,399
Equity		
Share capital [note 23]	**128,600**	125,926
Retained earnings	**194,678**	172,400
Accumulated other comprehensive income	**16,281**	24,565
Total equity attributable to equity holders of SaskCentral	**339,559**	322,891
Non-controlling interest	**1,069**	588
Total equity	**340,628**	323,479
	2,208,426	2,175,878

See accompanying notes

On behalf of the board:

Director

Director

Consolidated Statement of Income

[in thousands of Canadian dollars]

Year ended December 31

	2012 $	2011 $
Interest income		
Securities	**36,735**	37,368
Loans	**797**	686
	37,532	38,054
Interest expense		
Deposits	**23,797**	24,687
Loans and notes	**2,399**	2,620
Subordinated debentures	**796**	936
	26,992	28,243
Net interest income	**10,540**	9,811
Loan impairment charges (recovery) [note 10]	-	(116)
Net interest income after loan impairment charges	10,540	9,927
Non-interest income		
Dues [note 25]	**6,155**	5,755
Fee for service [note26]	**23,567**	25,097
Gain on securities [note 8]	**2,511**	1,479
Unrealized and realized gains (losses) on derivatives [note 9]	-	12
Share of profits of associates [note 12]	**27,879**	23,383
	60,112	55,726
Net interest and non-interest income	**70,652**	65,653
Non-interest expense		
Salary and employee benefits [note 27]	**15,476**	14,292
Professional and advisory services [note 28]	**7,870**	7,984
Computer and office equipment [note 29]	**3,259**	3,081
Occupancy [note 30]	**3,633**	3,893
General business [note 31]	**5,329**	5,407
Share of losses of associates [note 12]	**680**	470
	36,247	35,127
Income from continuing operations before income taxes	**34,405**	30,526
Income tax expense [note 16]	**6,164**	4,120
Income from continuing operations	**28,241**	26,406
Income from discontinued operations, net of tax [note 17]	-	807
Net income	**28,241**	27,213
Attributable to:		
Owners of SaskCentral	**28,241**	27,213
Non-controlling interest	-	-
	28,241	27,213

See accompanying notes

Consolidated Statement of Comprehensive Income

[in thousands of Canadian dollars]

Year ended December 31

	2012 $	2011 $
Net income	**28,241**	27,213
Other comprehensive income		
Net unrealized (losses) gains on available-for-sale securities	**(5,365)**	9,407
Reclassification of gains on available-for-sale securities to income	**(449)**	(78)
Share of other comprehensive income of associates	**(4,671)**	5,798
Income tax relating to components of other comprehensive income	**2,201**	(3,442)
Other comprehensive income for the year, net of tax	**(8,284)**	11,685
Total comprehensive income	**19,957**	38,898
Total comprehensive income attributable to:		
Owners of SaskCentral	**19,957**	38,898
Non-controlling interest	**-**	-
	19,957	38,898

See accompanying notes

Consolidated Statement of Changes in Equity

[in thousands of Canadian dollars]

Year ended December 31

	Share Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total	Non-controlling interest	Total Equity
Balance as at December 31, 2010	125,852	152,254	12,880	290,986	576	291,562
Net income	-	27,213	-	27,213	-	27,213
Unrealized gains (losses) on available-for-sale securities, net of tax	-	-	11,685	11,685	-	11,685
Increase in share capital	74	-	-	74	12	86
Total comprehensive income for the year	74	27,213	11,685	38,972	12	38,984
Dividends [note 24]	-	(9,884)	-	(9,884)	-	(9,884)
Reduction in income taxes	-	2,817	-	2,817	-	2,817
Balance as at December 31, 2011	125,926	172,400	24,565	322,891	588	323,479
Net income	-	28,241	-	28,241	-	28,241
Unrealized gains (losses) on available-for-sale securities, net of tax	-	-	(8,284)	(8,284)	-	(8,284)
Increase in share capital	2,674	-	-	2,674	481	3,155
Total comprehensive income for the year	2,674	28,241	(8,284)	22,631	481	23,112
Dividends [note 24]	-	(8,170)	-	(8,170)	-	(8,170)
Reduction in income taxes	-	2,207	-	2,207	-	2,207
Balance as at December 31, 2012	128,600	194,678	16,281	339,559	1,069	340,628

See accompanying notes

Consolidated Statement of Cash Flows

[in thousands of Canadian dollars]

Year ended December 31

	2012 $	2011 $
Cash flows from operating activities		
Income from continuing operations	**28,241**	26,406
Adjustments to determine net cash used in operating activities:		
Amortization of property, plant and equipment and Investment property *[note 13/14]*	**821**	719
Other amortization	**21,166**	21,057
Loss on disposal of property, plant and equipment	**-**	1
Loan impairment (recoveries) charges *[note 10]*	**-**	(116)
Realized gains on securities	**(2,511)**	(1,479)
Net interest income	**(10,540)**	(9,811)
Share of profits (losses) in associates	**(27,199)**	(22,913)
Dividends on equity investments	**(237)**	(457)
Deferred income tax expense	**6,164**	4,120
Changes in operating assets and liabilities:		
Derivative (liabilities) assets	**(93)**	(371)
Loans, net of repayments	**35,356**	(65,178)
Trade and other (payables) receivables	**425**	(73)
Other assets	**48**	1,300
Deposits, net of withdrawals	**60,057**	234,386
Other liabilities	**(125)**	(566)
Interest received	**38,280**	38,514
Dividends received	**237**	457
Interest paid	**(27,510)**	(28,437)
Net change in operating activities from continuing operations	**122,580**	197,559
Net change in operating activities from discontinued operations	**-**	(772)
Cash flows provided by operating activities	**122,580**	196,787
Cash flows from financing activities		
Loans payable, net of repayments	**(10,986)**	33,238
Notes payable, net of repayments	**(34,942)**	(44,975)
Proceeds from issuance of share capital	**2,674**	74
Dividends paid to members *[note 24]*	**(8,170)**	(9,884)
Net change in financing activities from continuing operations	**(51,424)**	(21,547)
Cash flows used in financing activities	**(51,424)**	(21,547)
Cash flows from investing activities		
Purchase of securities	**(2,580,341)**	(2,703,266)
Proceeds from sales of securities	**2,512,982**	2,517,094
Dividends from investments in associates	**6,095**	7,154
Contributions to investments in associates	**(60)**	(3,651)
Property, plant and equipment	**(810)**	(921)
Other intangible assets	**-**	(3)
Net change in investing activities from continuing operations	**(62,134)**	(183,593)
Net change in investing activities from discontinued operations	**-**	1,213
Cash flows used in investing activities	**(62,134)**	(182,380)
Net increase (decrease) in cash and cash equivalents	**9,022**	(7,140)
Cash and cash equivalents, beginning of year	**20,459**	27,599
Cash and cash equivalents, end of year	**29,481**	20,459

See accompanying notes

1. REPORTING ENTITY

Credit Union Central of Saskatchewan and its subsidiaries (collectively "SaskCentral") is a company domiciled in Canada. The address of SaskCentral's registered office is 2055 Albert Street, Regina, Saskatchewan, S4P 3G8. SaskCentral is incorporated under *The Credit Union Central of Saskatchewan Act, 1999*, and maintains a certification and carries on business pursuant to the *Cooperative Credit Associations Act (Canada).* SaskCentral's core functions are liquidity management and trade association activities on behalf of and for Saskatchewan credit unions.

2. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

(a) Statement of compliance

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

These consolidated financial statements were authorized for issue by the Board of Directors on February 27, 2013.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

Information about key sources of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements are described in note 6.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Consolidation

(a) Subsidiary

A subsidiary is an entity controlled by SaskCentral. Assets, liabilities, income and expenses of the subsidiary are included in the consolidated financial statements after the elimination of inter-company transactions, balances, revenues and expenses. The financial statements of the subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases. These consolidated financial statements include the following subsidiary:

CUVentures Limited Partnership (CUVentures LP) – SaskCentral currently has a 74.81% (2011 – 85.35%) interest in CUVentures LP, which it controls through its 100% ownership in CUVentures Inc. CUVentures Inc. acts as the general partner to manage CUVentures LP. CUVentures LP was formed to aggregate credit union participation in the credit union system economic development initiative.

(b) Investments in associates (equity accounted investees)

Associates are those entities in which SaskCentral has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when SaskCentral holds between 20 and 50 percent of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The consolidated financial statements include SaskCentral's share of the income and expenses on a single line basis and equity movements of investments in associates from the date that significant influence commences until the date that significant influence ceases. SaskCentral's investment in associates includes Concentra Financial Services Association (Concentra Financial), Celero Solutions and Saskatchewan Entrepreneurial Fund (SEF) (note 12).

(c) Jointly controlled entities

Jointly controlled entities are those entities over whose activities SaskCentral has joint control, established by contractual agreement. Investments in jointly controlled entities are recognized using the proportionate consolidation method, whereby SaskCentral's proportionate share of jointly controlled entities' assets, liabilities, income and expenses are consolidated on a line-by-line basis, after eliminating inter-entity transactions and gains or losses. Credit Union Payment Services (CUPS) is the only jointly controlled entity included in the consolidated financial statements (note 34).

Sales 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. Interest incurred on repurchase agreements is included in loans and notes interest expense.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Assets and Liabilities

All financial assets and liabilities, including derivative financial instruments, are recognized in the consolidated balance sheet and measured in accordance with their assigned classification.

Standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives require that financial assets and financial liabilities, including derivatives, be recognized on the consolidated balance sheet when SaskCentral becomes a party to the contractual provisions of a financial instrument or non-financial derivative contract. All financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on the classification of the financial instrument.

Recognition of Financial Assets or Liabilities

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

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 net income for an amount equal to the difference between the carrying amount of the asset and the value of the consideration received.

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished.

(a) Financial assets

SaskCentral classifies financial assets to the following categories: financial assets at fair value through profit or loss; available-for-sale financial assets; held to maturity financial assets; and loans and receivables. Management determines the classification of its financial instruments at initial recognition.

Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets classified as held-for-trading and financial assets designated by SaskCentral as at fair value through profit or loss upon initial recognition. SaskCentral has no financial assets designated at fair value through profit or loss.

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 if, 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. Financial assets held-for-trading include derivative financial instruments and certain securities with embedded derivatives. SaskCentral does not have a trading program for securities.

When securities contain embedded derivatives where it is not reasonably possible to separately estimate a reliable fair value for the embedded derivatives, the combined securities and embedded derivatives are classified as held-for-trading securities and reported at their total fair value. Realized and unrealized gains and losses on these securities are recorded in gains (losses) on securities. Transactions to purchase or sell these items are recorded on the trade date, and transaction costs are immediately recorded in interest expense. Gains and losses arising from changes in fair value of derivative financial assets classified as held-for-trading are included in the consolidated statement of income and are reported as unrealized and realized gains (losses) on derivatives.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Available-for-sale financial assets

Available-for-sale securities 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, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are initially recognized at fair value, which is the cash consideration including any transaction costs, measured subsequently at fair value with gains and losses being recognized in other comprehensive income (loss) (OCI) in the consolidated statement of comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognized. Available-for-sale financial assets are assessed for impairment at the end of each reporting period. If an available-for-sale financial asset is determined to be impaired, the cumulative gains or losses previously recognized in OCI in the consolidated statement of comprehensive income is recognized in the consolidated statement of income. Interest is calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognized in the consolidated statement of income.

Purchase premiums or discounts on available-for-sale securities are amortized over the life of the security using the effective interest method and are recognized in securities interest income. Interest income accruing on available-for-sale securities is recorded in securities interest income. Dividends on available-for-sale equity instruments are recognized in the consolidated statement of income 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 (losses) on securities.

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.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that SaskCentral has the positive intention and ability to hold to maturity, other than: (1) those that SaskCentral upon initial recognition designates as at fair value through profit or loss; (2) those that SaskCentral designates as available-for-sale; and (3) those that meet the definition of loans and receivables.

Held-to-maturity financial assets are initially recognized at fair value including direct and incremental transaction costs and measured subsequently at amortized cost, using the effective interest method.

Interest on held-to-maturity financial assets is included in the consolidated statement of income and reported as securities interest income. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the investment and recognized in the consolidated statement of income as gain on securities. SaskCentral currently holds no held-to-maturity investments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (1) those that SaskCentral intends to sell immediately or in the near term, which are classified as held-for-trading, and those that SaskCentral upon initial recognition designates as at fair value through profit or loss; (2) those that SaskCentral upon initial recognition designates as available-for-sale; or (3) those for which SaskCentral

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans and receivables (continued)

may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available-for-sale.

Loans and receivables are initially recognized at fair value, which is the cash consideration to originate or purchase the loan including any transaction costs, and measured subsequently at amortized cost using the effective interest rate method. Loan fees, premiums and commissions paid on the acquisition of loans are amortized to loan interest income using the effective interest method. Loans and receivables are reported in the consolidated balance sheet as loans. Interest on loans is included in the consolidated statement of income and is reported as loan interest income. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan. Interest income continues to be accrued at the original effective interest rate of the loan based on the net carrying value of impaired loans.

When a loan is restructured, and the present value of the future principal and interest payments discounted at the loan's original effective interest rate is less than the carrying value of the loan, the restructured loan is considered impaired.

(b) Financial liabilities

SaskCentral classifies financial liabilities in the following categories: financial liabilities at fair value through profit or loss; and other liabilities measured at amortized cost. Management determines the classification of its financial liabilities at initial recognition.

Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities classified as held-for-trading, and financial liabilities designated by SaskCentral as at fair value through profit or loss upon initial recognition. SaskCentral has no financial liabilities designated at fair value through profit or loss.

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 if, 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. Derivatives are also categorized as held-for-trading. There are no financial liabilities classified as held-for-trading other than derivative contracts.

Gains and losses arising from changes in fair value of derivative financial liabilities classified as held-for-trading are included in the consolidated statement of income and are reported as unrealized and realized gains (losses) on derivatives.

Other liabilities measured at amortized cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortized cost. Financial liabilities measured at amortized cost are deposits, loans payable, notes payable, trade and other payables, other liabilities, and subordinated debentures.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Fair Value of Financial Instruments

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. SaskCentral follows a fair value hierarchy to categorize the inputs used to measure fair value. Fair values are determined by reference to quoted bid or asking prices, as appropriate, in the most advantageous active market for that instrument to which SaskCentral has immediate access (Level 1). A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-ask spread or significant increase in the bid-ask spread or there are few recent transactions.

Where bid and ask prices are unavailable, SaskCentral uses the closing price of the most recent transaction of that instrument. In the absence of an active market, SaskCentral determines fair values based on prevailing market rates (bid and ask prices, as appropriate) for instruments with similar characteristics and risk profiles or internal or external valuation models, such as option pricing models and discounted cash flow analysis, using observable market-based inputs. Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. In determining those assumptions, SaskCentral looks primarily to external readily observable market inputs including factors such as interest rate yield curves, currency rates, and price and rate volatilities, as applicable (Level 2).

In limited circumstances, SaskCentral uses one or more input parameters that are not based on observable market data or uses observable inputs that require significant adjustment based on unobservable inputs (level 3). The impact on net income of financial instrument valuations reflecting non-market observable inputs (level 3 valuations) is disclosed in note 4. SaskCentral believes that using possible alternative assumptions will not result in significantly different fair values.

The credit quality of financial assets and financial liabilities, including derivative instruments, is considered in determining the fair value of these instruments. In determining the credit quality of the instrument both SaskCentral's own credit risk and the risk of the counterparty are considered elements of this credit quality.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions SaskCentral holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risks, liquidity risk and counterparty credit risk.

Based on the established fair value model governance policies, and related controls and procedures applied, management believes that these valuation adjustments are necessary and appropriate to fairly state the values of financial instruments carried at fair value in the consolidated balance sheet. Price data and parameters used in the measurement procedures applied are reviewed carefully and adjusted as necessary.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of Financial Assets

(a) Loans carried at amortized cost

SaskCentral maintains allowances to absorb credit-related losses in its portfolios of on balance sheet items. The allowances for impairment consist of specific and collective allowances which are reviewed by management on a regular basis. The allowances for impairment are deducted from the related asset category.

Loans are classified as impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the loan that can be reliably estimated. The criteria that SaskCentral uses to determine that there is objective evidence of impairment include:

- Delinquency in contractual payments of principal or interest
- Cash flow difficulties experienced by the borrower
- Breach of loan covenants or conditions
- Initiation of bankruptcy proceedings
- Deterioration of the borrower's competitive position
- Deterioration in the value of collateral

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

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

The amount of the impairment loss is measured as the difference between the loan's carrying value and the present value of estimated future cash flows discounted at the loan's original effective interest rate. The carrying value of the loan is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income.

In subsequent periods, if the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the allowance for credit losses is adjusted and the increase in the carrying value of the loan is charged to loan impairment charges. An impairment loss is reversed only to the extent that the loan's carrying value does not exceed the carrying value that would have been determined if no impairment had been recognized.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Securities classified as available-for-sale

SaskCentral assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss on that financial asset previously recognized in net income – is removed from accumulated other comprehensive income (loss) (AOCI), and recognized in the consolidated statement of income. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. Impairment losses recognized in the consolidated statement of income on equity instruments are not reversed through the consolidated statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in net income, the impairment loss is reversed through the consolidated statement of income. However, any subsequent recovery in the fair value of an impaired equity instrument classified as available-for-sale is recognized in other comprehensive income.

Subordinated Debentures

Transaction costs, premiums and discounts incurred in the issuance of subordinated debentures are amortized to interest expense using the effective interest method.

Classes of Financial Instruments

SaskCentral classifies the financial instruments into classes that reflect the nature of information and takes into account the characteristics of those financial instruments. The classification made can be seen in the table below:

	Category as Defined by IAS 39	Class as Determined by SaskCentral
Financial Assets	Financial assets at fair value through profit or loss	Financial assets classified as held-for-trading • Held-for-trading securities – debt securities • Derivative assets Financial assets designated at fair value through profit or loss • None
	Loans and receivables	Cash and cash equivalents Loans Trade and other receivables
	Held-to-maturity investments	None
	Available-for-sale financial assets	Available-for-sale securities – debt securities Available-for-sale securities – equity securities
Financial Liabilities	Financial liabilities at fair value through profit or loss	Financial liabilities classified as held-for-trading • Derivative liabilities Financial liabilities designated at fair value through profit or loss • None
	Financial liabilities at amortized cost	Deposits Loans payable Notes payable Trade and other payables Subordinated debentures

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. SaskCentral does not offset financial instruments.

Interest Income and Expense

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

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

Interest income on held-for-trading securities is presented together with all other changes in the fair value of held-for-trading securities in gain on securities.

Fee for Service

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

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and securities maturing in one business day.

Derivative Financial Instruments

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity instrument or index. In the ordinary course of business, SaskCentral enters into derivative transactions to hedge interest rate and foreign currency risks, and for economic and asset/liability management purposes. SaskCentral does not have a trading program for derivatives. SaskCentral also enters into derivative transactions on an intermediary basis on behalf of credit unions.

Economic and asset/liability management derivatives are used to manage interest rate and currency exposure on SaskCentral's consolidated balance sheet, but do not meet the specific criteria to qualify as hedge derivatives. These derivatives include contracts that reposition SaskCentral's overall interest rate and foreign exchange risk profile. Economic and asset/liability management derivatives are reported on the consolidated balance sheet at their fair value. Fair values are estimated amounts that SaskCentral would receive or pay to terminate the contracts at the reporting date.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative Financial Instruments (continued)

Derivatives with a positive fair value are reported as derivative assets and derivatives with a negative fair value are reported as derivative liabilities. Both realized and unrealized gains and losses are reported in unrealized and realized gains and losses on derivatives.

SaskCentral may enter into derivative contracts or may act as an intermediary on behalf of a client or credit union utilizing derivative contracts. These derivatives do not qualify for hedge accounting and are carried at fair value on a gross basis as derivative assets or liabilities with changes in fair value recorded in unrealized and realized gains and losses on derivatives.

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for as derivatives when: a) their economic characteristics and risks are not closely related to those of the host contract; b) the terms of the embedded derivative are the same as those of a free standing derivative; and c) the combined instrument or contract is not measured at fair value with changes in fair value reported in unrealized and realized gains and losses on derivatives.

Property, Plant and Equipment

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

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

The applicable amortization periods are as follows:

Buildings	30 years
Building improvements	5 years
Equipment	3 to 5 years

Amortization methods, residual values and estimates of useful lives are reassessed at each financial year-end and adjusted if appropriate.

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 net income 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 net income.

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. 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. If the part of the property held for rental income can be sold separately, SaskCentral accounts for the portions separately. In order to determine the percentage of the portions, SaskCentral uses the size of the property measured in square feet.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment Property (continued)

Investment property is carried at its cost less any accumulated amortization and accumulated impairment losses. Amortization is recognized using the straight-line method over 30 years, which is the estimated useful life of the investment property. Amortization is discontinued when the residual value is equal to or greater than the net carrying value of a depreciable asset.

Amortization method, residual value and estimated useful life of the investment property are reassessed at each financial year-end and adjusted if appropriate.

Other Intangible Assets

Other intangible assets separately acquired are measured initially at cost. After initial recognition intangible assets are carried at cost less accumulated amortization and accumulated impairment losses.

The useful lives of intangible assets are assessed to be finite. Amortization is recognized on a straight-line basis over their estimated useful lives.

The applicable amortization periods are as follows:

Computer software	3-5 years
Intangible assets under development	3-5 years

Amortization of capital projects is not recognized while the project is under development.

Amortization methods, residual values and estimates of useful lives are reassessed at each financial year-end and adjusted as appropriate.

Gains and losses arising from disposal of other intangible assets are measured as the difference between disposal proceeds and the carrying amount of the asset and are recognized in net income.

Impairment of Non-Financial Assets

Non-financial assets such as other intangibles, investment property, and property, plant and equipment 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. Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. For intangible assets that have an indefinite useful life, the recoverable amount is estimated each year at the same time.

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 net income 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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of Non-Financial Assets (continued)

recoverable amount does not exceed the carrying amount had the impairment loss not been recognized in prior years. The reversal is recognized in net income immediately. No non-financial assets were impaired in 2012 or 2011.

Discontinued Operations

SaskCentral presents discontinued operations in a separate line in the consolidated statement of income if an entity or a component of an entity has been disposed of or is classified as held for sale and:

(a) represents a separate major line of business or geographical area of operations; or

(b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations.

Income from discontinued operations includes the net total of operating income before tax, including net gains or losses on sale before tax or measurement to fair value less costs to sell and discontinued operations tax expense. A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of SaskCentral's operations and cash flows. If an entity or a component of an entity is classified as a discontinued operation, SaskCentral restates prior periods in the consolidated statement of income.

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. These measurement provisions do not apply to deferred tax assets and liabilities, financial assets in the scope of IAS 39, or investment properties that are accounted for in accordance with the fair value model in IAS 40. Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition, subject to terms that are usual and customary for sales of such assets. Management must be committed to the sale and must actively market the property for sale at a price that is reasonable in relation to the current fair value. The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

(a) Current income tax

Income tax payable (receivable) is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognized as an expense (income) for the period except to the extent that current tax related to items that are charged or credited in other comprehensive income or directly to equity. In these circumstances, current tax is charged or credited to other comprehensive income or to equity (for example, current tax on available-for-sale securities).

Where SaskCentral has tax losses that can be relieved against a tax liability for a previous year, it recognizes those losses as an asset, because the tax relief is recoverable by refund of tax previously paid. This asset is offset against any existing current tax balance.

Where tax losses can be relieved only by carry-forward against taxable profits of future periods, the losses are carried forward and off-set against deferred tax liabilities carried in the consolidated balance sheet.

There are no circumstances which require SaskCentral to offset current income tax liabilities and current income tax assets.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Current income tax (continued)

Reduction of income taxes that arise from the distribution of dividends by SaskCentral are recognized at the same time as the liability to pay the related dividend is recognized and are recorded directly in equity.

(b) Deferred income tax

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

The principal temporary differences arise from amortization of property, plant and equipment, effective interest method and carry-forward losses. 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.

Deferred tax related to fair value re-measurement of available-for-sale securities, which are recognized in other comprehensive income, is also recognized in the other comprehensive income and subsequently in the consolidated statement of income 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.

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 12 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Short-term employee benefits (continued)

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.

Provisions

A provision is 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 an outflow of economic benefits 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.

Dividends

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

New standards and interpretations not yet adopted

At December 31, 2012 a number of standards and interpretations, and amendments thereto have been issued by the IASB, which are not effective for these consolidated financial statements. Those which could have an impact on SaskCentral's consolidated financial statements are discussed below.

Financial Instruments

IFRS 9, Financial Instruments (IFRS 9), issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

All recognized financial assets that are within the scope of IAS 39, Financial Instruments: Recognition and Measurement 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. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, 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 other comprehensive income, with only dividend income generally recognized in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, 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 other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income 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. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

SaskCentral anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect to SaskCentral's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidated Financial Statements

IFRS 10, Consolidated Financial Statements (IFRS 10) was issued in June 2011 is a replacement of IAS 27, Consolidated and Separate Financial Statements and SIC-12, Consolidation – Special Purpose Entities. IFRS 10 uses control as the single basis for consolidation, regardless of the nature of the investee, eliminating the risks and rewards approach included in SIC-12. The three elements of control are power over the investee, exposure or rights to variable returns from involvement with the investee and the ability to use power over the investee to affect the amount of the investor's returns.

The effective date of IFRS 10 is for annual periods beginning on or after January 1, 2013, with early adoption permitted. SaskCentral is currently evaluating the impact of IFRS 10 on its consolidated financial statements.

Joint Arrangements

IFRS 11, Joint Arrangements (IFRS 11) was issued in June 2011 and is the result of the IASB's project to replace IAS 31, Interests in Joint Ventures (IAS 31) and SIC-13 – Jointly Controlled Entities – Non-monetary Contributions by Venturers (SIC-13). The new standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted. Under IAS 31, joint ventures could be proportionately consolidated. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with early adoption permitted. SaskCentral is currently evaluating the impact of IFRS 11 on its consolidated financial statements.

IAS 28, Investments in Associates (IAS 28) was revised in May 2011 and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with early adoption permitted. SaskCentral is currently evaluating the impact of IAS 28 on its consolidated financial statements.

Disclosure of Interests in Other Entities

IFRS 12, Disclosure of Interests in Other Entities (IFRS 12) was issued in June 2011 and outlines the required disclosures for interest in subsidiaries and joint arrangements. The new disclosures require information that helps financial statements users evaluate the nature of and risk associated with the entity's interests in subsidiaries and joint arrangements and the effects of those interests on its financial statements.

The effective date of IFRS 12 is for annual periods beginning on or after January 1, 2013, with early adoption permitted. SaskCentral is currently evaluating the impact of IFRS 12 on its consolidated financial statements.

Fair Value Measurements

IFRS 13, Fair Value Measurements (IFRS 13) was issued in June 2011 and provides a common definition of fair value, establishes a framework for measuring fair value under IFRS and enhances the disclosures required for fair value measurements. The standard applies where fair value measurements are required and does not require new fair value measurements. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with early adoption permitted. SaskCentral is currently evaluating the impact of IFRS 13 on its consolidated financial statements.

Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32, Financial Instruments: Presentation (IAS 32) clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting Financial Assets and Financial Liabilities (continued)

The amendments to IFRS 7, Financial Instruments: Disclosures (IFRS 7) require entities to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement. The amendments to IFRS 7 are effective for annual periods beginning on or after January 1, 2013. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to IAS 32 are not effective until annual periods beginning on or after January 1, 2014, with retrospective application required.

SaskCentral is currently evaluating the impact of the amendments to IAS 32 and IFRS 7 on its consolidated financial statements.

Employee Benefits

IAS 19, Employee Benefits (IAS 19) has been amended to provide additional guidance to assist in distinguishing between benefits payable in exchange for termination of employment and those payable in exchange for service. In addition, further guidance has been provided with respect to the timing of the recognition of these benefits. This amendment is effective for annual periods beginning on or after January 1, 2013, and requires retrospective application. SaskCentral does not expect the amendments to IAS 19 to have a significant impact on its consolidated financial statements.

Presentation of Financial Statements

IAS 1, Presentation of Financial Statements (IAS 1) was amended in 2011 to expand the disclosures required of items within other comprehensive income. The revised standard requires that an entity should distinguish between those items recycled to income versus those items that are not recycled. This amendment is effective for annual periods beginning on or after July 1, 2012, with earlier application permitted. SaskCentral does not expect the amendments to IAS 1 to have a significant impact on its consolidated financial statements.

SaskCentral did not early adopt any new or amended standards in 2012.

3. FINANCIAL RISK MANAGEMENT

As a financial institution, SaskCentral is exposed to the following risks as a result of holding financial instruments: credit risk, market risk, interest rate 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
- Aggregating credit exposures (including derivatives) to a counterparty
- Determining appropriate levels of credit concentration commensurate with the ability to absorb credit losses while not impairing the liquidity operations
- Limiting lending to credit unions for liquidity support and other strategic investments
- Establishing prudent loan structuring, and credit review and authorization processes
- Effectively managing monitored and non-productive assets
- Monitoring the quality of the credit portfolio ensuring conservative valuation, adequate provisions for impairment, and timely recognition of losses through specific loss allowances and write downs
- Establishing collective loss allowance levels based upon industry best practice methodology

in thousands of Canadian dollars

3. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

The Board of Directors of SaskCentral is responsible for approving the credit risk tolerances in the Balance Sheet Management Policy upon the recommendation of the Audit and Risk Committee. Further operating credit risk policies are outlined in the Balance Sheet Operating Policy which is within the authority of the Executive Vice-President, Finance/Chief Financial Officer. Compliance to these policies is monitored 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 Asset-Liability Committee, established by the Board and comprised of members of executive, senior, and operating management, has the authority to set credit risk strategies for the security portfolio within the risk tolerances in the Balance Sheet Management Policy and Balance Sheet Operating 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 Credits Report
- Corporate Risk Report

The SaskCentral credit risk objectives, policies, and methodologies have not changed materially from December 31, 2011.

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.

Credit risk exposure by risk rating:

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

	2012 $	2011 $
Low risk		
Risk rating 1	**415,056**	383,196
Risk rating 2	**1,000**	1,000
Standard monitoring		
Risk rating 3	**-**	-
Risk rating 4	**-**	-
Special monitoring		
Risk rating 5	**12,810**	12,810
Default		
Risk rating 6	**-**	-
Risk rating 7	**-**	-
Total Exposure	**428,866**	397,006

The following tables summarize the risk rating based on recognized rating agency data for held-for-trading securities at carrying value.

	2012 $	2011 $
A	**21,069**	19,869
BBB	**-**	-
Unrated	**293**	3,069
Total Exposure	**21,362**	22,938

in thousands of Canadian dollars

3. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

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

	2012 $	2011 $
AAA/R1H	**682,959**	628,478
AA/R1M	**551,340**	815,992
A/R1L	**584,433**	351,327
BBB/R2H	**32,114**	10,140
Unrated	**104**	198
Co-operatives	**6,576**	5,936
Total Exposure	**1,857,526**	1,812,071

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

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

Credit risk exposure by industry:

	2012 $			2011 $
	Outstanding	Undrawn Commitments	Total	Total
Automobile financing	**30,440**	-	**30,440**	14,953
Banking	**773,566**	-	**773,566**	861,169
Credit card issuing/financing	**40,382**	-	**40,382**	-
Credit union	**41,829**	**310,827**	**352,656**	299,228
Insurance carriers and related activities	**1,797**	-	**1,797**	8,919
Manufacturing	**25,588**	-	**25,588**	5,042
Mining and oil and gas extraction	**27,106**	-	**27,106**	8,586
Other	**30,674**	-	**30,674**	28,135
Other depository	**26,266**	-	**26,266**	31,498
Other - diversified holdings	**7,547**	**2,222**	**9,769**	10,283
Public administration	**885,811**	-	**885,811**	815,535
Real estate	**8,201**	-	**8,201**	9,254
Rental and leasing services	**8,372**	-	**8,372**	9,734
Residential mortgages – conventional	-	-	-	2,030
Security, commodity contracts and other financial institutions	**5,638**	-	**5,638**	-
Transportation and warehousing	**13,044**	-	**13,044**	21,150
Utilities	**8,255**	-	**8,255**	5,027
Total Exposure	**1,934,516**	**313,049**	**2,247,565**	2,130,543

in thousands of Canadian dollars

3. FINANCIAL RISK MANAGEMENT (continued)

Market risk

Market risk arises from three components:

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

The SaskCentral's Board is responsible for approving the market risk tolerances in the Balance Sheet Management Policy upon the recommendation of the Audit and Risk Committee. Compliance to these policies is monitored 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 Asset-Liability Committee has the authority to set market risk strategies for the balance sheet within the risk tolerances in the Balance Sheet Management Policy and Balance Sheet Operating Policy. In addition, this committee 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 Corporate Risk Report, outlining market risk levels, is provided to the Board on an annual basis.

The SaskCentral market risk objectives and methodologies have not changed materially from December 31, 2011.

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:

	2012 $		2011 $	
	Adjusted Net interest income	Economic value of equity	Adjusted Net interest income	Economic value of equity
Impact of:				
100 bp increase in rates	**0.5%**	**(4.5%)**	(8.1%)	(4.3%)
100 bp decrease in rates	**(0.4%)**	**3.5%**	6.1%	3.3%
Impact of:				
30% rate ramp increase	**2.6%**	**(1.0%)**	3.5%	(0.6%)
30% rate ramp decrease	**(0.1%)**	**1.1%**	0.5%	0.8%

in thousands of Canadian dollars

3. FINANCIAL RISK MANAGEMENT (continued)

Interest rate risk

SaskCentral's exposure to interest rate risk can also be measured by the mismatch or gap, between the assets and liabilities scheduled to mature or reprice on particular dates. Gap analysis measures the difference between the amount of assets and liabilities that reprice in specific time periods.

Repricing dates are based on the earlier of maturity or the contractual repricing date and effective interest rates, where applicable, represent the weighted average effective yield.

The table below shows SaskCentral's gap position, as at December 31:

	2012 $						
	On demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	Total
Assets							
Cash and cash equivalents	29,481	-	-	-	-	-	29,481
Securities	-	779,364	343,293	749,258	397	17,553	1,889,865
Effective interest rate		1.41%	1.92%	2.46%	12.03%		
Derivative assets	-	191	482	11,326	-	-	11,999
Loans	43,196	15,710	-	-	-	21	58,927
Effective interest rate	2.62%	2.03%					
Trade and other receivables	-	-	-	-	-	1,146	1,146
Other assets	-	-	-	-	-	774	774
Investments in associates	-	-	-	-	-	200,114	200,114
Property, plant & equipment	-	-	-	-	-	4,255	4,255
Investment property	-	-	-	-	-	10,636	10,636
Other intangible assets	-	-	-	-	-	1,229	1,229
	72,677	795,265	343,775	760,584	397	235,728	2,208,426
Liabilities							
Deposits	156,859	278,739	443,365	808,394	-	4,150	1,691,507
Effective interest rate	0.03%	0.58%	0.91%	0.98%			
Derivative liabilities	-	209	482	11,326	-	-	12,017
Loans payable	-	107,177	-	-	-	2	107,179
Effective interest rate		0.56%					
Notes payable	-	14,993	-	-	-	-	14,993
Effective interest rate		1.19%					
Trade and other payables	-	-	-	-	-	4,610	4,610
Other liabilities	-	-	-	-	-	105	105
Subordinate debentures	-	-	-	30,000	-	792	30,792
Effective interest rate				2.64%			
Deferred income tax liability	-	-	-	-	-	6,595	6,595
Non-controlling interest	-	-	-	-	-	1,069	1,069
Equity	-	-	-	-	-	339,559	339,559
	156,859	401,118	443,847	849,720	-	356,882	2,208,426
Total gap	(84,182)	394,147	(100,072)	(89,136)	397	(121,154)	-

in thousands of Canadian dollars

3. FINANCIAL RISK MANAGEMENT (continued)

Interest rate risk (continued)

2011
$

	On demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest sensitive	Total
Assets							
Cash and cash equivalents	20,459	-	-	-	-	-	20,459
Securities	-	650,083	478,836	656,110	44,044	17,667	1,846,740
Effective interest rate		1.36%	1.97%	2.51%	6.34%		
Derivative assets	-	3,440	1,257	7,430	-	-	12,127
Loans	88,218	6,044	-	-	-	15	94,277
Effective interest rate	4.24%	3.00%					
Trade and other receivables	-	-	-	-	-	1,193	1,193
Other assets	-	-	-	-	-	822	822
Investments in associates	-	-	-	-	-	183,621	183,621
Property, plant & equipment	-	-	-	-	-	3,995	3,995
Investment property	-	-	-	-	-	10,907	10,907
Other intangible assets	-	-	-	-	-	1,737	1,737
	108,677	659,567	480,093	663,540	44,044	219,957	2,175,878
Liabilities							
Deposits	158,208	271,677	540,616	647,690	9,109	4,489	1,631,789
Effective interest rate	0.02%	0.64%	1.09%	1.30%			
Derivative liabilities	-	3,551	1,257	7,430	-	-	12,238
Loans payable	-	118,164	-	-	-	5	118,169
Effective interest rate		0.86%					
Notes payable	-	44,948	4,979	-	-	39	49,966
Effective interest rate		1.16%	1.26%				
Trade and other payables	-	-	-	-	-	4,232	4,232
Other liabilities	-	-	-	-	-	230	230
Subordinate debentures	-	-	-	30,000	-	936	30,936
Effective interest rate				3.12%			
Deferred income tax liability	-	-	-	-	-	4,839	4,839
Non-controlling interest	-	-	-	-	-	588	588
Equity	-	-	-	-	-	322,891	322,891
	158,208	438,340	546,852	685,120	9,109	338,249	2,175,878
Total gap	(49,531)	221,227	(66,759)	(21,580)	34,935	(118,292)	-

in thousands of Canadian dollars

3. FINANCIAL RISK MANAGEMENT (continued)

Interest rate risk (continued)

SaskCentral's interest rate sensitivity to a 100 basis point (bp) fluctuation in interest rates over the next 12 months, as measured based on the current position at December 31, 2012, would be as outlined in the following table if no remedial action was taken by SaskCentral.

	2012 $		2011 $	
	Net Income (Loss)	Other Comprehensive (Loss) Income	Net Income (Loss)	Other Comprehensive (Loss) Income
Impact of:				
100 bp increase in rates	9,746	(18,199)	10,004	(16,590)
100 bp decrease in rates	(5,605)	14,028	(6,268)	12,726

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:

- Regular monitoring of credit union system and SaskCentral cash flows
- Maintaining sufficient cash and cash equivalents to support daily liquidity needs
- Investing a significant portion of the investment portfolio in liquid low-risk instruments
- Maintaining external credit facilities, including lines of credit, a commercial paper program, and repurchase agreements
- Maintaining a credit agreement with the Group Clearer (Credit Union Central of Canada until July 6, 2011, Central 1 Credit Union thereafter) for settlement purposes
- Undertaking periodic stress testing
- Maintaining an investment grade market rating
- Ensuring adequate liquidity to facilitate clearing and settlement functions on behalf of Saskatchewan credit unions
- Ensuring investments are available to support liquidity needs
- Providing operating credit facilities for Saskatchewan credit unions
- Maintaining a liquidity crisis management plan, including funding plans
- Leading engagement with credit unions regarding liquidity processes and practices

The SaskCentral Board of Directors is responsible for approving the liquidity risk tolerances in the *Balance Sheet Management Policy* upon the recommendation of the Audit and Risk Committee. Further operating liquidity risk policies are outlined in the *Balance Sheet Operating Policy* which is within the authority of the Executive Vice-President of Finance/Chief Financial Officer. Compliance to these policies is monitored on a quarterly basis.

in thousands of Canadian dollars

3. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

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

The Corporate Risk Report, outlining liquidity risk levels, is provided to the Board of Directors on an annual basis.

The SaskCentral liquidity risk objectives, policies, and methodologies have not changed materially from December 31, 2011.

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.

			2012 $		
	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Loans payable	107,179	-	-	-	107,179
Notes payable	14,993	-	-	-	14,993
Subordinated debentures	792	-	30,000	-	30,792
Total Exposure	122,964	-	30,000	-	152,964

			2011 $		
	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Loans payable	118,169	-	-	-	118,169
Notes payable	49,966	-	-	-	49,966
Subordinated debentures	936	-	30,000	-	30,936
Total Exposure	169,071	-	30,000	-	199,071

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

SaskCentral liquidity position is monitored on a daily basis to ensure it can fulfill its primary role as liquidity manager for the Saskatchewan credit union system, meet its obligations, and optimize its cash resources for the balance sheet. SaskCentral aims to effectively use liquidity facilities to ensure liquidity access during constrained liquidity conditions.

The SaskCentral on-balance sheet liquidity position is monitored in reference to a ratio of liquid assets as a percentage of Saskatchewan credit union system assets and a balance sheet liquidity ratio (readily marketable liquid assets as a percentage of liabilities). At December 31, 2012 the ratio of liquid assets as a percentage of Saskatchewan credit union system assets was 7.4% (8.0% at December 31, 2011) and balance sheet liquidity ratio was 97.9% (100.1% at December 31, 2011).

4. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair values of financial instruments are based on relevant market prices and information available at the time. Due to the use of subjective judgment and uncertainties, the aggregate fair value amounts shown should not be interpreted as necessarily being realizable in an immediate settlement of the instruments. The table outlines the fair values for financial instruments only and does not include assets or liabilities that are not considered financial instruments, such as property, plant and equipment, and intangible assets.

Cash and cash equivalents, trade and other receivables, and trade and other payables are all short term in nature and as such, their carrying value approximates fair value.

The fair value of securities is established using market prices when available. In the absence of an active market, SaskCentral determines fair value using valuation models based on assumptions concerning the amount and timing of estimated future cash flows and discount rates.

The estimated value of loans reflects changes in general interest rates which have occurred since the loans were originated. Moreover, the calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values. The fair value of fixed interest rate loans is calculated using discounted cash flows based on current rates of interest for similar lending arrangements. The fair value of floating interest rate loans is approximately equal to carrying value.

The carrying value of deposits with no stated maturity or loans and notes payable due on demand is assumed to approximate fair value. For the remainder of the deposits, fair value is calculated using discounted cash flows based on current market interest rates for similar maturities.

The fair value of subordinated debentures is calculated using discounted cash flows based on current market interest rates for similar maturities.

The fair value of derivative financial instruments is calculated by referring to the appropriate current market yields with matching terms to maturity. The fair values reflect the estimated amounts that SaskCentral would receive or pay to terminate the contracts at the reporting date.

Any changes in the fair values of financial instruments designated at fair value through profit or loss or available-for-sale are recorded in net income and OCI, respectively. The cumulative changes in the fair values of available-for-sale securities previously recorded in AOCI are reclassified to net income when they are derecognized or when impairment has been assessed. Available-for-sale securities measured at fair value are assessed for impairment at each reporting date. As at December 31, 2012, the pre-tax unrealized losses for available-for-sale securities measured at fair value amounted to $1,722 (2011 - $1,522). SaskCentral does not consider the available-for-sale securities measured at fair value of $1,857,526 (2011 - $1,812,071) to be impaired as at December 31, 2012. As at December 31, 2012, the pre-tax unrealized gains on the available-for-sale securities totaled $11,291 (2011 - $16,941). The net unrealized gains for the year are reflected in unrealized gains on available-for-sale securities in OCI. Derivatives are classified as held-for-trading and changes in the fair values are recorded in net income.

in thousands of Canadian dollars

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

	2012 $				
	Fair value through profit or loss instruments classified as held for trading	Available-for-sale instruments measured at fair value	Loans and receivables and other liabilities	Total carrying amount	Fair value
Financial assets					
Securities	21,362	1,868,503	-	1,889,865	1,889,865
Derivative assets	11,999	-	-	11,999	11,999
Loans	-	-	58,927	58,927	58,937
Financial liabilities					
Deposits	-	-	1,691,507	1,691,507	1,707,312
Derivative liabilities	12,017	-	-	12,017	12,017
Loans payable	-	-	107,179	107,179	107,206
Notes payable	-	-	14,993	14,993	14,995
Subordinated debentures	-	-	30,792	30,792	30,793

	2011 $				
	Fair value through profit or loss instruments classified as held for trading	Available-for-sale instruments measured at fair value	Loans and receivables and other liabilities	Total carrying amount	Fair value
Financial assets					
Securities	22,938	1,823,802	-	1,846,740	1,846,740
Derivative assets	12,127	-	-	12,127	12,127
Loans	-	-	94,277	94,277	94,271
Financial liabilities					
Deposits	-	-	1,631,789	1,631,789	1,642,155
Derivative liabilities	12,238	-	-	12,238	12,238
Loans payable	-	-	118,169	118,169	118,217
Notes payable	-	-	49,966	49,966	49,975
Subordinated debentures	-	-	30,936	30,936	30,953

in thousands of Canadian dollars

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

The following table presents SaskCentral's financial assets and liabilities measured at fair value and are categorized by the fair value hierarchy levels as described in Note 2:

	2012 $			
	Available-for-Sale Securities	Held-for-Trading Securities	Derivative Assets	Derivative Liabilities
Level 1	-	-	-	-
Level 2	1,868,399	-	11,999	12,017
Level 3	104	21,362	-	-
Total	1,868,503	21,362	11,999	12,017

	2011 $			
	Available-for-Sale Securities	Held-for-Trading Securities	Derivative Assets	Derivative Liabilities
Level 1	-	-	-	-
Level 2	1,823,604	-	12,127	12,238
Level 3	198	22,938	-	-
Total	1,823,802	22,938	12,127	12,238

The beginning and ending balances for assets that are measured on the balance sheet at fair value based on a valuation technique for which SaskCentral uses one or more input parameters that are not based on observable market data or uses observable inputs that require significant adjustment based on unobservable inputs (Level 3) are as follows:

	2012 $	2011 $
Level 3, beginning of year	23,136	44,370
Total gains (losses)		
In net income	2,039	171
In other comprehensive income (loss)	34	46
Issuances	-	-
Sales/settlements	(3,614)	(21,085)
Principal payments	(129)	(366)
Transfer out of Level 3	-	-
Level 3, end of year	21,466	23,136
Total gains for the period included in net income for assets and liabilities held at the end of the reporting period	1,312	166

Level 3 available-for-sale securities consist of MAV notes, the fair value of which has been estimated using a discounted cash flow valuation model.

in thousands of Canadian dollars

5. CAPITAL MANAGEMENT

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

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 AOCI. Tier 2 regulatory capital consists of subordinated debentures, less any amortization on the subordinated debentures as required by the Office of the Superintendent of Financial Institutions (OSFI). 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.

SaskCentral manages its capital by monitoring, on a quarterly basis, a number of regulatory requirements as prescribed by OSFI and by internal board and operational policies. 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 or the leverage in the organization. Total borrowings are comprised of total deposit liabilities, notes payable and loans payable. The Borrowing Multiple is not to exceed 20.0 times total borrowings as prescribed by OSFI. Internal board policy for this ratio is set at 17.0 times. Operationally, management targets a maximum ratio of 14.0 times.

SaskCentral completes Risk Weighted Assets capital tests that are not mandated by OSFI. These tests are considered best practice and adopted by SaskCentral to manage operational capital requirements. Ratios are calculated by dividing Tier 1 Regulatory Capital and Total Regulatory Capital by Risk Weighted Assets (RWA). RWA are composed of the sum of all assets where each asset is multiplied by a risk weight that ranges from zero for the lowest risk class to 1.0 for the highest class.

Since the SaskCentral portfolio is comprised mostly of liquid investment securities with high credit ratings, the risk weighted assets of SaskCentral are very low. Tier 1 Regulatory Capital to RWA is not to be less than 8.0% as prescribed by board policy. Total Regulatory Capital to RWA shall not be less than 11.0% as prescribed by board policy.

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

	2012 $	2011 $
Capital		
Tier 1 and Tier 2 regulatory capital	**341,278**	322,326
Less deductions:		
Substantial investments	**190,214**	171,739
Assets of little value	**1,541**	1,248
Total borrowing multiple capital	**149,523**	149,339
Risk-weighted assets		
Total risk-weighted assets	**387,426**	373,057
Borrowing multiple	**12.1:1**	12.1:1
Tier 1 regulatory capital to risk-weighted assets	**39.0%**	40.4%
Total regulatory capital to risk-weighted assets	**39.0%**	40.4%

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

SaskCentral's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgment, which necessarily have to be made in the course of preparation of these consolidated financial statements. SaskCentral makes estimates and assumptions that affect the reported amounts of assets, liabilities, profits and losses within the next financial year. 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 past experience and other factors, including expectations with regard to future events. Accounting policies and management's judgments for certain items are especially critical for SaskCentral's results and financial position due to their materiality. The key sources of estimated uncertainty are:

Allowances for impairment

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

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about a counterparty's financial situation and the net realizable value of any underlying collateral.

Each impaired asset is assessed on its merits, and the work out strategy and estimate of cash flows considered recoverable are independently approved by the credit risk management function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans, but the individual impaired loans cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modeled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances. There were no allowances for impairment in 2012.

Fair value of financial instruments

The fair values of financial instruments where no active market exists or where quoted prices are not otherwise available are determined using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques such as models are used to determine fair values, they are validated and periodically reviewed. All models are approved before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty credit risk), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

in thousands of Canadian dollars

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Income taxes

The deferred tax asset recognized at December 31, 2012 is based on future profitability assumptions over a five year horizon. In the event of changes to these profitability assumptions, the deferred tax asset recognized may be adjusted.

Investment property

Management estimates the fair values of investment property using a prior year building appraisal and the current year inflation factor.

7. CASH AND CASH EQUIVALENTS

	2012 $	2011 $
Cash and balances with Central 1 Credit Union	**17,238**	15,722
Cash and balances with banks	**7,243**	4,737
Cash equivalents	**5,000**	-
	29,481	20,459

8. SECURITIES

SaskCentral's securities portfolio is comprised of a large number of securities carrying a variety of terms and conditions. Approximately 69.3% (2011 – 74.6%) 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.

Government securities are comprised of securities issued or guaranteed by Canadian federal, provincial and municipal governments. Corporate securities are comprised of commercial paper, medium term notes and co-operative equities.

As at December 31, 2012 $310,237 (2011 - $266,023) of securities were pledged as collateral to the Bank of Canada under the terms of the Credit Union System Group Clearing Agreement and are restricted from SaskCentral's use.

in thousands of Canadian dollars

8. SECURITIES (continued)

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

	2012 $					
	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	-	60,684	275,172	4,605	-	340,461
Amortized cost	-	60,404	273,176	4,600	-	338,180
Yield (1)		1.99%	1.63%	1.35%		1.69%
Provincial						
Fair value	123,424	155,466	247,627	-	-	526,517
Amortized cost	123,430	155,169	245,201	-	-	523,800
Yield (1)	1.03%	1.64%	1.99%			1.66%
Municipal						
Fair value	-	13,835	-	-	-	13,835
Amortized cost	-	13,832	-	-	-	13,832
Yield (1)		1.34%				1.34%
Corporate						
Corporate debt (2)						
Fair value	35,251	75,596	77,933	5,979	-	194,759
Amortized cost	35,257	75,574	78,833	6,000	-	195,664
Yield (1)	1.39%	1.52%	1.85%	1.39%		1.63%
Master asset vehicle						
Fair value	-	-	-	104	-	104
Amortized cost	-	-	-	104	-	104
Yield (1)				8.94%		8.94%
Chartered banks						
Fair value	129,317	155,846	490,111	-	-	775,274
Amortized cost	129,285	155,330	485,045	-	-	769,660
Yield (1)	1.47%	2.03%	2.36%			7.14%
Co-operatives						
Fair value	-	-	-	-	6,576	6,576
Amortized cost	-	-	-	-	6,717	6,717
Yield (1)						
Total fair value	287,992	461,427	1,090,843	10,688	6,576	1,857,526
Total amortized cost	287,972	460,309	1,082,255	10,704	6,717	1,847,957
Held-For-Trading						
Master asset vehicle						
Fair value	-	-	21,069	293	-	21,362
Total carrying value						1,878,888
Accrued interest						10,977
						1,889,865

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

in thousands of Canadian dollars

8. SECURITIES (continued)

2011
$

	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	-	135,760	210,559	9,095	-	355,414
Amortized cost	-	134,724	207,698	9,100	-	351,522
Yield (1)		2.20%	1.82%	1.48%		1.96%
Provincial						
Fair value	82,007	119,737	260,371	-	-	462,115
Amortized cost	82,022	119,067	255,761	-	-	456,850
Yield (1)	1.04%	1.94%	2.16%			1.90%
Municipal						
Fair value	-	5,183	-	-	-	5,183
Amortized cost	-	5,184	-	-	-	5,184
Yield (1)		1.20%				1.20%
Corporate						
Corporate debt (2)						
Fair value	22,502	47,090	24,182	6,000	-	99,774
Amortized cost	22,501	46,985	24,816	6,000	-	100,302
Yield (1)	1.26%	2.16%	1.70%	1.38%		1.80%
Master asset vehicle						
Fair value	-	-	-	198	-	198
Amortized cost	-	-	-	198	-	198
Yield (1)				8.94%		8.94%
Chartered banks						
Fair value	126,891	289,042	426,287	41,231	-	883,451
Amortized cost	126,887	288,438	420,216	40,836	-	876,377
Yield (1)	1.14%	1.60%	2.52%	3.18%		2.05%
Co-operatives						
Fair value	-	-	-	-	5,936	5,936
Amortized cost	-	-	-	-	6,219	6,219
Yield (1)						
Total fair value	231,400	596,812	921,399	56,524	5,936	1,812,071
Total amortized cost	231,410	594,398	908,491	56,134	6,219	1,796,652
Held-For-Trading						
Master asset vehicle						
Fair value	-	-	-	22,938	-	22,938
Total carrying value						1,835,009
Accrued interest						11,731
						1,846,740

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

(2) *corporate debt includes: commercial paper, medium-term notes*

in thousands of Canadian dollars

8. SECURITIES (continued)

At December 31, 2012, $1,108,107 (2011 - $983,859) of securities are expected to be recovered more than 12 months after the reporting date.

Gain on Securities

	2012 $	2011 $
Realized gains on available-for-sale securities	548	2,864
Realized losses on available-for-sale securities	(76)	(562)
Impairment on available-for-sale securities	-	(91)
Realized gains on securities classified as held-for-trading	742	-
Realized losses on securities classified as held-for-trading	(15)	(898)
Unrealized gains on securities classified as held-for-trading	1,312	166
Gain on securities	2,511	1,479

Unrealized gains and losses on available-for-sale securities

	2012 $				2011 $			
	Amortized cost	Unrealized gains	Unrealized losses	Fair value	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Government	875,812	5,120	(119)	880,813	813,556	9,395	(239)	822,712
Corporate	972,145	6,171	(1,603)	976,713	983,096	7,546	(1,283)	989,359
	1,847,957	11,291	(1,722)	1,857,526	1,796,652	16,941	(1,522)	1,812,071

Master Asset Vehicles (MAV), consisting of pools of assets, issued notes on January 19, 2009, to replace non-bank sponsored or third party Asset Backed Commercial Paper which had experienced a liquidity event or market disruption in 2007. During the year SaskCentral received $391 (2011 - $743) of principal and interest payments on the MAV notes held. SaskCentral also sold $4,803 (2011 - $32,592) (par value) of MAV notes. The fair value of MAV notes held at December 31, 2012 is $21,466 (2011 - $23,136). For the purposes of valuation of the MAV notes, SaskCentral uses a discounted cash flow model.

in thousands of Canadian dollars

9. DERIVATIVE ASSETS AND LIABILITIES

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

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

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

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

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.

Notional amounts and term to maturity

	2012 $				
	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Foreign exchange contracts	69,800	124	229	-	70,153
Index-linked term deposits	15,374	16,062	120,094	-	151,530
	85,174	16,186	120,323	-	221,683

	2011 $				
	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Foreign exchange contracts	25,678	126	-	-	25,804
Index-linked term deposits	19,248	19,858	112,820	-	151,926
	44,926	19,984	112,820	-	177,730

in thousands of Canadian dollars

9. DERIVATIVE ASSETS AND LIABILITIES (continued)

Fair value of derivative instruments

	2012 $		2011 $	
	Positive	Negative	Positive	Negative
Foreign exchange contracts	2	20	1	112
Index-linked term deposits	11,997	11,997	12,126	12,126
	11,999	12,017	12,127	12,238

Amounts Expected to be Recovered or Settled

	2012 $		2011 $	
	Positive	Negative	Positive	Negative
Within 12 months	673	691	4,697	4,808
After 12 months	11,326	11,326	7,430	7,430
	11,999	12,017	12,127	12,238

Derivative transactions related to the manufacturing of index linked term deposits do not carry residual credit risk exposure. SaskCentral does not make any representations as to the derivative, 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.

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

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

The following table provides information in relation to SaskCentral's credit risk exposure for derivative financial transactions. Positive replacement cost is derived from the fair value of derivative financial instruments [note 4]. Potential credit risk exposure and risk-weighted equivalents are calculated in accordance with the capital adequacy guidelines as prescribed by OSFI.

in thousands of Canadian dollars

9. DERIVATIVE ASSETS AND LIABILITIES (continued)

	2012 $	2011 $
Notional amounts	70,153	25,804
Positive replacement cost	2	1
Potential credit risk exposure	711	258
Credit equivalent amount	713	259
Risk-weighted equivalent	143	52

Realized gains on derivatives

	2012 $	2011 $
Realized gains on derivatives	-	12

10. LOANS

	2012 $	2011 $
Credit union	43,196	88,218
Commercial loans	15,710	6,044
	58,906	94,262
Accrued interest	21	15
	58,927	94,277

Approximately 82.64% (2011 – 100%) of the total loan portfolio bears interest at variable rates.

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

2012 $	Within 3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	Total
Credit union					
Amortized cost ($)	43,196	-	-	-	43,196
Rate (%)	2.62%				2.62%
Commercial loans					
Amortized cost ($)	15,710	-	-	-	15,710
Rate (%)	2.03%				2.03%
Amortized cost	58,906	-	-	-	58,906

in thousands of Canadian dollars

10. LOANS (continued)

	2011 $				
	Within 3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	Total
Credit union					
Amortized cost ($)	88,218	-	-	-	88,218
Rate (%)	4.24%				4.24%
Commercial loans					
Amortized cost ($)	6,044	-	-	-	6,044
Rate (%)	3.00%				3.00%
Amortized cost	94,262	-	-	-	94,262

Allowance for impairment

The following table summarizes SaskCentral's collective and specific allowances for impairment:

	2012 $	
	Specific allowance	Total
Balance at beginning of year	-	-
Reversal of impairment	-	-
Balance at end of year	-	-

	2011 $	
	Specific allowance	Total
Balance at beginning of year	116	116
Reversal of impairment	(116)	(116)
Balance at end of year	-	-

11. OTHER ASSETS

	2012 $	2011 $
Prepaid and deferred costs	**692**	732
Inventory	**82**	90
	774	822

in thousands of Canadian dollars

12. INVESTMENTS IN ASSOCIATES

Concentra Financial

At December 31, 2012, SaskCentral owns 84.3% (2011 – 84.3%) of the non-voting Class A shares and 47% (2011 – 49%) of the voting membership shares of Concentra Financial. Concentra Financial provides financial intermediation and trust services to Canadian credit unions and associated commercial and retail customers.

Celero Solutions

At December 31, 2012, SaskCentral has a 31.4% (2011 – 31.4%) interest in Celero Solutions, an unincorporated entity that is a venture between SaskCentral, Alberta Central and Credit Union Central of Manitoba (Manitoba Central) for the purpose of providing information technology services.

SEF

At December 31, 2012, SaskCentral has a 45.45% (2011 – 45.45%) interest in SEF, which was formed to operate as an institutional investment fund focusing primarily on investments in Saskatchewan and the creation of employment and economic growth and expansion of the small business sector in Saskatchewan.

SaskCentral accounts for all investments in associates using the equity accounting method. Related party transactions for these investees, if any, are disclosed in note 32.

The following table provides a summary of the investments in associates balance.

	2012 $	2011 $
Concentra Financial	**194,931**	177,605
Celero Solutions	**2,010**	2,937
SEF	**3,173**	3,079
	200,114	183,621

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

	Assets $	Liabilities $	Revenue $	Expenses $	Net Income (Loss) $
2012					
Concentra Financial	**5,820,128**	**5,562,521**	**222,184**	**190,224**	**31,960**
Celero Solutions	**37,748**	**31,302**	**79,971**	**81,819**	**(1,848)**
SEF	**7,292**	**241**	**979**	**325**	**654**
	5,865,168	**5,594,064**	**303,134**	**272,368**	**30,766**
2011					
Concentra Financial	5,575,778	5,338,755	219,971	192,032	27,939
Celero Solutions	41,354	31,918	80,515	81,665	(1,150)
SEF	6,974	198	671	993	(322)
	5,624,106	5,370,871	301,157	274,690	26,467

in thousands of Canadian dollars

13. PROPERTY, PLANT AND EQUIPMENT

	2012 $			
	Land	Buildings	Equipment	Total
Cost				
Balance as at January 1, 2012	859	10,405	4,698	15,962
Additions	-	543	267	810
Disposals	-	(152)	(1,440)	(1,592)
Ending Balance as at December 31, 2012	859	10,796	3,525	15,180
Accumulated Amortization				
Balance as at January 1, 2012	-	7,546	4,421	11,967
Amortization charges	-	345	205	550
Disposals	-	(152)	(1,440)	(1,592)
Ending Balance as at December 31, 2012	-	7,739	3,186	10,925
Carrying Value as at December 31, 2012	859	3,057	339	4,255

	2011 $			
	Land	Buildings	Equipment	Total
Cost				
Balance as at January 1, 2011	859	9,691	4,492	15,042
Additions	-	714	207	921
Disposals	-	-	(1)	(1)
Ending Balance as at December 31, 2011	859	10,405	4,698	15,962
Accumulated Amortization				
Balance as at January 1, 2011	-	7,250	4,269	11,519
Amortization charges	-	296	153	449
Disposals	-	-	(1)	(1)
Ending Balance as at December 31, 2011	-	7,546	4,421	11,967
Carrying Value as at December 31, 2011	859	2,859	277	3,995

in thousands of Canadian dollars

14. INVESTMENT PROPERTY

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

	2012 $	2011 $
Cost		
Balance as at January 1	11,449	11,449
Ending Balance as at December 31	11,449	11,449
Accumulated Amortization		
Balance as at January 1	542	271
Amortization charges	271	271
Ending Balance as at December 31	813	542
Carrying Value as at December 31	10,636	10,907

The fair value of SaskCentral's investment property at December 31, 2012, has been arrived at on the basis of a third party valuation completed by a qualified independent valuer on September 18, 2008 and further adjusted for an inflation factor consistent with the factor used by the City of Regina for their property tax assessments. The fair value of SaskCentral's investment property is $11,563 (2011 - $11,685). In 2012, investment property generated rental income of $876 (2011 - $851). Direct operating expenses recognized in the consolidated income statement were $1,086 (2011 - $1,042) including an amount of $390 (2011 - $291) relating to investment property that was not leased.

15. OTHER INTANGIBLE ASSETS

		2012 $	
	Computer Software	Intangible Assets under Development	Total
Cost			
Balance as at January 1, 2012	4,228	813	5,041
Additions	-	-	-
Disposals	(15)	-	(15)
Ending Balance as at December 31, 2012	4,213	813	5,026
Accumulated Amortization			
Balance as at January 1, 2012	2,502	802	3,304
Amortization charges	503	5	508
Disposals	(15)	-	(15)
Ending Balance as at December 31, 2012	2,990	807	3,797
Carrying Value as at December 31, 2012	1,223	6	1,229

in thousands of Canadian dollars

15. OTHER INTANGIBLE ASSETS (continued)

	2011 $		
	Computer Software	Intangible Assets under Development	Total
Cost			
Balance as at January 1, 2011	4,225	813	5,038
Additions	3	-	3
Ending Balance as at December 31, 2011	4,228	813	5,041
Accumulated Amortization			
Balance as at January 1, 2011	1,985	800	2,785
Amortization charges	517	2	519
Ending Balance as at December 31, 2011	2,502	802	3,304
Carrying Value as at December 31, 2011	1,726	11	1,737

16. INCOME TAXES

Income taxes are included in the consolidated financial statements as follows:

	2012 $	2011 $
Continuing operations		
Deferred income tax (recovery) expense		
Origination and reversal of temporary differences	6,164	4,120
	6,164	4,120
Income from discontinued operations, net of tax *[note 17]*		
Deferred income tax expense		
Origination and reversal of temporary differences	-	291
	-	291
	6,164	4,411

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

	2012 $	2011 $
Net unrealized gains on available-for-sale securities		
Deferred income tax expense	(2,106)	3,459
	(2,106)	3,459
Reclassification of gains on available-for-sale securities to income		
Deferred income tax recovery	(95)	(17)
	(95)	(17)
	(2,201)	3,442

in thousands of Canadian dollars

16. INCOME TAXES (continued)

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

	2012 $	2011 $
Retained earnings		
Reduction in income taxes due to payment of dividends		
Deferred income tax recovery	(2,207)	(2,817)
	(2,207)	(2,817)

Total income tax reported in the consolidated financial statements:

	2012 $	2011 $
	1,756	5,036

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.

Reconciliation of income tax expense from continuing operations:

	2012 $	2011 $
Combined federal and provincial income tax rate applied to income from Continuing operations (2012 – 27%; 2011 – 28.5%)	9,228	8,651
Income tax expense adjusted for the effect of:		
Non-taxable dividend income	(64)	(136)
Rate reduction relating to equity income	(2,877)	(2,899)
Expenses not deductible for tax purposes	(123)	16
Adjustments related to prior periods	-	864
Reversal of unrecognized deferred tax asset	-	(2,376)
	6,164	4,120

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 22% (2011 - 18%). The movement in deferred income tax liability is as follows:

	2012 $	2011 $
Balance, beginning of year	4,839	(196)
Recognized in net income	6,164	4,411
Available-for-sale securities:		
Fair value measurement	(2,106)	3,459
Transfer to net income	(95)	(18)
Recognized in retained earnings	(2,207)	(2,817)
Balance, end of year	6,595	4,839

in thousands of Canadian dollars

16. INCOME TAXES (continued)

The components of deferred income taxes are as follows:

	2012 $	2011 $
Deferred income tax assets		
Non capital loss carryforward	7,761	7,504
Accounts payable and deferred revenue	36	42
Losses not yet deductible for tax purposes	691	797
Other	94	21
	8,582	8,364
Deferred income tax liabilities		
Securities	(14,123)	(12,051)
Property, plant and equipment	(1,054)	(1,152)
	(15,177)	(13,203)
Net deferred income taxes	(6,595)	(4,839)

	2012 $	2011 $
Deferred income tax assets		
Recoverable after more than 12 months	8,452	8,301
Recoverable within 12 months	130	63
	8,582	8,364
Deferred income tax liabilities		
Payable after more than 12 months	(15,177)	(13,203)
Payable within 12 months	-	-
	(15,177)	(13,203)
Net deferred income taxes	(6,595)	(4,839)

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 $28,744 (2011 - $27,793) which are available to offset future taxable income. The balance of these loss carryforwards will expire in the year 2027 ($16,614), 2029 ($11,179) and 2031 ($951). The benefit of the tax losses has been recognized in SaskCentral's financial statements as realization of the related tax benefit is probable.

17. DISCONTINUED OPERATIONS

On May 30, 2007, it was announced that an agreement was reached to sell the card business. The card business consisted of the retail card business in Concentra Financial and CUETS who managed the credit card business on behalf of Concentra Financial. This transaction required approval of OSFI, which was received on September 21, 2007. The sale transaction date was October 1, 2007.

As a condition of the purchaser purchasing the net assets of the card business, SaskCentral entered into a non-competition and non-solicitation agreement (NCA) with the purchaser. The NCA imposed certain restrictions on SaskCentral including restrictions on business activities involving credit cards and on business restructurings, such as mergers, acquisitions and sales, involving an entity that offers credit card services or holds credit risk associated with credit cards other than for passive investment purposes. The purchase price allocated to this NCA had been deferred and was being amortized from the date of sale over the four year restriction period. As such, the amount that was attributed to the period after year end was recorded as deferred revenue and was being recorded in net income over the remaining months of the restriction period.

in thousands of Canadian dollars

17. DISCONTINUED OPERATIONS (continued)

On October 1, 2011, the NCA expired allowing SaskCentral to wind-up CUETS including the retail card business in Concentra Financial.

The related results of operations have been presented as discontinued operations in the consolidated statement of income for the periods presented.

	2012 $	2011 $
Statement of Income		
Interest income	-	7
Non-interest income	-	1,098
Non-interest expense	-	7
Income before income taxes	-	1,098
Income tax expense *[note 16]*	-	291
Income from discontinued operations, net of tax	-	807

18. DEPOSITS

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

	2012 $					
	Term to maturity					
	On Demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Member						
Amortized Cost	156,859	-	-	20,000	-	176,859
Yield [(1)]	0.03%			0.89%		0.12%
Provincial liquidity program						
Amortized Cost		278,739	443,365	788,394	-	1,510,498
Yield [(1)]		0.58%	0.91%	0.98%		0.89%
	156,859	278,739	443,365	808,394	-	1,687,357
Accrued interest						4,150
						1,691,507

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

in thousands of Canadian dollars

18. DEPOSITS (continued)

	2011 $					
	Term to maturity					
	On Demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Member						
Amortized cost	158,208	-	-	20,000	-	178,208
Yield [1]	0.02%			1.37%		0.17%
Provincial liquidity program						
Amortized cost	-	271,677	540,616	627,690	9,109	1,449,092
Yield [1]		0.64%	1.09%	1.30%		1.09%
	158,208	271,677	540,616	647,690	9,109	1,627,300
Accrued interest						4,489
						1,631,789

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

Interest rates on deposits are determined by market conditions.

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

19. LOANS PAYABLE

SaskCentral has $ 1,200,000 (2011 – $1,200,000) of available credit facilities related to securities repurchase agreements of which outstanding balances of $57,033 (2011 - $97,210) are secured by pledged securities. These repurchase agreements mature within 1 month (2011 – 1 month) and had a weighted average effective interest rate of 1.06% (2011 – 1.05%).

In addition, SaskCentral has a credit facility with Central 1 Credit Union (Central 1) for $100,000 (2011 - $100,000) for which SaskCentral has pledged securities with the Bank of Canada to support this credit facility. The balance of the credit facility is unsecured, ranking equally with the deposit obligations of SaskCentral.

	2012 $	2011 $
Lines of credit facilities		
Amortized cost	**107,179**	118,169
Yield [1]	**0.56%**	0.86%

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

20. NOTES PAYABLE

SaskCentral is authorized to issue a maximum of $300,000 (2011 - $300,000) under a commercial paper program. Outstanding commercial paper matures within one month (2011 – five months) and at December 31, 2012 has a weighted average effective interest rate of 1.19 % (2011 – 1.17%).

in thousands of Canadian dollars

21. OTHER LIABILITIES

	2012 $	2011 $
Deferred revenue	105	230

22. SUBORDINATED DEBENTURES

The Series One convertible subordinated debentures, $30,000 (2011 - $30,000) were issued January 31, 2001, are unsecured and subordinated to deposits and other liabilities of SaskCentral. Interest is payable at an annual rate set on January 1 of each year equal to the most recent average one-year treasury bill auction rate as announced by the Bank of Canada, plus 1.75% (2.64% at December 31, 2012; 3.12% at December 31, 2011). The maturity date of the debentures is January 2016. The debentures are redeemable, at the option of SaskCentral and subject to the approval of OSFI. The debenture holders have a right to convert the debentures, subject to the approval of OSFI, into qualifying investment shares if SaskCentral issues such investment shares in the future. These debentures qualify as tier 2 capital.

23. SHARE CAPITAL

Under The Credit Union Central of Saskatchewan Act, 1999 (The Act), SaskCentral is authorized to issue an unlimited number of membership and investment shares without nominal or par value.

Each member of SaskCentral must own at least one membership share and each member has one vote. The holders of membership shares are Saskatchewan credit unions and certain co-operative associations. The investment shares have privileges and restrictions to be determined by the Board of Directors at the date of issue.

SaskCentral's bylaws require credit unions maintain membership share capital in SaskCentral at 1% of their previous year's assets. SaskCentral has the discretion to make this annual true-up in whole or in part. SaskCentral would not exercise this authority to require additional membership share capital contributions unless the SaskCentral capital plan indicated a projected borrowing multiple in excess of 15.0:1 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 15.0:1 or to 1.0% of system assets, whichever was first met.

Membership and investment shares may be redeemed only with the approval of the Board of Directors subject to the limits provided in the Act. The redemption price is determined with reference to the bylaws of SaskCentral. In accordance with the bylaws of SaskCentral, membership shares are to be issued and redeemed at $10 per share.

Issued share capital is comprised of 12,860,000 membership shares at December 31, 2012 (2011 – 12,593,000). SaskCentral has not issued any investment shares at December 31, 2012. Shares issued during the year were exchanged for cash.

24. DIVIDENDS AND OTHER DISTRIBUTIONS

In 2012, dividends and other distributions of $8,170 (2011 - $9,884) were declared, as approved by the Board of Directors. Two cash dividends were paid to credit unions in 2012. The first was in March for $2,570 (2011 - $4,284) and the second in October for $5,600 (2011 – $5,600).

in thousands of Canadian dollars

25. DUES

Dues, which are included in non-interest income, are used to fund various products and services designed to help credit unions thrive. 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).

26. FEE FOR SERVICE

	2012 $	2011 $
Consulting fees	**641**	620
CUPS fee for service revenue	**10,896**	10,752
Fee for service revenue	**6,385**	6,065
Foreign exchange	**116**	874
Marketing and promotional sales	**669**	718
Miscellaneous revenue	**369**	1,614
Parking revenue	**239**	118
Rental income and other services from investment property	**4,252**	4,336
	23,567	25,097

27. SALARY AND EMPLOYEE BENEFITS

	2012 $	2011 $
Contributions to defined contribution plans	**614**	582
Employee training and development	**259**	165
Other employee benefits	**865**	897
Salaries and incentive compensation	**13,738**	12,648
	15,476	14,292

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 consolidated financial statements. As a defined contribution pension plan, SaskCentral has no future liability or obligation for future contributions to fund benefits to plan members.

28. PROFESSIONAL AND ADVISORY SERVICES

	2012 $	2011 $
Concentra Financial consulting fees	**564**	679
Credit Union Central of Canada (CUCC) cost sharing	**1,647**	1,261
CUPS professional fees	**1,181**	1,208
Professional fees	**4,478**	4,836
	7,870	7,984

29. COMPUTER AND OFFICE EQUIPMENT

	2012 $	2011 $
Amortization	**663**	242
Computer processing and development	**2,422**	2,648
Maintenance	**174**	191
	3,259	3,081

in thousands of Canadian dollars

30. OCCUPANCY

	2012 $	2011 $
Amortization	666	991
CUPS facility charges	693	696
Maintenance	886	809
Professional fees	305	313
Property taxes and utilities	1,083	1,084
	3,633	3,893

31. GENERAL BUSINESS

	2012 $	2011 $
Administrative and service costs	1,656	1,551
Insurance and licenses	150	160
Inventory and promotional supplies	434	482
Marketing and public relations	494	455
Other general costs	1,084	1,168
Printing, office supplies and telephone	753	901
Rental and meeting expense	181	208
Travel and entertainment	577	482
	5,329	5,407

32. 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 Corporate and Community Affairs, Chief Financial Officer / Executive Vice-President Finance, Executive Vice-President Market Solutions, Associate Vice-President Finance, Associate Vice-President Market Solutions, Associate Vice-President Strategic Initiatives, and Associate Vice-President Government & Public Affairs.

Related party transactions are in the normal course of operations and are measured at the consideration established and agreed to by the parties. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. Related party loan balances are included with groups of loans with similar credit risk characteristics when assessing collective allowances. Balances and transactions between SaskCentral, its subsidiaries and jointly controlled entities, which are related parties of SaskCentral, have been eliminated on consolidation and are not disclosed in this note.

SaskCentral has a contract with each of Concentra Financial, Credit Union Deposit Guarantee Corporation (CUDGC), and Celero Solutions to provide management and facility services. Pursuant to The Credit Union Act, 1998, SaskCentral has two positions on the Board of Directors of CUDGC. SaskCentral has investments in Concentra Financial and Celero Solutions as associates, refer to note 12 for more information on these relationships.

in thousands of Canadian dollars

32. RELATED PARTY TRANSACTIONS (continued)

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

	2012 $	2011 $
CUDGC		
Lines of credit authorized	12,000	12,000
Investments held with	12,000	11,700
Deposits payable to	2	42
Management fee received from	705	698
Interest paid to	537	518
Due from included in trade and other receivables	26	6
Celero Solutions		
Management fee paid to	668	813
Due to included in trade and other payables	197	367
Due from included in trade and other receivables	190	261
Loan receivable from (amount drawn on line of credit)	5,725	6,058
Investment in Celero	2,010	2,937
Interest received from	180	149
Concentra Financial		
Lines of credit authorized to	75,000	50,000
Investments held with	20,000	20,000
Interest earned and payable on investments	178	274
Management fee received from	673	507
Due to included in trade and other payables	34	55
Due from included in trade and other receivables	143	112
Loans receivables from (amount drawn on line of credit)	22,861	50,000
Overdraft	-	33,968
Investment in Concentra Financial	194,931	177,605
Interest received from	138	116

Key Management Compensation

	2012 $	2011 $
Directors		
Salaries and other short-term employee benefits	388	338
Post-employment benefits	12	11
	400	349
Key Management Personnel		
Salaries and other short-term employee benefits	3,322	3,127
Post-employment benefits	334	119
	3,656	3,246
	4,056	3,595

in thousands of Canadian dollars

33. 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.

	2012 $	2011 $
Lines of credit and loan commitments		
Original term to maturity of one year or less	**371,266**	336,819
Original term to maturity of more than one year	**400,000**	400,000
	771,266	736,819
Letters of credit and guarantees		
Original term to maturity of one year or less	**1,258**	1,251
	1,258	1,251

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.

CUVentures Limited Partnership
SaskCentral has subscribed to 5,000 of Class B units in CUVentures LP. At December 31, 2012 SaskCentral had purchased 3,788 Class B units for $3,788 (2011 – 3,788 Class B units for $3,788), and has agreed to pay the balance of the subscription price in accordance with the terms and conditions of the partnership agreement. For purposes of OSFI, SaskCentral's investment in CUVentures LP is deemed to be a commercial loan and is calculated as part of SaskCentral's commercial loans limit.

34. JOINTLY CONTROLLED ENTITIES

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.

SaskCentral's proportionate share of its investments in CUPS, before inter-entity eliminations, is summarized below:

	2012 $	2011 $
Balance sheet		
Assets		
Cash and cash equivalents	**1,029**	978
Trade and other receivables	**260**	374
Other assets	**554**	743
Property, plant and equipment	**81**	93
	1,924	2,188
Liabilities and equity		
Trade and other payables	**787**	1,038
Equity	**1,137**	1,150
	1,924	2,188

in thousands of Canadian dollars

34. JOINTLY CONTROLLED ENTITIES (continued)

	2012 $	2011 $
Statement of income		
Loans and notes interest expense	**89**	91
Net interest expense	**89**	91
Non-interest income		
Fee for service	**10,896**	10,820
	10,896	10,820
Net interest and non-interest income	**10,807**	10,729
Non-interest expense		
Salary and employee benefits	**3,498**	3,551
Professional fees	**1,181**	1,207
Computer and office equipment	**1,760**	1,719
Occupancy	**1,268**	1,252
General business	**1,963**	1,850
	9,670	9,579
Income from continuing operations before income taxes	**1,137**	1,150
Income from discontinued operations, net of tax	**-**	807
Net income	**1,137**	1,957
Statement of cash flows		
Cash flows provided by (used in)		
Operating activities	**1,332**	1,434
Financing activities	**(1,239)**	(1,056)
Investing activities	**(42)**	(18)
Cash flows provided by continuing operations	**51**	360
Cash flows used in discontinued operations	**-**	(772)
Net increase (decrease) in cash and cash equivalents	**51**	(412)

35. SASKCENTRAL CONTINUANCE INITIATIVE

SaskCentral is seeking a change from provincial to federal incorporation. In 2011, the members of SaskCentral approved a special resolution authorizing SaskCentral to proceed with an application to the Minister of Finance (Canada) for Letters Patent of Continuance as an association under the *Cooperative Credit Associations Act*. The application was submitted to OSFI in July 2011. Discussions with OSFI have continued into 2012.

As a federal association, SaskCentral would be positioned to work toward its long term direction, a nationally unified and internationally capable co-operative financial network. A federal association would provide an improved corporate structure that could be used to facilitate mergers or partnerships with other provincial centrals or credit union service providers, it could provide a national company with the scope and scale necessary to provide services to a federal credit union, and it would provide an open holding structure for substantial investment in other federal associations.

36. COMPARATIVE INFORMATION

Certain comparative figures have been reclassified to conform to the current year's presentation.

Glossary of Financial Terms

Basis point

A unit of measure defined as one-hundredth of one per cent.

Commercial paper

Unsecured short-term note issued in exchange for funds.

Convertible subordinated debenture

A type of subordinated debt that can be converted into share capital under pre-specified conditions.

Credit risk

Arises from a counterparty's inability or unwillingness to fully meet its on- and off-balance sheet 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.

Derivative

A financial contract between two parties where a cash payment is not required for the notional amount of the contract (expect cross-currency interest rate swaps). Rather, payments between the parties are dependent upon movements in price in some underlying asset.

Efficiency ratio

Measures the efficiency with which expenses are incurred to generate revenue. The lower the resulting number, the more efficient the company's operations.

Enterprise risk management

An approach to measuring, monitoring and managing risk on an aggregate basis to support corporate decision-making.

Equity as a per cent of assets

Total shareholders'/members' equity expressed as a percentage of total assets.

Fair market value

The value of an asset or service if sold in an outside, independent market.

Foreign exchange forward contract

A type of derivative involving a commitment to purchase or sell foreign currencies for delivery at a specified future date at a fixed price.

Inherent risk

Risk intrinsic to a particular business activity.

Interest rate sensitivity

Earning assets and interest-bearing liabilities that mature or are subject to interest rate adjustments within a specified term or have rates that float in relation to other rates.

Legal and regulatory risk

Arises from an institution's potential non-conformance with laws, rules, regulations, prescribed practices, or ethical standards in the jurisdiction in which the organization operates.

Liquidity risk

Arises from the inability to generate or obtain necessary cash or equivalents in a timely manner, at a reasonable price, to meet on- and off-balance sheet commitments as they come due without incurring unacceptable losses.

Market risk

Arises from three components: interest rate risk (results from movements in interest rates); price risk (results from changes in market price of assets or liabilities); foreign exchange risk (results from movements in foreign exchange rates).

Net interest income

The difference between what is earned on assets such as loans and securities and what is paid on liabilities such as deposits and subordinated debentures.

Notional amount

The contract amount used as a reference point to calculate payments or derivatives.

OSFI

The Office of the Superintendent of Financial Institutions (OSFI) is the federal regulator of banks and of SaskCentral. Credit unions are provincially incorporated and fall under the regulations of their respective provinces.

Operational risk

Arises from problems in the performance of business functions or processes. Exposures to this risk can result from deficiencies or breakdowns in internal controls or processes, technology failures, human errors or dishonesty, or natural catastrophes.

Residual risk

Risk remaining after considering management processes in place to manage inherent risk.

Return on equity (ROE)

The amount of net income expressed as a percentage of shareholders'/members' equity. Reveals how much profit is generated from funds provided by shareholders/members.

Return on investment (ROI)

Earnings distributed (dividends and profit sharing distribution) as a percentage of share capital.

Strategic risk

Arises from an institution's inability to implement appropriate business plans, strategies, decision making, resource allocation and its inability to adapt to changes in its business environment.

Subordinated debenture

Debt that ranks lower than other debt but ranks ahead of share capital in any claim against assets.

Swap

A type of derivative that is an agreement to exchange a series of cash flows. For interest rate swaps, parties exchange streams of interest payments over a specified period of time based on notional amounts in a single currency. For cross-currency interest swaps, parties exchange both principal amounts and interest payments based on notional amounts in different currencies.

For further information in regard to this annual report, please contact SaskCentral Marketing and Communications at (306) 566-1525 or email ian.monteith@saskcentral.com.

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