2016 Annual Report

2016

SASKCENTRAL
Dedicated to Credit Union Success

CONTENTS

Vision, Mission, Values

Our Vision

The ultimate destination of our company.

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

Our Mission

How we plan to get there.

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

Our Values

The standards and principles by which our brand lives.

- Honest
- Trustworthy
- Co-operative
- Enterprising

Letter from the President and the CEO

2016 was an eventful year. We reached a number of milestones associated with meeting the goals outlined in SaskCentral's 2016 Business Plan. These were national collaboration and enhancing the service experience of Saskatchewan credit unions.

Our success would not have been possible without a highly engaged workforce. Changes experienced at SaskCentral have meant — and will mean — an altered structure and different operations. Human Resource programs introduced during the year have aided in change management; nevertheless, it is the exemplary level of engagement and agility on the part of our employees that is allowing us to effect the needed transformation smoothly and with no loss of service.

Most of the transition we are experiencing is a result of our work around national collaboration. This goal is embodied in SaskCentral's strategic vision that "SaskCentral will work toward the achievement of a nationally unified, internationally capable co-operative financial network."

Several events over the last few years have highlighted the need to see this vision become reality.

One critical regulatory change was the passing of Bill C-43 and the 2014 announcement by the federal government that the Office of the Superintendent of Financial Institutions (OSFI) would no longer be the regulator for provincial centrals. This action required the respective provincial government to take on that regulatory role.

With the support of the provincial government and sponsorship of the Ministry of Justice, *The Credit Union Central of Saskatchewan Act, 2016* was passed and received royal assent in June and came into effect January 15, 2017. This act brings SaskCentral under the regulation of Credit Union Deposit Guarantee Corporation (CUDGC). During 2016, we participated with CUDGC and the Saskatchewan Financial Consumer Affairs Authority in drafting new standards that would guide SaskCentral operations. We look forward to working closely with CUDGC to ensure the ongoing stability of credit unions and safety of their members' deposits.

Another event that had a significant impact came from the changes undertaken by Credit Union Central of Canada (CUCC), with the input and participation of SaskCentral and the other provincial centrals. In January of 2016, CUCC formally completed its re-incorporation, moving out of the regulatory umbrella of OSFI and away from the wholesale financial services activities it had previously performed, repositioning itself, along with a new name — Canadian Credit Union Association (CCUA) — as strictly the national trade association for Canadian credit unions.

For credit unions and provincial centrals, these changes highlighted the need to develop long-term solutions in a number of core areas, including clearing and settlement, and payments. In the clearing and settlement area, SaskCentral fully supports the excellent work that has been progressing led by Central 1

Letter from the President and the CEO

Credit Union (Central 1) and with the participation of the other centrals. Discussions with provincial regulators have been constructive, and the year has seen clearing and settlement recommendations nearing completion.

On the payments front, progress was made conducting a thorough valuation of the payments operations by the centrals. That work has now been completed. Our joint venture, CUPS, has been approved by the SaskCentral Board to become a part of the national payments strategy. This anticipates direct credit union ownership of a national PayCo that will be positioned to efficiently handle payments for credit unions across Canada.

Integration with CCUA was another focus area, and one that promises to reduce duplication within our system and deliver a number of dues funded services more efficiently. This initiative has required extensive work, carried out in close collaboration with CCUA and Central 1. In 2016, business cases and transition plans were completed for three work areas within SaskCentral which were identified to be integrated with CCUA operations: Governance and Compliance, Government Relations and Member Experience.

In 2016, SaskCentral also conducted extensive research on behalf of Peer Group 3 credit unions on alternative service models. While several models were examined, the credit union decision was that SaskCentral and Central 1 would look for partnership opportunities within their suites of discretionary fee-for-service products and services. SaskCentral and Central 1 will receive input and guidance on the partnership through an advisory committee drawn from the credit unions of Saskatchewan, BC and Ontario.

A final area receiving close attention has been the Concentra Financial initiative to become incorporated under the *Bank Act*. With over 84% ownership of the company, SaskCentral conducted due diligence to ensure that our share capital in Concentra is protected.

Following this our board and Concentra shareholders approved this continuance in 2016, enabling Concentra to proceed with its work with the federal regulators to complete the transition. We are confident the change envisioned will give Concentra wider access to capital sources and support its continuance as a key supplier of wholesale financial services.

This is a lengthy strategic list with completion check marks, each one of which represents a significant undertaking. The year has truly been transformative for SaskCentral. More importantly, these accomplishments are helping to define and shape the future of the credit union system. We are seeing exemplary co-operation within our system, greater participation by credit unions in our strategic investments, and a clear path to a sustainable national wholesale service model.

These are important milestones, not only for SaskCentral, but for the entire credit union system.

Russ Siemens,
President

Keith Nixon,
CEO

SaskCentral Initiatives

Working toward clear, verifiable objectives is a key part of SaskCentral's planning and evaluation process. Each year, SaskCentral's business plan describes specific quantifiable targets as measured by a variety of evaluation tools. These targets are each listed under one of four strategic focus areas: Strategic, Credit Union, Financial, and People. Where applicable, specific initiatives – other than those that are simply day-to-day operations – are carried out under one of these focus areas. The following lists the initiatives undertaken that meet the strategic objectives within each focus area.

SaskCentral Initiatives

Strategic

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

Objective: Address evolving developments to clearing and liquidity structures

SaskCentral participated with other provincial centrals to formulate a Canada-wide group clearing solution, made necessary by federal Bill C-43. Part of this solution required the passing of new provincial legislation which was achieved during the year following close consultation with the Saskatchewan Ministry of Justice. *The Credit Union Central of Saskatchewan Act, 2016* defines the business powers of SaskCentral and names Credit Union Deposit Guarantee Corporation (CUDGC) as the regulator for SaskCentral.

Objective: CCUA integration

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

In 2016 SaskCentral became the first Central in Canada to integrate employees and dues-related services in Member Experience, Government Relations and Governance and Compliance areas into the CCUA. SaskCentral will continue to work with CCUA around opportunities for further consolidation of services and to finalize operational post-transition details.

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

SaskCentral's target for this objective was the development of a payments solution that would align CUPS with the National Payments Strategy. This was largely achieved with board approval for the transfer of Saskatchewan payments assets to a national stand-alone payments company.

Credit Union

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

Objective: Develop a national product and service model for Peer Group 3 credit unions

SaskCentral recognizes its discretionary fee-for-service products and services must evolve in order to remain relevant and sustainable for Saskatchewan credit unions as they continue to evolve.

Provincially, SaskCentral carried out extensive research, on behalf of Saskatchewan Peer Group 3 credit unions, into alternative credit union service organization (CUSO) delivery models. This research was well received and

SaskCentral Initiatives

assists Saskatchewan credit unions in determining their future.

Nationally, SaskCentral engaged in collaborative discussions with Central 1 to explore opportunities to leverage each organization's discretionary fee-for-service products and services. These discussions identified significant opportunities for collaboration and many complementary products and services. SaskCentral, with the support of Saskatchewan credit unions, agreed to pursue integration of these discretionary functions with Central 1 under an initiative called the CU Solutions Partnership. The goal is to build a sustainable and scalable national product and service offering for small and medium sized credit unions across the country while ensuring local service delivery remains for Saskatchewan credit unions. The project is scheduled for completion in 2017.

Financial

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

Objective: Maintain financial strength

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

Core Earnings
Core earnings target was $3.3-$4.3 million. Actual for 2016 was $4.7 million.

Interest Margin
Interest margin target was 0.44%-0.51%. Actual for 2016 was 0.48%.

People

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

Objective: Sustain employee engagement and cultural alignment

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

A customized change and career management program was initiated and delivery to all management and employees began in the second half of the year. The full delivery will be completed in Q1 of 2017. The program provides foundational change support tools and information, addresses how individuals can best prepare personally for change, and supports SaskCentral through change using career management. Participants indicate a greater confidence to accept and lead change, and have spoken very favorably about the proactive approach.

SaskCentral Initiatives

In 2016, SaskCentral was again named as one of the Best Workplaces in Canada by the Great Place to Work® Canada Institute, coming in with an overall ranking of #23 for medium-sized businesses. At the same time, the company ranked #15 for Best Workplaces for Women among companies of any size.

The annual Organizational Effectiveness Inventory (OEI) survey measuring employee engagement was completed by 97% of employees and resulted in an overall score of 89.7%, the highest in SaskCentral's history.

Human Resources worked with the executive team to identify key talent necessary to achieve the organization's strategic objectives, a risk assessment of the loss of the talent, identification of alternative options, and retention strategies currently in place for those employees. The exercise resulted in a clear picture of who the key talent are and confidence that appropriate risk mitigation strategies have been developed or are currently in development where necessary.

To reinforce the desired change behaviours a new recognition program was developed in 2016 that provides people leaders with tools to easily recognize employees who go above and beyond and act as change champions.

Corporate Governance

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, ethical and transparent governance practices.

Corporate Governance

Board of Directors

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

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

Corporate Governance

Mitchell Anderson

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

Gilles Colbert

Elected to SaskCentral Board of Directors in 2009. Retired Manager, Unity Credit Union Limited. Director, The Co-operators.
Term expires: 2017

Eric Dillon

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

Tim Goddard

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

Wayne Kabatoff

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

Mark Lane

Elected to SaskCentral Board of Directors in 2013. CEO, Affinity Credit Union.
Term expires: 2017

Kevin Lukey

Elected to the SaskCentral Board of Directors in 2014. CEO, Cornerstone Credit Union.
Term expires: 2017

Russ Siemens, President

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

Corporate Governance

Board Charter and Director Profile

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

Compensation

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

Director	Per Diem	Per Diem Paid to Organization	Honorarium	Honorarium Paid to Organization	Total
Mitchell Anderson	6,875	–	8,100	–	14,975
Gilles Colbert	10,568	–	8,100	–	18,668
Eric Dillon	–	3,950	–	8,100	12,050
Tim Goddard	9,187	–	8,100	–	17,287
Laverne Goodsman	3,375	–	2,314	–	5,689
Wayne Kabatoff	13,343	–	5,785	–	19,128
Mark Lane	–	250	–	8,100	8,350
Kevin Lukey	7,812	–	8,100	–	15,912
Russell Siemens[1]	44,403	–	33,000	–	77,403
Dean Walde[2]	1,987	–	–	–	1,987
Al Meyer[2]	906	–	–	–	906
Total:	$ 98,456	$ 4,200	$ 73,499	$ 16,200	$ 192,355

1 Chairman of the Board.
2 Payments made for service provided in 2015.

Corporate Governance

Board Attendance	Meetings Attended
Mitchell Anderson	6/6
Gilles Colbert	5/6
Eric Dillon	6/6
Tim Goddard	6/6
Laverne Goodsman	1/1
Wayne Kabatoff	5/5
Mark Lane	5/6
Kevin Lukey	6/6
Russ Siemens	6/6

Board Evaluation

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

Code of Conduct

A written code of ethical business conduct has been adopted by the board to guide director, 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 the CEO, outlining the role, accountabilities and challenges of the position and providing a reference point for the development of the CEO's annual performance plan. The CEO position profile was reviewed and updated in 2015. A CEO performance plan is developed and evaluated based on the position description, business plan and balanced scorecard.

Corporate Governance

Committees

Audit and Risk Committee

Role:

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

	Meetings Attended
Mitchell Anderson	5/5
Gilles Colbert — Chair	5/5
Mark Lane	4/5
Kevin Lukey	5/5
Russ Siemens	5/5

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.

	Meetings Attended
Eric Dillon	4/4
Tim Goddard	4/4
Kevin Lukey — Chair	4/4
Russ Siemens	3/4

Public Policy Committee

Role:

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

	Meetings Attended
Wayne Kabatoff	4/4
Mark Lane — Chair	5/6
Russ Siemens	6/6

Consolidated Financial Highlights

SaskCentral will maintain financial strength and stability to enable the achievement of its strategic goals. Detailed financial results appear later in this annual report in the Management Discussion and Analysis section, in the Consolidated Financial Statements and in the Notes to the Consolidated Financial Statements.

Consolidated Financial Highlights

December 31 (in thousands)	2016 $	2015 $	2014 $	2013 $	2012 $
Income from continuing operations					
Net interest income after loan impairment charges	**10,999**	11,074	10,892	11,197	10,540
Non-interest income	**53,256**	55,373	52,832	55,260	60,112
Non-interest expense	**33,307**	33,770	34,651	34,396	36,247
Income taxes	**7,139**	6,374	5,425	6,001	6,164
Net income	**23,809**	26,303	23,648	26,060	28,241
Distribution of income					
Dividends	**13,715**	9,900	6,669	8,160	8,170
Distribution as a % of average share capital	**9.1%**	7.2%	4.9%	6.4%	6.4%
Financial position					
Securities	**2,131,450**	2,054,862	1,906,201	1,927,146	1,889,865
Loans	**45,057**	37,800	40,636	80,568	58,927
Deposits	**2,009,060**	1,926,524	1,790,716	1,766,974	1,691,507
Members' equity	**437,327**	405,841	383,382	360,563	340,628

Corporate Profile

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 constitute its mandatory business functions, while its ancillary services may be selected at the discretion of credit unions.

Core Services

Liquidity Management

SaskCentral is the system statutory liquidity manager. Through aggregating statutory liquidity deposits, SaskCentral facilitates clearing and settlement, supports daily cash flow management and coordinates emergency liquidity support.

Trade Association

The primary role of SaskCentral's trade association function is to recognize where there is strength in collaboration and to facilitate collective system action in response to these opportunities. Overall objectives are to provide leadership in joint initiatives and through strategic policy direction, undertake credit union advocacy, represent Saskatchewan credit unions with provincial and federal governments and lead 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 combined CEO/delegate meetings.

System Governance
This includes activities to support the effective, transparent and democratic governance of credit unions, such as coordination of spring and fall meetings and support for credit union governance.

Government Relations
This area comprises the building of 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, Foreign Account Tax Compliance Act (FATCA), anti-spam legislation and privacy.

Online Communications and System Public Relations
Examples of activities in these areas include development and management of a public system website and system media relations.

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

Corporate Profile

Ancillary Services

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:

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

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

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

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.

Executive Team

Keith Nixon, CEO

- Joined SaskCentral: 1987
- Time in the credit union system: 36 years
- Fellow designation for the Credit Union Institute of Canada
- Certificate in Administration, University of Regina
- Board member: Canadian Credit Union Association; Sherwood Co-operative Association Limited

Debbie Lane, EVP and Chief People Officer

- Joined SaskCentral: 1992
- Chartered Professional in Human Resources (CPHR) designation
- Member: Saskatchewan Association of Human Resource Professionals (SAHRP)
- Member: Northwest & Ethical Investments LP (NEI) board; National Benefits Plan board (chair); Children's Wish Foundation of Saskatchewan (chair)

Sheri Lucas, EVP Finance, CFO, CRO

- Joined SaskCentral: 2007
- CPA, CA: Office of the Provincial Auditor, Saskatchewan
- Award: 100 Most Powerful Women in Canada for 2012
- Board member: Canadian Cancer Society, Saskatchewan Division

Co-operative Social Responsibility

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

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

It all adds up.

Co-operative Social Responsibility

Credit Unions

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

In 2016, we focused our CSR efforts on initiatives that provide value for credit unions by reducing SaskCentral's operational costs in the areas of paper usage and travel expenses.

Employees

SaskCentral engages employees to gather their input on CSR initiatives. In 2016, the focus was on volunteerism, with 54% of our employees taking advantage of a company policy which allows up to three paid days per year served in volunteer activities.

Creating a safe, comfortable and environmentally friendly workplace was also a 2016 priority. SaskCentral continues to make substantial building improvements to support its BOMA BEST Gold certification.

Community

As a co-operative, SaskCentral upholds the principle of giving back to the community.

In 2016, the organization donated $165,385 to local charities and non-profit organizations through financial contributions, volunteer hours and in-kind donations.

Employees were also encouraged to take advantage of SaskCentral's Building Communities Grant program which allows each employee to name a charity or non-profit of their choice to receive a donation of $200. In 2016, 85% of employees took advantage of the program to donate a total of $13,800 among 40 Saskatchewan community organizations.

Sponsorships Managed by SaskCentral

SaskCentral, as the trade association for Saskatchewan credit unions, manages a number of sponsorships that credit unions support collectively. In addition, credit unions donate locally to their own communities.

In 2015, Saskatchewan credit unions contributed more than $7.8 million to growing communities.

Fundraising efforts brought in over $154,000 for causes like the Children's Hospital Foundation of Saskatchewan, Red Cross Disaster Relief and Telemiracle. Credit union employees logged close to 26,000 hours of volunteer time for community organizations.

Government Relations

In 2016, Saskatchewan credit unions identified government relations and advocacy strategies as top priorities for the system. SaskCentral strives to shape legislation, regulations and policy at the provincial and federal levels of government in the interests of Saskatchewan credit unions.

Government Relations

Provincial Government Engagement Strategy

Saskatchewan credit unions had a very active year raising credit union issues with elected representatives. SaskCentral coordinated advocacy outreach strategies in the first quarter and the third and fourth quarters of 2016 with the aim of retaining the provincial tax provisions for credit unions. In early 2016, credit unions and SaskCentral representatives held a series of meetings with MLAs and candidates in the weeks leading into the provincial election in April. After the provincial budget in June 2016, the Minister of Finance confirmed that credit union taxation would once again be subject to review as part of the government's comprehensive review of expenditures and revenues in efforts to balance the provincial budget for 2017.

Based on survey information, SaskCentral determined the small business tax deductions for credit unions provided approximately $11 million in capital to the system in 2015. To highlight the importance of this issue, SaskCentral ramped up advocacy efforts and supported credit unions' outreach with their local MLAs and cabinet ministers in the fall of 2016. All 61 MLAs received SaskCentral's Engines of Growth brochure which highlighted credit union contributions to Saskatchewan's economy, along with a detailed policy brief on the credit union tax issue. By the end of 2016, nearly 30 MLAs had been contacted for meetings with local credit union representatives. The tax advocacy campaign is continuing into the first quarter of 2017 in advance of the provincial budget.

New Legislative and Regulatory Framework for SaskCentral

In January 2017, SaskCentral transitioned to the supervision of the provincial government. Shifting the credit union centrals to provincial supervision was one of the major changes affecting the credit union system announced in the 2014 federal Economic Action Plan legislation, commonly known as Bill C-43. To facilitate this change, SaskCentral required a new provincial legislative and regulatory framework. In 2016, SaskCentral continued extensive collaboration with officials in the ministries of Justice and Finance to draft the legislation and regulations. To ensure timely passage of the legislation, SaskCentral representatives met with key elected officials to discuss the implications of the changes. Meetings were held with the provincial ministers of Finance, Justice and the NDP Critic for Justice to discuss and to obtain their support. In June of 2016, *The Credit Union Central of Saskatchewan Act, 2016* passed with unanimous support from the provincial government and the opposition. The Act appoints Credit Union Deposit Guarantee Corporation (CUDGC) as

Government Relations

the supervisor of SaskCentral, and assigns responsibility for oversight of CUDGC to the Financial and Consumer Affairs Authority's Registrar of Credit Unions.

Electronic Signatures

In the fall of 2016, Saskatchewan credit unions welcomed a provincial legislative amendment that permitted the use of electronic signatures on mortgage related documents. In 2015, SaskCentral had pursued an opportunity to support credit unions' efficiency and proposed that the Minister of Justice introduce the same amendment to *The Electronic Information and Documents Act* to allow electronic signatures on mortgage related documents. SaskCentral's advocacy on electronic signatures was bolstered by a coalition of support from the Saskatchewan Chamber of Commerce and the Association of Saskatchewan Realtors.

Support for Federal Advocacy Initiatives

Postal Banking

As Canada Post reviews its core business lines, the crown corporation is considering entry into the financial services industry as a postal bank. To express concern about this proposal, SaskCentral representatives supported federal submissions made by the Canadian Credit Union Association (CCUA) and appeared before the House of Commons Standing Committee on Government Operations and Estimates in Regina in the fall of 2016. SaskCentral representatives outlined opposition to the proposal and advised the House of Commons Committee credit unions did not want to compete with a crown corporation in the financial services sector.

Hike the Hill Advocacy Initiatives

SaskCentral representatives participated in the CCUA's Hike the Hill advocacy day in Ottawa in October. During the event, credit union advocates advanced two recommendations from CCUA's federal pre-budget submission, asking legislators to urge the Finance Minister to apply a risk-based approach to implementation of the Common Reporting Standard (CRS) and to urge the minister to include the principle of fair taxation for different kinds of businesses as a guiding aim of the federal tax review.

In addition, advocates shared a letter from CCUA to the minister in response to the changes concerning CMHC mortgage insurance. The letter urged the government to take a regulatory pause before considering a potential mortgage insurance deductible that could hurt home ownership in moderately priced markets.

Government Relations

SaskCentral also supported credit unions in meetings with Saskatchewan Members of Parliament in their home constituencies.

Farm Credit Canada (FCC) Liaison Committee

Along with other credit union representatives, as well as representatives from FCC, SaskCentral continued to participate in the FCC Liaison Committee.

The committee made tangible progress in collaboration and information sharing including identifying over $76 million in funded co-lending opportunities by late 2016 as well as $17.2 million in FCC referrals to credit unions.

Strategic Partners

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

Strategic Partners

Concentra Financial

Share ownership by SaskCentral: 84.0%

Concentra Financial is a financial retail association providing financial solutions to over 300 Canadian credit unions. On January 1, 2017, Concentra Financial ceased operations as an association governed by the *Cooperative Credit Associations Act (Canada)* and continued as a Schedule 1 chartered bank governed by the *Bank Act (Canada)*. On this date, Concentra Financial's legal name changed to Concentra Bank.

As a strategic partner for credit unions, Concentra enables greater competition with the big banks by providing lending and investment solutions in addition to estate and trust services to ensure over five million credit union members across Canada can choose competitive financial services from their local credit union. Concentra is owned exclusively by its credit union partners.

Credit Union Payment Services (CUPS)

Joint venture participation by SaskCentral: 50.0%

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

Celero Solutions

Share ownership by SaskCentral: 33.3%

Celero Solutions is a joint venture between three Canadian provincial credit union centrals: Alberta Central, Credit Union Central of Manitoba and SaskCentral. Celero delivers reliable, innovative and cost-effective information technology solutions to the joint venture partners, credit unions and other organizations in the areas of switching, telecommunications and banking.

Group Clearing Joint Venture

Joint venture participation by SaskCentral: 16.7%

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

Canadian Credit Union Association (CCUA)

Share ownership by SaskCentral: 10.3%

As part of the creation of CCUA, all assets and liabilities of Credit Union Central of Canada (CUCC), except those related to payments and specifically activities with Interac, were transferred to CCUA on January 1, 2016.

CCUA is the national trade association for the Canadian credit union system. It represents Canada's credit unions, caisses populaires outside Quebec and provincial credit union central organizations. CCUA is the first national credit union governed organization in Canada and works on behalf of its members in four key

Strategic Partners

areas: advocacy and government relations; national regulatory and network compliance; professional development and education; and national awareness building.

189286 Canada Inc.

(formerly known as CUCC)
Share ownership by SaskCentral: 12.4%

Through the creation of CCUA, the numbered company retained the electronic assets related to payments and specific activities in Interac.

Credential Financial Inc.

Share ownership by SaskCentral: 8.2%

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

Northwest & Ethical Investments LP (NEI)

Share ownership by SaskCentral: 8.2%

NEI is a mutual fund company that makes independent portfolio managers accessible to Canadian retail investors through 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: 3.5%

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

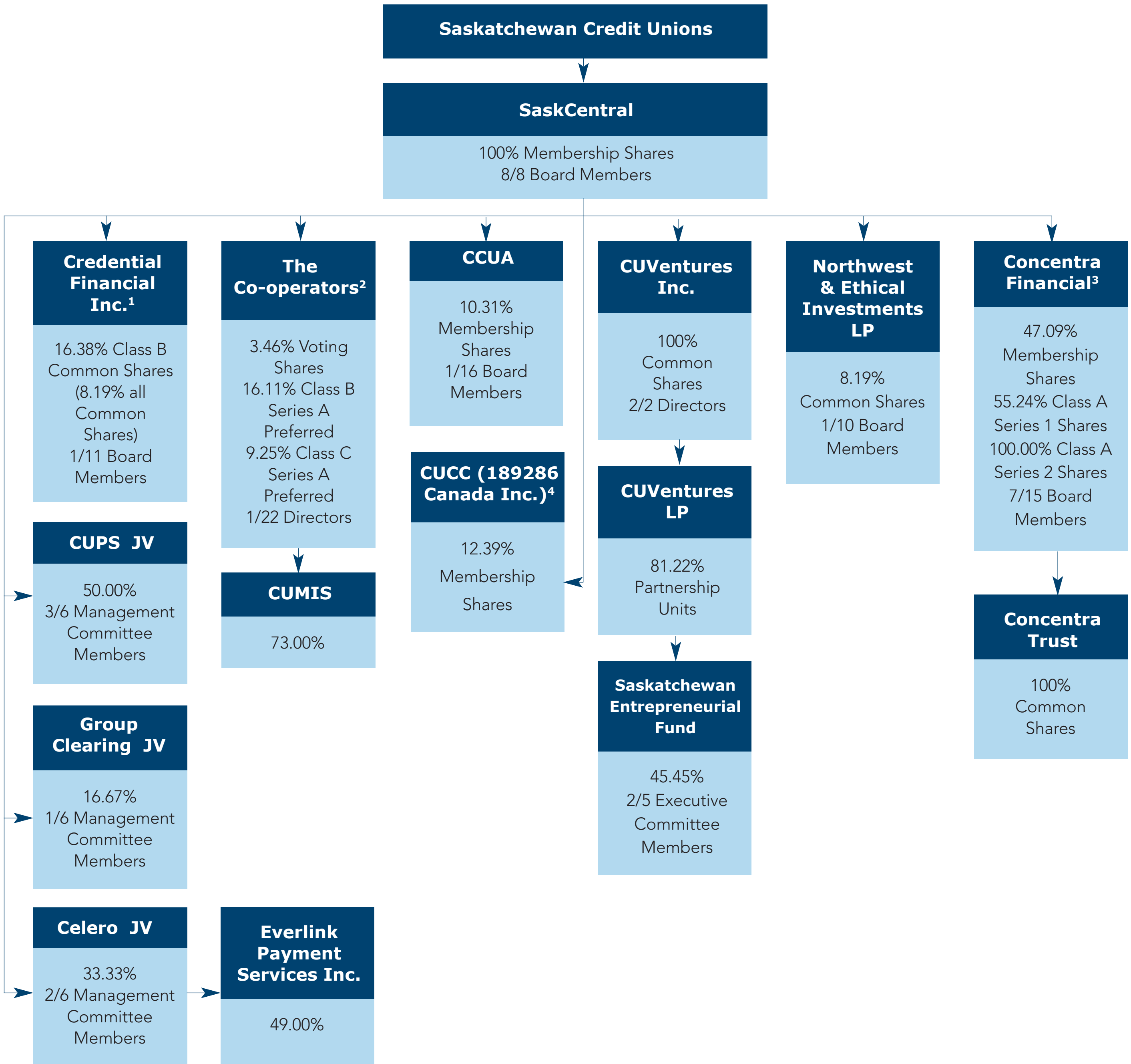
Along with Central 1, The Co-operators holds joint ownership of CUMIS. CUMIS partners with credit unions to deliver competitive insurance and financial solutions. CUMIS' principal companies are CUMIS Life Insurance Company and CUMIS General Insurance Company.

CUVentures Inc.

Share ownership by SaskCentral: 100%

CUVentures Inc. invests in the Saskatchewan Entrepreneurial Fund Joint Venture (SEF JV). SEF JV provides direct investments in small and medium sized enterprises throughout Saskatchewan. CUVentures Inc. also acts as an aggregation vehicle through which individual credit unions have invested in the APEX Investment LP.

Strategic Partners



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

Management Discussion and Analysis

This section of the annual report, providing management's discussion and analysis (MD&A) of the consolidated results of SaskCentral, should be read in conjunction with the audited consolidated financial statements and notes as at and for the year ended December 31, 2016. 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, 2017 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 provide financial products and services that support daily cash flow management at credit unions;
- to provide emergency liquidity funding and centralized coordination in the event of a liquidity crisis;
- to offer consulting services that provide innovative solutions to help credit unions strengthen their competitive positioning;
- 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; and
- to provide strategic investment management through entities that provide key services to credit unions.

As of January 1, 2017, SaskCentral has integrated its trade association functions into Canadian Credit Union Association (CCUA), including Governance and Compliance, Government Relations and Member Experience. This will allow the services to be available locally while coordinated nationally. Work will continue into 2017 to identify other functions that align with CCUA's strategic pillars.

Management Discussion and Analysis

SaskCentral's Role in Liquidity Support

SaskCentral manages system-wide liquidity on behalf of Saskatchewan credit unions directly and through investees.

Through aggregating statutory liquidity deposits, SaskCentral facilitates clearing and settlement, supports daily cash flow management and coordinates emergency liquidity support.

Clearing and Settlement

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

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

Daily Cash Flow Management

SaskCentral offers several products and services to help credit unions manage daily cash flow requirements, including statutory liquidity deposits, an overnight account, a line of credit, alternate funding sources, and cash services.

By regulation, credit unions hold 10% of their deposits with SaskCentral. These are known as statutory liquidity deposits. Credit unions select from a variety of term options and interest options, including five fixed term options from one to five years, and a variable rate option. Credit unions can invest up to 35% of their statutory deposits in the four and five year products.

SaskCentral has adopted a low profit business model. This means that pricing of products and services is just sufficient to cover operating costs. Statutory liquidity deposit pricing reflects the low profit business model. Deposits are priced so that SaskCentral's interest margin is sufficient to cover the costs of financial administration and regulation.

SaskCentral maximizes deposit rates for credit unions by seeking the best returns on investments backing deposits. This is achieved through accessing wholesale institutional markets and avoiding brokerage fees. SaskCentral has access to wholesale institutional investments due to the large volumes that result from aggregation of statutory liquidity.

Management Discussion and Analysis

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

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

Emergency Liquidity Support

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

Emergency funding is both sufficient and available. Sufficiency is demonstrated through stress testing whereby potential credit union outflows are evaluated against funding sources. In normal times, funding sources include repurchase agreements, the commercial paper program and a secured line of credit. In an emergency, these sources are augmented by SaskCentral's stock of High Quality Liquid Assets (HQLA) and the Inter-Central Liquidity Agreement (ICLA). The ICLA is a lending syndicate between Central 1, 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.

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

In response to the 2008 financial market disruption, regulatory reform has been underway internationally and in Canada. The goal is to promote a more resilient financial sector by improving the ability to absorb shocks. SaskCentral has adopted a liquidity metric modeled after the Liquidity Adequacy Requirements of the Office of the Superintendent of Financial Institutions of Canada (OSFI). OSFI's liquidity requirements do not apply to SaskCentral; however, SaskCentral has incorporated the OSFI principles in SaskCentral's liquidity metrics.

Credit Union Deposit Guarantee Corporation (CUDGC) has aligned its liquidity requirements with those set by the Basel Committee on Banking Supervision at the international level and OSFI for federally regulated financial institutions in Canada. Standards of Sound Business Practice – Liquidity Adequacy Requirements will be effective January 1, 2017. Key to the framework is the introduction of the Liquidity Coverage Ratio where the stock of HQLA is compared to expected net cash outflows over thirty calendar days. A credit

Management Discussion and Analysis

union's stock of HQLA includes securities held directly as well as those held indirectly in the form of statutory liquidity deposits with SaskCentral. A credit union may allocate the amount of its statutory liquidity deposits to each category of HQLA and other liquid assets on a 'look-through' basis in accordance with the investment allocation of the liquidity pool. SaskCentral is actively supporting CUDGC and credit unions in the implementation of the liquidity requirements.

Economic Overview

In 2016, Saskatchewan's economy faced continuing challenges as reduced global demand for energy and declining oil prices translated to lower investment in the energy sector, reduced employment and government deficits.

Unemployment increased to 6.2% in 2016 (5.0% in 2015). The Saskatchewan labour market remains comparatively strong with unemployment rates below the national average.

Saskatchewan continues to experience population growth with 1,155,393 residents (2015 – 1,138,879). The province has enjoyed ten consecutive years of growth. While much of the population growth was attributed to economic activity in the energy sector, Saskatchewan more recently has attracted workers to the province across industry sectors.

The outlook for 2017 remains optimistic, with expectations of increased activity in the energy sector as oil prices slowly rebound due to increased global demand and reduced supply. Non-energy mining is not expected to recover until 2018 as global demand for potash remains in decline. Agricultural activity is expected to rebound in 2017 after wet conditions and weaker grain prices hampered the 2016 harvest. Saskatchewan GDP is expected to be 1.7% in 2017 and 2.2% in 2018.

Saskatchewan Credit Union System Performance

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

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

For more information, please visit their website: http://www.cudgc.sk.ca.

Results Overview

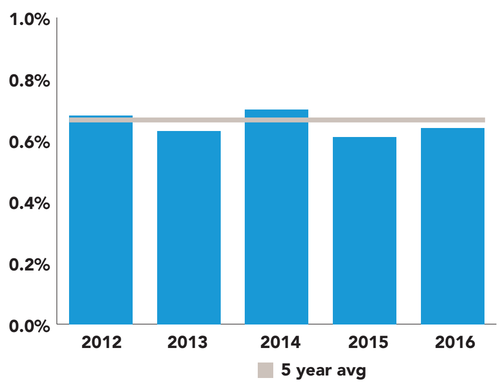
The financial performance of Saskatchewan credit unions is summarized below based on the following key performance indicators: profitability, capital, growth, liquidity risk, credit risk and interest rate risk.

Management Discussion and Analysis

Profitability

In 2016, credit unions reported earnings of $136 million (2015 - $124 million) for a return on average assets of 0.64% (2015 – 0.61%). Despite continued low interest rates and economic conditions, improvements in non-interest revenue and cost containment ensured credit unions achieved strong profitability in 2016.

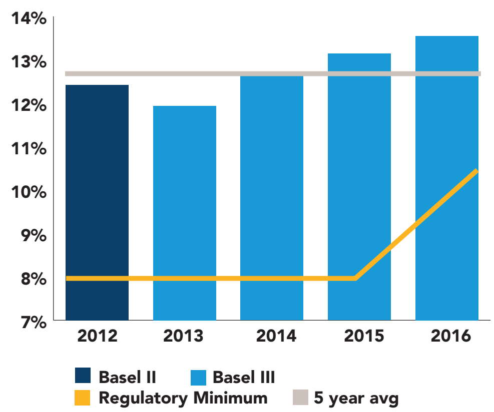
Return on Average Assets



Capital

Capital levels continued to improve in 2016, with credit unions focusing on maintaining costs and managing growth. As a percentage of risk-weighted assets, eligible capital increased to 13.6% from 13.1% in 2015. This was due to strong profitability and lower loan growth. Credit union capital is well above the current regulatory minimum of 10.5% (2015 – 8.0%).

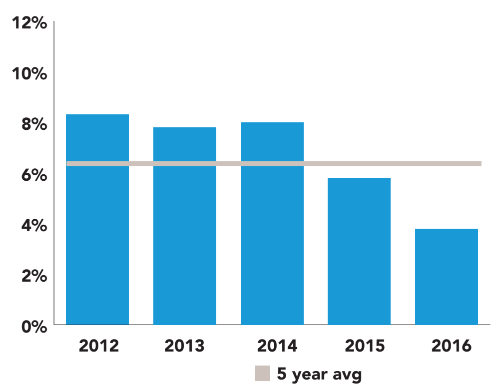
Basel II And Basel III Total Eligible Capital (%RWA)



Growth

Asset, loan and deposit growth decreased from levels achieved in 2015. This was expected and can be attributed to the weakened Saskatchewan economy. Assets grew by 3.8% to $21.6 billion (2015 - $20.8 billion), behind the five year average of 6.7%.

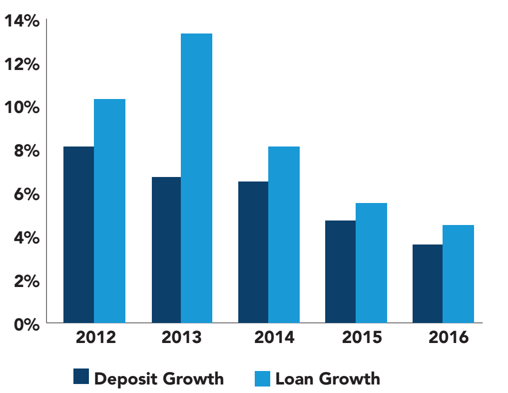
Asset Growth



Management Discussion and Analysis

Loans grew 4.5% to $17.4 billion (2015 – $16.6 billion). Net new loans outpaced net new deposits in 2016. Deposit growth decreased from 2015 to 3.6%, the lowest it has been in the last five years.

Deposit/Loan Growth



Liquidity Risk
Credit unions have made efforts to stabilize liquidity risk. With loan growth outpacing deposit growth, liquidity decreased slightly in 2016.

Credit Risk
Delinquencies in 2016 were 0.8% (2015 – 0.4%), which is above the five year average of 0.5%. The increase in delinquencies was not unexpected given the current economic conditions. Saskatchewan credit unions had historically low delinquency rates in previous years.

Interest Rate Risk
Interest rate risk increased slightly in 2016 and was above the five year average. For a 1% increase in interest rates, the net market value change to assets increased slightly to -0.54% (-0.48% in 2015) and continues to remain within an acceptable range.

Statistical Review of Credit Unions

	2012	2013	2014	2015	**2016**
Credit Unions	60	53	51	49	**46**
Employees	3,479	3,467	3,469	3,477	**3,427**
Members	502,413	490,712	475,201	472,702	**474,126**

Management Discussion and Analysis

2016 SaskCentral Consolidated Financial Performance

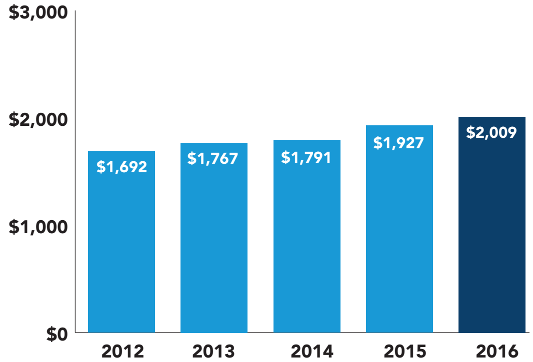
Results Overview

SaskCentral's consolidated financial performance includes results from subsidiaries, associates and joint operations. The financial performance and stability of SaskCentral is summarized according to the following categories: growth, profitability, liquidity, and return on equity (ROE).

Growth

SaskCentral's deposits increased by 4.3% over prior year (2015 – 7.6%). Statutory liquidity deposits comprise 92.7% (2015 - 93.0%) of total deposits.

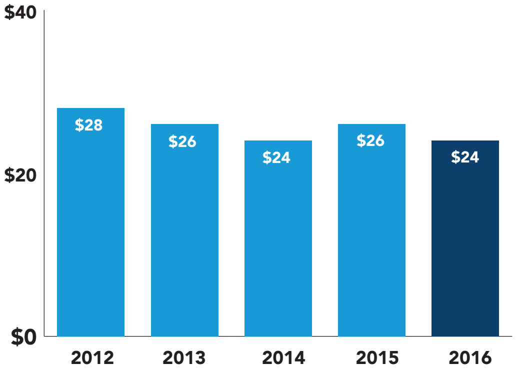
SaskCentral Deposits (in millions)



Profitability

SaskCentral's profit was $23.8 million (2015 – $26.3 million).

SaskCentral Profit (in millions)



Net interest income remained consistent with prior year at $11.0 million (2015 - $11.1 million).

Income from dues increased slightly to $5.6 million (2015 – $5.5 million).

Fee for service revenue decreased to $22.5 million (2015 – $24.2 million) primarily due to decreased sales for discretionary products and services provided to credit unions.

Gains on financial instruments arise from master asset vehicles and from portfolio repositioning for asset/liability management purposes. Gains decreased to $1.0 million (2015 – $2.9 million) as the prior year results include a one-time settlement related to Castor Holdings Ltd. of $1.7 million.

The share of profits of associates represents SaskCentral's share of net income from Concentra Financial, Celero Solutions, and Saskatchewan Entrepreneurial Fund Joint Venture. The share of profits in associates was $24.2 million (2015 – $22.7 million). The increase was due to strong earnings from Concentra Financial. Refer to Note 34 in the consolidated financial statements for details on a subsequent event related to Concentra Financial.

Management Discussion and Analysis

Non-interest expenses represent expenditures incurred to fund dues-related products and generate fee for service revenue, as well as general operating expenses such as salary and employee benefits and occupancy costs. Non-interest expenses decreased to $33.3 million (2015 – $33.8 million) due to cost savings in SaskCentral operations.

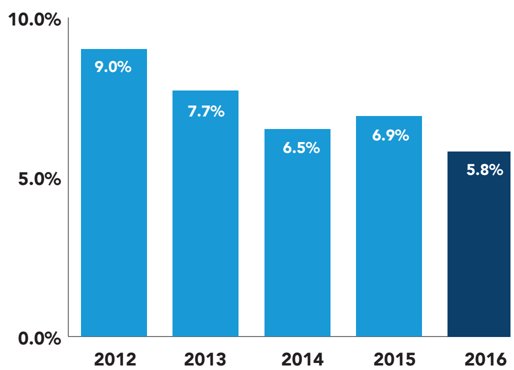
SaskCentral paid a dividend to credit unions in March 2016 of $8.1 million (2015 – $5.4 million), representing a 5.8% (2014 – 4.0%) return on investment. SaskCentral also paid to credit unions the dividend received from Concentra Financial of $5.6 million (2015 – $4.5 million) in June. This dividend represented a 5.0% return on SaskCentral's investment in Concentra Financial (2015 – 4.0%).

In January 2017, SaskCentral paid a dividend of $5.6 million relating to an additional dividend received from Concentra Financial. This dividend represented a 5.0% return on SaskCentral's investment in Concentra Financial.

Liquidity
SaskCentral continued to hold a strong liquidity position in 2016. Consolidated cash and securities totalled $2.2 billion, or 87.2% of assets (2015 – $2.1 billion or 87.3%).

Return on Equity
Equity increased by $31.5 million over 2015. Another year of strong earnings resulted in an increase in retained earnings of $13.8 million. In addition, credit unions voluntarily subscribed to $22.5 million (2015 – $3.1 million) in membership share capital. For 2016, SaskCentral's ROE was 5.8% (2015 – 6.9%).

SaskCentral Return on Equity



Liquidity Management

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

Two measures are used to monitor SaskCentral's liquidity risk position. First, a liquidity coverage ratio compares liquid assets to potential outflows on a system-wide and stand-alone basis. Second, a liquidity score is calculated on SaskCentral's investment portfolio. Both measures are used to assess SaskCentral's liquidity position and all policy requirements have been met in 2016. Refer to Note 3 for further information.

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.

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

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

- meet regulatory and operational requirements;
- provide flexibility for changes in business plans;
- signal financial strength to stakeholders; and
- provide dividend options.

Regulatory Capital and Capital Ratios

Capital levels are regulated pursuant to guidelines issued by 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. Total capital is defined as the sum of Tier 1 and Tier 2 capital. For further details on the terms and conditions of the various capital components, refer to Note 5 in the consolidated financial statements.

Regulatory capital is adjusted for investments in unconsolidated subsidiaries. The investment in Concentra Financial (net of accumulated other comprehensive income) and Celero Solutions is deducted from SaskCentral's 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.

Management Discussion and Analysis

Borrowing Multiple

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

SaskCentral has set its own maximums that are below that of OSFI. The Financial Management Policy sets a limit of 17.0:1, at which point the board must take immediate mitigating action to make certain the borrowing multiple does not exceed OSFI's limit. The Financial Management Policy also describes a management limit of 16.0:1, at which point management will outline actions to assuage the situation. As of December 31, 2016, the borrowing multiple was 11.9:1 (2015 – 13.2:1).

Regulatory Capital and Ratios

	2016	2015
Tier 1 Capital	**426,795**	390,525
Total Borrowing Multiple Capital	**175,887**	151,393
Total Borrowings	**2,092,624**	1,999,440
Actual Borrowing Multiple	**11.9:1**	13.2:1
SaskCentral Policy Limit	**17.0:1**	17.0:1
Tier 1 Regulatory Capital		
Membership shares	**161,161**	138,688
Retained earnings	**269,505**	255,708
IFRS related reclassification[1]	**(3,871)**	(3,871)
Total Tier 1 Capital	**426,795**	390,525
Tier 2 Regulatory Capital		
IFRS related reclassification[1]	**3,871**	3,871
Total Tier 2 Capital	**3,871**	3,871
Total Tier 1 and Tier 2 Capital	**430,666**	394,396
Deduct:		
Investments in unconsolidated subsidiaries	**253,422**	241,837
Assets of little or no realizable value	**1,357**	1,166
Total Tier 1 and Tier 2 Capital	**175,887**	151,393

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

Management Discussion and Analysis

Capital Management

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

SaskCentral's bylaws require member credit unions to maintain membership share capital in SaskCentral at 1% of the previous year's system assets. The bylaw gives SaskCentral the discretion to make this annual true-up in whole or in part. It does not prohibit or prevent either a request from SaskCentral for a voluntary share subscription or a credit union from voluntarily subscribing to additional membership share capital. In 2016, credit unions voluntarily subscribed to $22.5 million in additional membership share capital.

SaskCentral would not exercise the authority to require membership share capital subscriptions unless its capital plan indicated a projected borrowing multiple in excess of 16.0:1 in the subsequent year. In that case, SaskCentral would only exercise this authority to the extent that the required subscriptions would bring the projected borrowing multiple to 16.0:1 or to 1.0% of system assets, whichever was first met. At December 31, 2016 credit union membership share capital represented 0.78% of 2015 system assets (0.75% of 2016 system assets).

SaskCentral remains well capitalized and able to support a strong, growing credit union system. Based on the projected borrowing multiple at the end of 2017, SaskCentral would be able to withstand additional capital shocks of $42.0 million before reaching the board policy limit of 17.0:1.

Capital Requirements

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

Uses of Capital

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

Excess capital is returned to the credit unions as a dividend. In 2016, a dividend of $8.1 million was paid based on SaskCentral's 2015 eligible earnings. In addition, Concentra Financial paid a $5.6 million Class A share dividend to SaskCentral in May based on 2015 earnings and a second dividend of $5.6 million in December based on projected 2016 earnings for a total of $11.2 million (2015 – $4.5 million). Each of these dividends represented a 5% return on SaskCentral's investment in Concentra Financial (2015 – 4.0%).

Future Capital Environment

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

In February 2014, the Government of Canada announced plans to clarify the federal regulatory regime for credit unions, including cessation of OSFI's Supervision of Provincial Credit Union Centrals through repealing Part

XVI of the *Cooperative Credit Associations Act (Canada)*, which allows for voluntary registration of provincial centrals under the federal regulatory regime.

As a consequence of this repeal, the Government of Saskatchewan enacted legislation that provided for the ongoing prudential regulation of SaskCentral. Under *The Credit Union Central of Saskatchewan Act, 2016*, which is effective January 15, 2017, each of the Registrar of Credit Unions and CUDGC will be responsible for the provision of prudential standards for the operation of SaskCentral.

The Financial and Consumer Affairs Authority of Saskatchewan (FCAA) is assigned the performance of all responsibilities imposed on the registrar and the exercise of all powers given to the registrar by this Act. CUDGC will take over regulatory responsibilities for the province effective January 15, 2017. SaskCentral does not expect this to impact its regulatory capital requirements.

Enterprise Risk Management

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

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

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

In 2016, SaskCentral's strategy map included the following objectives:

- Address evolving regulatory developments to clearing and liquidity structures
- Integrate trade services functions within CCUA
- Support strategic investee's alignment to the national mandate
- Develop a national product and service model for Peer Group 3 credit unions
- Maintain financial strength
- Sustain employee engagement and cultural alignment in support of the strategy

Although risks are managed within the balanced scorecard/strategy map approach, all risks are also mapped to the OSFI risk categories of credit, market (interest rate, price and foreign exchange), liquidity, strategic and operational, legal and regulatory.

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 Financial Management Policy contains policies for capital impairment, annual earnings distribution and the quantity of capital that the organization is required to maintain to comply with regulatory requirements.

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

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

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

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

2017 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.*

The credit union landscape has changed considerably since its inception. This change has been largely driven by developments in technology, changes in consumer behaviour and intense competitive pressures within the financial services sector. Yet credit unions remain fundamentally the same in the opportunity to offer services through the co-operative business model based on values of

Management Discussion and Analysis

honesty, openness, social responsibility and caring for others. Change at SaskCentral and the broader second tier must keep pace.

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

SaskCentral's participation in collaborative discussions on national projects with our credit unions, second tier partners and regulatory stakeholders enables us to achieve our vision of a nationally unified, internationally capable, co-operative financial network. Toward this vision, our focus is on our two strategic goals, national collaboration and credit union experience.

The 2017 Business Plan is broken down into four separate focus areas:

Strategic

The goal of the Strategic focus area is to demonstrate leadership in delivering transformational change nationally to position credit unions for success. In 2017, SaskCentral has identified four critical national objectives that support this goal: address evolving developments to clearing and settlement structures; support continued integration with CCUA; support strategic investees' alignment to our national mandate; and develop a National Wholesale Financial Services Provider.

Credit Union

The goal of the Credit Union focus area is to facilitate wholesale product and service expertise to support credit unions nationally. In 2017, SaskCentral's objective to support this goal will be creation and implementation of the CU Solutions Partnership with Central 1. The CU Solutions Partnership is a national fee-for-service model for small and medium credit unions based on a user-pay approach.

Financial

The goal of the Financial focus area is to maintain a position of financial strength to enable the achievement of our strategic objectives. SaskCentral's financial focus will be centered on maintaining interest margin, stable core earnings and efficiency in a rapidly evolving regulatory environment.

People

The goal of the People focus area is to maintain engaged employees and a constructive culture with the competencies required to facilitate the achievement of our strategic direction. SaskCentral's strategies for sustaining employee engagement and cultural alignment are centered on ensuring employees have the tools and support to help them personally manage change, leadership training and development to support employees through organizational change and enhancing both formal and informal retention strategies throughout the organization.

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. Critical accounting estimates and judgments are described in Note 6.

Subsequent Events

Refer to Note 34 for details on a subsequent event.

Management's Responsibility For Financial Reporting

To the Members of Credit Union Central of Saskatchewan

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

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

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
Executive Vice-President of Finance /
Chief Financial Officer / Chief Risk Officer
February 27, 2017

Audit and Risk Committee Report to the Members

To the Members of Credit Union Central of Saskatchewan

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

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

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

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

Management provides the Audit and Risk Committee with the certifications on its compliance with the Office of the Superintendent of Financial Institutions (OSFI). Also, management letter recommendations received from OSFI are reviewed by the Audit and Risk Committee.

Gilles Colbert
Chair, Audit and Risk Committee
February 27, 2017

Independent Auditor's Report

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

Tel: 306-565-5200
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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, 2016, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

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

Deloitte LLP

Chartered Professional Accountants
Licensed Professional Accountants

Regina, Saskatchewan
February 27, 2017

Credit Union Central of Saskatchewan

CONSOLIDATED BALANCE SHEET

[in thousands of Canadian dollars]

As at December 31

	2016	2015
	$	$
Assets		
Cash and cash equivalents [note 7]	107,469	70,573
Securities [note 8]	2,131,450	2,054,862
Derivative assets [note 9]	11,122	8,333
Loans [note 10]	45,057	37,800
Trade and other receivables	653	610
Other assets	706	709
Investments in associates [note 11]	256,140	246,214
Property, plant and equipment [note 12]	6,205	6,297
Investment property [note 13]	9,786	9,987
Intangible assets [note 14]	198	241
	2,568,786	2,435,626
Liabilities		
Deposits [note 16]	2,009,060	1,926,524
Derivative liabilities [note 9]	11,122	8,321
Loans payable [note 17]	58,573	57,909
Notes payable [note 18]	24,991	14,995
Trade and other payables	7,731	3,874
Other liabilities	111	436
Deferred income tax liabilities [note 15]	19,871	17,726
	2,131,459	2,029,785
Equity		
Share capital [note 19]	161,161	138,688
Retained earnings	269,505	255,708
Accumulated other comprehensive income	6,172	10,468
Total equity attributable to equity holders of SaskCentral	436,838	404,864
Non-controlling interest	489	977
Total equity	437,327	405,841
	2,568,786	2,435,626

See accompanying notes

On behalf of the Board:

Director

Director

Credit Union Central of Saskatchewan

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

[in thousands of Canadian dollars]

Year ended December 31

	2016	2015
	$	$
Interest income		
Securities	32,374	33,306
Loans	804	772
	33,178	34,078
Interest expense		
Deposits	21,492	22,196
Loans and notes	687	808
	22,179	23,004
Net interest income	10,999	11,074
Non-interest income		
Dues [note 21]	5,600	5,512
Fee for service [note 22]	22,526	24,237
Gain on financial instruments [note 28]	960	2,892
Share of profits of associates [note 11]	24,170	22,732
	53,256	55,373
Net interest and non-interest income	64,255	66,447
Non-interest expense		
Salary and employee benefits [note 23]	13,462	14,145
Professional and advisory services [note 24]	8,282	7,912
Computer and office equipment [note 25]	3,611	3,817
Occupancy [note 26]	3,980	3,589
General business [note 27]	3,972	4,307
	33,307	33,770
Profit for the year before income taxes	30,948	32,677
Income tax expense [note 15]	7,139	6,374
Profit for the year	23,809	26,303
Attributable to:		
Owners of SaskCentral	23,809	26,303
Non-controlling interest	-	-
	23,809	26,303

See accompanying notes

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

[in thousands of Canadian dollars]

Year ended December 31

	2016 $	2015 $
Profit for the year	**23,809**	26,303
Other comprehensive (loss) income		
Items that may be reclassified subsequently to profit or loss:		
Net unrealized (losses) gains on available-for-sale securities during the year	(3,476)	2,666
Reclassification of gains on available-for-sale securities disposed of in the year	(497)	(516)
Share of other comprehensive loss of associates [note 11]	(1,614)	(1,457)
Income tax relating to items that may be reclassified subsequently [note 15]	1,291	(384)
Other comprehensive (loss) income for the year, net of tax	(4,296)	309
Total comprehensive income for the year	19,513	26,612
Attributable to:		
Owners of SaskCentral	19,513	26,612
Non-controlling interest	-	-
	19,513	26,612

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, 2014	135,581	236,632	10,159	382,372	1,010	383,382
Profit for the year	-	26,303	-	26,303	-	26,303
Other comprehensive income for the year, net of tax	-	-	309	309	-	309
Increase (decrease) in share capital	3,107	-	-	3,107	(33)	3,074
Dividends [note 20]	-	(9,900)	-	(9,900)	-	(9,900)
Reduction in income taxes [note 15]	-	2,673	-	2,673	-	2,673
Balance as at December 31, 2015	138,688	255,708	10,468	404,864	977	405,841
Profit for the year	**-**	**23,809**	**-**	**23,809**	**-**	**23,809**
Other comprehensive loss for the year, net of tax	**-**	**-**	**(4,296)**	**(4,296)**	**-**	**(4,296)**
Increase (decrease) in share capital	**22,473**	**-**	**-**	**22,473**	**(488)**	**21,985**
Dividends [note 20]	**-**	**(13,715)**	**-**	**(13,715)**	**-**	**(13,715)**
Reduction in income taxes [note 15]	**-**	**3,703**	**-**	**3,703**	**-**	**3,703**
Balance as at December 31, 2016	**161,161**	**269,505**	**6,172**	**436,838**	**489**	**437,327**

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS

[in thousands of Canadian dollars]

Year ended December 31

	2016 $	2015 $
Cash flows from operating activities		
Profit for the year	23,809	26,303
Adjustments to determine net cash used in operating activities:		
Depreciation of property, plant and equipment and investment property [note 12/13]	972	884
Other amortization	10,244	10,517
Gain on financial instruments	(960)	(2,892)
Net interest income	(10,999)	(11,074)
Share of profits in associates, net of losses	(24,170)	(22,732)
Income tax expense	7,139	6,374
Changes in operating assets and liabilities:		
Derivative assets and liabilities	12	(12)
Loans, net of repayments	(7,238)	4,546
Trade and other receivables (payables)	3,814	(520)
Other assets	3	(93)
Deposits, net of withdrawals	82,635	136,252
Other liabilities	(325)	200
Interest received	32,861	33,646
Dividends received	613	521
Interest paid	(22,273)	(23,446)
Cash flows provided by operating activities	96,137	158,474
Cash flows from financing activities		
Loans payable, net of repayments	663	256
Notes payable, net of repayments	9,991	3
Proceeds from issuance of share capital	22,473	3,107
Dividends paid to members [note 20]	(13,715)	(9,900)
Cash flows provided by (used in) financing activities	19,412	(6,534)
Cash flows from investing activities		
Purchase of securities	(3,315,637)	(2,662,291)
Proceeds from sales of securities	3,225,139	2,506,747
Distributions from investments in associates	12,596	5,744
Property, plant and equipment [note 12]	(679)	(1,945)
Intangible assets [note 14]	(72)	134
Cash flows used in investing activities	(78,653)	(151,611)
Net increase in cash and cash equivalents	36,896	329
Cash and cash equivalents, beginning of year	70,573	70,244
Cash and cash equivalents, end of year	107,469	70,573

See accompanying notes

Notes to the Consolidated Financial Statements

December 31, 2016
in thousands of Canadian dollars

1. REPORTING ENTITY

Credit Union Central of Saskatchewan and its subsidiaries (collectively "SaskCentral") is a company domiciled in Canada. The address of SaskCentral's registered office is 2055 Albert Street, Regina, Saskatchewan, S4P 3G8. SaskCentral is incorporated under *The Credit Union Central of Saskatchewan Act, 1999* (the Act), and maintains a certification and carries on business pursuant to the *Cooperative Credit Associations Act (Canada)* (the CCAA). 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.

2.1 Basis of Presentation

(a) Statement of compliance

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

These consolidated financial statements were authorized for issue by the Board on February 27, 2017.

(b) Basis of measurement

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

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

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

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

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

(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.

December 31, 2016
in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of presentation (continued)

(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.

2.2 Basis of consolidation

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

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

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

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

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

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

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

December 31, 2016
in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Investments in associates

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

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

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

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

2.4 Interests in joint operations

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

When a group entity undertakes its activities under joint operations, SaskCentral as a joint operator recognizes in relation to its interest in a joint operation:

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

SaskCentral accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

December 31, 2016
in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Sale and repurchase agreements

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

2.6 Financial instruments

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

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

(a) Financial assets

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

Financial assets at FVTPL

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

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

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the consolidated statement of profit or loss and is reported as gains on financial instruments. Gains and losses arising from SaskCentral's foreign exchange contracts are classified as held-for-trading and are included in the consolidated statement of profit or loss and are reported as fee for service. Fair value is determined in the manner described in note 4.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables or financial assets at FVTPL. Available-for-sale financial assets are initially recognized at fair value and measured subsequently at fair value with gains and losses being recognized in OCI in the consolidated statement of comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognized. Fair value is determined in the manner described in note 4.

December 31, 2016
in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Financial assets (continued)

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

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

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

Loans and receivables

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

(b) Impairment of financial assets

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

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

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

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

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

December 31, 2016
in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Impairment of financial assets (continued)

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

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

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

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

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

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

(c) Financial liabilities

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

Financial liabilities at FVTPL

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

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

Financial liabilities at FVTPL are stated at fair value, with any gains and losses arising from re-measurement recognized in profit or loss. Fair value is determined in the manner described in note 4.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Other financial liabilities

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

d) Derecognition of financial assets or liabilities

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

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

e) Categories of financial instruments

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

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

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Interest income and expense

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

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

2.8 Fee for service

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

2.9 Cash and cash equivalents

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

2.10 Derivative financial instruments

SaskCentral enters into derivative financial instruments to manage its exposure to foreign exchange rate risks, which include foreign exchange forward contracts. SaskCentral also enters into derivative transactions on an intermediary basis on behalf of credit unions. These derivatives are carried at fair value on a gross basis as derivative assets and liabilities. Further details of derivative financial instruments are disclosed in note 9.

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

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Property, plant and equipment

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

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

The applicable depreciation periods are as follows:

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

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

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

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

2.12 Investment property

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

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

2.13 Intangible assets

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

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Intangible assets (continued)

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

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

2.14 Impairment of non-financial assets

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

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

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

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date and when there is an indication that reversal of the impairment may have occurred. Upon reversal of an impairment loss the carrying amount is increased to the revised recoverable amount and the revised recoverable amount does not exceed the carrying amount had the impairment loss not been recognized in prior years. The reversal is recognized in profit or loss immediately. No non-financial assets were impaired in 2016 or 2015.

2.15 Taxation

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

(a) Current tax

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

(b) Deferred tax

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

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Deferred tax (continued)

The principal temporary differences arise from depreciation 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 OCI, is also recognized in OCI and subsequently in the consolidated statement of profit or loss together with the deferred gains or losses.

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

2.16 Employee benefits

(a) Pension benefits

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

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

(b) Short-term employee benefits

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

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

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Provisions

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

2.18 Dividends

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

2.19 New standards and interpretations not yet adopted

At December 31, 2016 a number of standards and interpretations, and amendments thereto have been issued by the International Accounting Standards Board (IASB), which are not effective for these consolidated financial statements. Those which could have an impact on SaskCentral's consolidated financial statements are discussed below.

(a) Financial instruments

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

Key requirements of IFRS 9:

All recognized financial assets that are within the scope of IAS 39 are to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely of principal and interest on the principal amount outstanding, are generally measured at fair value through OCI (FVTOCI). All other debt investments and equity investments are measured at 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 OCI, with only dividend income generally recognized in profit or loss.

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

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

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.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 New standards and interpretations not yet adopted (continued)

(b) Revenue from contracts with customers

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

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

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

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

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

c) Leases

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

SaskCentral did not early adopt any new or amended standards in 2016.

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3. FINANCIAL RISK MANAGEMENT

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

3.1 Credit risk

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

SaskCentral manages credit risk by:

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

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

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

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

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

The SaskCentral credit risk objectives, policies, and methodologies have not changed materially from December 31, 2015.

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

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3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

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

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

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

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

		2015 $	
	Amount outstanding	**Undrawn commitments**	**Total**
Cash and cash equivalents	70,573	-	70,573
Securities	2,054,862	-	2,054,862
Derivative assets	8,961	-	8,961
Loans	37,800	449,275	487,075
Investments in associates	246,214	-	246,214
Letters of credit and financial guarantees	36	-	36
Total Exposure	2,418,446	449,275	2,867,721

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3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

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

	2016 $	2015 $
Low risk		
Risk rating 1	**502,759**	475,977
Risk rating 2	**1,000**	1,000
Standard monitoring		
Risk rating 3	**-**	-
Risk rating 4	**8,161**	8,611
Special monitoring		
Risk rating 5	**-**	-
Default		
Risk rating 6	**-**	-
Risk rating 7	**-**	-
Total Exposure	**511,920**	485,588

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

	2016 $	2015 $
A	**14,823**	23,444
Unrated	**447**	488
Total Exposure	**15,270**	23,932

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

	2016 $	2015 $
AAA/R1H	**743,022**	655,468
AA/R1M	**574,408**	591,551
A/R1L	**721,157**	700,170
BBB/R2H	**56,609**	63,611
Co-operatives	**5,909**	11,746
Total Exposure	**2,101,105**	2,022,546

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

Notes to the Consolidated Financial Statements

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3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

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

Credit risk exposure by industry:

	2016	2015
	$	$
Automobile financing	**58,619**	36,710
Banking (Schedule 1)	**886,600**	813,280
Banking (Schedule 2 and Schedule 3)	**1,501**	-
Credit card issuing/financing	**32,848**	39,027
Diversified holdings	**1,000**	6,985
Information	**9,826**	10,038
Insurance carriers and related activities	**1,797**	1,797
Local credit union	**413,337**	386,306
Manufacturing	**50,951**	33,730
Master asset vehicles (MAV)	**15,270**	23,932
Mining & oil and gas extraction	**4,993**	5,075
Other non-depository (co-operatives)	**450,529**	401,816
Public administration (federal, provincial, and municipal government)	**968,400**	977,304
Real estate	**31,007**	30,901
Rental & leasing services	**2,773**	15,110
Retail trade	**10,186**	14,860
Transportation and warehousing	**45,311**	45,269
Utilities	**23,366**	15,829
Wholesale trade	**9,464**	9,752
Total Exposure	**3,017,778**	2,867,721

3.2 Market risk

Market risk arises from three components:

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

SaskCentral manages market risk by:

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

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3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

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

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

The SaskCentral market risk objectives and methodologies have not changed materially from December 31, 2015.

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:

	2016 $		2015 $	
	Adjusted net interest income	**Economic value of equity**	**Adjusted net interest income**	**Economic value of equity**
Impact of:				
100 bp increase in rates	**7.6%**	**(0.6%)**	7.0%	(1.0%)
100 bp decrease in rates	**(3.8%)**	**0.3%**	(4.1%)	0.4%
Impact of:				
30% rate ramp increase	**1.7%**	**(0.1%)**	2.0%	(0.1%)
30% rate ramp decrease	**(1.2%)**	**0.2%**	(1.1%)	0.1%

(a) Interest rate risk

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

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3. FINANCIAL RISK MANAGEMENT (continued)

(a) Interest rate risk (continued)

SaskCentral evaluates interest rate risk by determining the financial impact under a variety of scenarios. SaskCentral limits the impact of interest rate changes so that an immediate 100 bp change in the interest rate will not negatively affect the economic value of equity by more than 10% or projected annual net interest income by more than 10% and a 30% rate ramp scenario will not negatively affect the economic value of equity by more than 10% one year forward or projected annual net interest income by more than 10%. SaskCentral's interest rate sensitivity to a 100 bp fluctuation in interest rates over the next 12 months would be as outlined in the following table:

	2016 $		2015 $	
	Profit (loss) for the year	**Other comprehensive (loss) income**	**Profit (loss) for the year**	**Other comprehensive (loss) income**
Impact of:				
100 bp increase in rates	12,576	(3,073)	11,366	(4,058)
100 bp decrease in rates	(11,250)	3,012	(10,191)	3,977

(b) Other price risk

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

3.3 Liquidity risk

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

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

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

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

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

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3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

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

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

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

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

	2015 $				
	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Loans payable	57,909	-	-	-	57,909
Notes payable	14,995	-	-	-	14,995
Total Exposure	72,904	-	-	-	72,904

The SaskCentral liquidity risk objectives and policies have not changed materially from December 31, 2015. SaskCentral uses two metrics to monitor liquidity risk: the Liquidity Coverage Ratio (LCR) and a liquidity score. The LCR is modeled after the May 2014 Liquidity Adequacy Requirements (LAR) Guideline published by the OSFI. This guideline does not apply to SaskCentral; however, SaskCentral has incorporated the LAR principles in the LCR. The LCR is the ratio of liquid assets over potential outflows over five days. SaskCentral calculates the LCR on a stand-alone basis and on a combined view of Saskatchewan credit unions and SaskCentral (system-wide).

	2016 $		2015 $	
	System-wide LCR	Stand-alone LCR	System-wide LCR	Stand-alone LCR
Policy limit	120%	110%	150%	n/a
Actual	171%	124%	201%	124%

SaskCentral also evaluates liquidity quality of investments using the liquidity score. The liquidity score is an internal rating system developed by all Group Clearing participants. Ratings range from 0 to 4 with 0 indicating the investment is illiquid and 4 indicating the investment can be sold immediately to any dealer. The policy limit describes a liquidity score of 3.0 or better. The liquidity score was 3.3 at December 31, 2016 (2015 – 3.3).

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4. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

Instrument	Fair value as at 2016 $	2015 $	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Financial assets					
Available-for-sale securities					
Government					
Federal	**617,656**	594,685	Level 2	Market comparable prices using quoted bid prices obtained from Bloomberg, or dealer quoted prices where applicable.	N/A
Provincial	**348,434**	372,370	Level 2	Market comparable prices using quoted bid prices obtained from Bloomberg, or dealer quoted prices where applicable.	N/A
Municipal	**4,535**	3,752	Level 2	Market comparable prices using quoted bid prices obtained from Bloomberg, or dealer quoted prices where applicable.	N/A
Corporate					
Corporate debt	**279,344**	256,300	Level 2	Market comparable prices using quoted bid prices obtained from Bloomberg, or dealer quoted prices where applicable.	N/A
Asset backed securities (ABS)	-	5,986	Level 2	Discounted cash flow. Future cash flows are determined based on coupon rates ranging from 1.12% to 1.22% that reflect a combination of collateralized debt obligation (CDO) and commercial mortgage backed security (CMBS) rates with similar maturity dates and characteristics. Discount rates ranging from 1.00% to 1.03% estimated using market comparable rates from Bloomberg.	N/A
Central 1 Credit Union (Central 1) subordinated debentures(3)	-	5,783	Level 2	Discounted cash flow. Future cash flows are determined based on coupon rates ranging from 0.88% to 2.21% that reflect a three month CDOR rate with similar maturity dates and characteristics plus an adjustment of 10 bps. Discount rates ranging from 1.00% to 1.12%, estimated using market comparable rates from Bloomberg.	N/A

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

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

Instrument	Fair value as at 2016 $	2015 $	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Financial assets (continued)					
Available-for-sale securities (continued)					
Credential Financial subordinated debentures	**572**	581	Level 2	Discounted cash flow. Future cash flows are determined based on a fixed coupon rate of 5.13%. Discount rate of 5.30%, estimated using market comparable rates from Bloomberg.	N/A
Credential Securities subordinated debentures	**658**	660	Level 2	Discounted cash flow. Future cash flows are determined based on a fixed coupon rate of 3.57%. Discount rate of 3.55%, estimated using market comparable rates from Bloomberg.	N/A
Chartered banks	**845,227**	777,707	Level 2	Market comparable prices using quoted bid prices obtained from Bloomberg, or dealer quoted prices where applicable.	N/A
Co-operatives (1)	-	660	Level 2	Fair value determined by obtaining bid price from independent third party.	N/A
FVTPL securities					
MAV (2)	**15,270**	23,932	Level 3	Discounted cash flow. Future cash flows based on a coupon rate of 0.82% that reflects a CDOR and a CDX rate with similar maturity dates and similar characteristics.	Discount rate of 3.11% calculated using the coupon rate plus a credit spread and liquidity discount. The higher the discount rate, the lower the fair value.
Derivative assets					
Index-linked term deposits	**11,122**	8,321	Level 2	Discounted cash flow. Future cash flows are estimated based on observable market inputs (third party quotes, pricing on trading venues and prices for comparable transactions) and a discount rate derived from relevant market inputs for each asset class.	N/A

(1) Certain co-operative securities with a carrying value at December 31, 2016 of $4,679 (2015 - $4,062) are not included in this note as these securities are carried at cost because a quoted price in an active market is not available and the fair value cannot be reliably measured.

(2) If the above unobservable input to the valuation were 1% higher/lower while all other variables were held constant, the varying amount of MAV securities would decrease/increase by $10/$9.

(3) The Central 1 Series 3 subordinated debt note was redeemed in full on July 6, 2016. Subsequently, Central 1 issued the Series 5 subordinated debt note. SaskCentral has classified the Central 1 Series 5 subordinated debt note as a loan and receivable.

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

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

Instrument	Fair value as at 2016 $	2015 $	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Financial liabilities					
Derivative assets (continued)					
Foreign exchange contracts	-	12	Level 2	Discounted cash flow. Future cash flows are estimated based on observable forward exchange rates and contract forward rates.	N/A
Derivative liabilities					
Index-linked term deposits	11,122	8,321	Level 2	Discounted cash flow. Future cash flows are estimated based on observable market inputs (third party quotes, pricing on trading venues and prices for comparable transactions) and a discount rate derived from relevant market inputs for each asset class.	N/A

SaskCentral's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There have been no transfers between hierarchy levels during the year.

Reconciliation of Level 3 fair value measurements

	2016 $	2015 $
Level 3, beginning of year	23,932	-
Transfer in from Level 2	-	23,275
Total gains		
In profit or loss	497	657
Principal payments	(9,159)	-
Level 3, end of year	15,270	23,932
Total gains for the period included in profit or loss for assets held at the end of the reporting period	497	657

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

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

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

	Carrying value as at		Fair value as at			
	2016 $	2015 $	2016 $	2015 $	Fair value hierarchy	Valuation technique(s)
Financial assets						
Credit union loans – fixed interest rate(1)	**29,955**	14,970	**29,943**	14,997	Level 2	Discounted cash flows based on current market rates of interest for similar lending.
Commercial loans	**3,169**	3,620	**3,175**	3,627	Level 2	
Central 1 subordinated debt	**7,000**	-	**6,331**	-	Level 2	
Financial liabilities						
Deposits	**2,009,060**	1,926,524	**2,021,432**	1,950,345	Level 2	Discounted cash flows based on current market rates of interest for similar maturities.
Loans payable	**58,573**	57,909	**58,567**	57,905	Level 2	
Notes payable	**24,991**	14,995	**24,991**	14,995	Level 2	

(1) *The fair value of variable interest rate credit union loans approximates the carrying value of $11,933 (2015 - $19,210).*

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 accumulated other comprehensive income. Tier 2 regulatory capital consists of subordinated debentures, less any amortization on the subordinated debentures as required by the 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 deposits, notes payable, loans payable and liabilities related to derivative contracts, excluding index-linked term deposits. The Borrowing Multiple is not to exceed 20.0 times total borrowings as prescribed by OSFI. Internal board policy for this ratio is set at 17.0 times. Operationally, management targets a maximum ratio of 16.0 times.

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5. CAPITAL MANAGEMENT (continued)

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

	2016 $	2015 $
Capital		
Tier 1 and Tier 2 regulatory capital	**430,666**	394,396
Less deductions:		
Substantial investments	**253,422**	241,837
Assets of little value	**1,357**	1,166
Total borrowing multiple capital	**175,887**	151,393
Borrowing multiple	**11.9:1**	13.2:1

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Critical judgments in applying accounting policies

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

Allowances for impairment

SaskCentral reviews its asset portfolio to assess impairment on an annual basis. In determining whether an impairment loss should be recorded in the consolidated statement of profit or loss, SaskCentral makes judgments as to whether there is any observable evidence to suggest impairment may exist before the decrease can be identified in the asset portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the portfolios. Note 28 provides details on a loan provision recovery received in 2015. There were no allowances for impairment in 2016.

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6. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Critical judgments in applying accounting policies (continued)

Significant influence over Concentra Financial

Note 11 describes that Concentra Financial is an associate of SaskCentral even though SaskCentral owns 84.0% (2015 – 84.3%) of the non-voting Class A shares and 47% (2015 – 47%) of the voting membership shares of Concentra Financial. Refer to note 34 for details on a subsequent event relating to Concentra Financial.

Section 52 of the CCAA prohibits Concentra Financial from being controlled by SaskCentral. The CCAA requires that Concentra Financial can only be controlled by another association and SaskCentral is not an association. SaskCentral has significant influence over Concentra Financial by virtue of its right to appoint seven out of fifteen members of the Concentra Financial Board of Directors. Also, SaskCentral is limited to a 30% or 50% vote on special resolutions brought to the members. Finally, SaskCentral is limited to one vote out of 235 member votes on ordinary resolutions brought to the members. Management has concluded that due to the lack of substantive rights to power, SaskCentral does not control Concentra Financial. SaskCentral cannot control the relevant activities of Concentra Financial as these decisions are made at the Board of Director and/or member level.

Significant influence over Celero Solutions

Note 11 describes that SaskCentral has significant influence over Celero Solutions by virtue of its 33.3% (2015 – 31.4%) interest in Celero Solutions. SaskCentral has the right to appoint two out of six (33.3%) members of the Celero Solutions Management Committee. Management has concluded that due to the lack of unanimous consent required to make decisions regarding relevant activities, SaskCentral does not have joint control over Celero Solutions. However, since SaskCentral has 33.3% of the voting power of Celero Solutions, management has concluded that SaskCentral has significant influence over Celero Solutions.

Control of CUVentures LP

Note 31 describes that CUVentures LP is a subsidiary of SaskCentral as a result of SaskCentral's 100% (2015 – 100%) ownership of CUVentures Inc., the General Partner. In addition, SaskCentral has the power to appoint and remove two out of two directors of CUVentures Inc. SaskCentral also owns 81.22% (2015 - 81.22%) of the partnership units of CUVentures LP. Management has concluded that SaskCentral has control over CUVentures LP since SaskCentral has 100% of the voting power of CUVentures Inc., who has the full power and authority to make all decisions on behalf of CUVentures LP.

Significant influence over Saskatchewan Entrepreneurial Fund Joint Venture

CUVentures LP has 100% ownership of Saskatchewan Entrepreneurial Fund Limited Partnership (SEF LP), which has a 45.45% share in Saskatchewan Entrepreneurial Fund Joint Venture (SEF JV). Note 11 describes that SaskCentral has significant influence over SEF JV by virtue of SEF LP's 45.45% (2015 – 45.45%) interest in SEF JV. SaskCentral has the ability to appoint two out of five members (40%) to the Executive Committee of SEF JV. Management has concluded that due to the lack of unanimous consent required to make decisions, SaskCentral does not have joint control of SEF JV. However, since SaskCentral has 40% of the voting power of SEF, through CUVentures LP, management has concluded that SaskCentral has significant influence over SEF.

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6. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Critical judgments in applying accounting policies (continued)

Classification of CUPS Payment Services as a joint operation

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

Key sources of estimation uncertainty

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

Fair value measurements and valuation processes

Some of SaskCentral's financial assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or liability, SaskCentral uses market-observable data to the extent it is available. Where Level 1 inputs are not available, SaskCentral utilizes valuation techniques, such as discounted cash flow models, or observable data from sources such as Bloomberg, to calculate the fair value of assets and liabilities. Where valuation techniques such as models are used to determine fair values, they are validated and periodically reviewed. Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in note 4 and 13.

Income taxes

The deferred income tax liability recognized at December 31, 2016 is based on future profitability assumptions over a five year horizon. In the event of changes to these profitability assumptions, the deferred income tax liability recognized may be adjusted.

7. CASH AND CASH EQUIVALENTS

	2016 $	2015 $
Cash and balances with Central 1	**71,065**	35,323
Cash and balances with banks	**4,976**	11,147
Cash equivalents	**31,428**	24,103
	107,469	70,573

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8. SECURITIES

SaskCentral's securities portfolio is comprised of a large number of securities carrying a variety of terms and conditions. Approximately 75.9% (2015 – 70.8%) of the portfolio bears interest at fixed rates and pays interest semi-annually and/or upon maturity. The remainder of the portfolio earns interest at variable rates and pays interest monthly or quarterly, provides a return of dividends over varying periods of time or provides an index-linked return. The maturity dates and weighted average effective interest rates for the securities portfolio are as follows:

	2016 $					
	Term to maturity					
	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	No fixed maturity	Total
Available-for-sale						
Government						
Federal						
Fair value	-	129,151	483,502	5,003	-	617,656
Amortized cost	-	128,692	481,883	5,000	-	615,575
Yield (1)		1.16%	1.16%	1.08%		1.16%
Provincial						
Fair value	25,023	81,596	241,815	-	-	348,434
Amortized cost	25,027	81,353	241,445	-	-	347,825
Yield (1)	0.59%	1.11%	1.12%			1.08%
Municipal						
Fair value	-	3,620	915	-	-	4,535
Amortized cost	-	3,603	919	-	-	4,522
Yield (1)		1.53%	1.18%			1.46%
Corporate						
Corporate debt (2)						
Fair value	7,336	76,992	193,495	1,521	-	279,344
Amortized cost	7,328	76,720	192,475	1,532	-	278,055
Yield (1)	1.73%	1.69%	1.87%	1.79%		1.82%
Chartered banks						
Fair value	101,470	171,628	572,129	-	-	845,227
Amortized cost	101,460	170,973	567,919	-	-	840,352
Yield (1)	1.20%	1.68%	1.97%			1.82%
Co-operatives						
Fair value	-	658	572	-	4,679	5,909
Amortized cost	-	656	573	-	4,679	5,908
Total fair value	133,829	463,645	1,492,428	6,524	4,679	2,101,105
Total amortized cost	133,815	461,997	1,485,214	6,532	4,679	2,092,237
FVTPL						
Master asset vehicle						
Fair value	14,823	447	-	-	-	15,270
Loans and receivables						
Central 1 subordinated debentures						
Amortized cost	-	-	-	7,000	-	7,000
Yield (1)				0.96%		0.96%
Total carrying value						2,123,375
Accrued interest						8,075
						2,131,450

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

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8. SECURITIES (continued)

2015 $	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	13,509	87,101	484,075	10,000	-	594,685
Amortized cost	13,501	86,670	480,914	10,012	-	591,097
Yield (1)	0.93%	1.27%	1.17%	1.00%		1.18%
Provincial						
Fair value	26,080	24,649	321,641	-	-	372,370
Amortized cost	26,085	24,645	321,299	-	-	372,029
Yield (1)	0.58%	0.79%	1.07%			1.02%
Municipal						
Fair value	-	-	3,752	-	-	3,752
Amortized cost	-	-	3,715	-	-	3,715
Yield (1)			1.53%			1.53%
Corporate						
Corporate debt (2)						
Fair value	28,721	46,334	182,848	4,383	-	262,286
Amortized cost	28,714	46,229	181,551	4,374	-	260,868
Yield (1)	1.45%	1.83%	2.04%	2.02%		1.94%
Chartered banks						
Fair value	71,629	158,749	532,857	14,472	-	777,707
Amortized cost	71,612	158,025	526,422	14,299	-	770,358
Yield (1)	1.64%	1.85%	2.09%	2.43%		2.00%
Co-operatives						
Fair value	-	660	581	5,783	4,722	11,746
Amortized cost	-	656	573	6,000	4,722	11,951
Yield (1)				0.85%		0.42%
Total fair value	139,939	317,493	1,525,754	34,638	4,722	2,022,546
Total amortized cost	139,912	316,225	1,514,474	34,685	4,722	2,010,018
FVTPL						
Master asset vehicle						
Fair value	-	23,932	-	-	-	23,932
Total carrying value						2,046,478
Accrued interest						8,384
						2,054,862

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

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8. SECURITIES (continued)

Unrealized gains and losses on available-for-sale securities

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

	2015 $			
	Amortized cost	**Unrealized gains**	**Unrealized losses**	**Fair value**
Government	966,841	6,131	(2,165)	970,807
Corporate	1,043,177	9,451	(889)	1,051,739
	2,010,018	15,582	(3,054)	2,022,546

MAV, which consist of pools of assets, issued notes on January 19, 2009, to replace non-bank sponsored or third party ABCP which had experienced a liquidity event or market disruption in 2007. During the year SaskCentral received $9,298 (2015 - $215) of principal and interest payments on the MAV notes held. The fair value of MAV notes held at December 31, 2016 is $15,270 (2015 - $23,932). SaskCentral received $14,859 in principal and interest payments subsequent to year-end on the MAV notes held.

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.

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.

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9. DERIVATIVE ASSETS AND LIABILITIES (continued)

Notional amounts and term to maturity

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

	2015 $				
	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Foreign exchange contracts	-	125	-	-	125
Index-linked term deposits	11,906	14,716	92,049	-	118,671
	11,906	14,841	92,049	-	118,796

Fair value of derivative instruments

	2016 $		2015 $	
	Positive	Negative	Positive	Negative
Foreign exchange contracts	-	-	12	-
Index-linked term deposits	11,122	11,122	8,321	8,321
	11,122	11,122	8,333	8,321

Amounts Expected to be Recovered or Settled

	2016 $		2015 $	
	Positive	Negative	Positive	Negative
Within 12 months	5,145	5,145	1,888	1,876
After 12 months	5,977	5,977	6,445	6,445
	11,122	11,122	8,333	8,321

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

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10. LOANS

	2016 $	2015 $
Credit union	**41,859**	34,172
Commercial loans	**3,162**	3,611
	45,021	37,783
Accrued interest	**36**	17
	45,057	37,800

Approximately 33.53% (2015 – 60.40%) 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:

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

2015	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Credit union					
Amortized cost ($)	34,172	-	-	-	34,172
Rate (%)	1.99%				1.99%
Commercial loans					
Amortized cost ($)	3,611	-	-	-	3,611
Rate (%)	2.70%				2.70%
Amortized cost	37,783	-	-	-	37,783

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11. INVESTMENTS IN ASSOCIATES

Concentra Financial

At December 31, 2016, SaskCentral owns 84.0% (2015 – 84.3%) of the non-voting Class A shares and 47.1% (2015 – 47.1%) 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. Concentra Financial's registered place of business is Saskatoon, Saskatchewan.

Celero Solutions

At December 31, 2016, SaskCentral has a 33.3% (2015 – 31.4%) interest in Celero Solutions, an arrangement between SaskCentral, Alberta Central and Manitoba Central for the purpose of providing information technology (IT) services including developing new IT services and providing technology-based products. Celero Solutions' registered place of business is Calgary, Alberta.

SEF JV

At December 31, 2016, SaskCentral has a 45.45% (2015 – 45.45%) interest in SEF JV, which was created to undertake and carry out the investment and deployment of capital to small and mid-sized businesses in Saskatchewan requiring less than $1 million in capital. SEF JV's principal place of business is Regina, Saskatchewan.

SaskCentral accounts for the above investments in associates using the equity method in these consolidated financial statements. Related party transactions for these investees, if any, are disclosed in note 29.

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

	2016 $					
	Assets	Liabilities	Revenue	Profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
Concentra Financial	9,436,734	9,002,541	257,951	28,859	(1,914)	26,945
Celero Solutions	35,391	23,742	79,210	3,573	-	3,573
SEF JV	1,868	123	37	(140)	-	(140)
	9,473,993	9,026,406	337,198	32,292	(1,914)	30,378

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11. INVESTMENTS IN ASSOCIATES (continued)

2015 $	Assets	Liabilities	Revenue	Profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
Concentra Financial	7,799,706	7,374,901	232,154	25,301	(1,728)	23,573
Celero Solutions	39,169	26,872	82,868	4,404	-	4,404
SEF JV	2,547	181	69	(140)	-	(140)
	7,841,422	7,401,954	315,091	29,565	(1,728)	27,837

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

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

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

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11. INVESTMENTS IN ASSOCIATES (continued)

2015	Concentra Financial Equity Components		SaskCentral's Carrying Amount
	$	%	$
Ending share capital	248,232		
Concentra shares held by other Class A shareholders	(15,177)		
Concentra shares held by Class B shareholders	(3,990)		
Concentra shares held by Class D shareholders	(110,987)		
Concentra shares held by other member shareholders	(18)		
SaskCentral's portion of share capital	118,060		118,060
Ending retained earnings	174,318		
Accumulated other comprehensive income	2,255		
Retained earnings at date of asset transfer (January 1, 2005) [1]	(22,628)	55.76%	12,617
Dividend on 2005 earnings [1]	2,579	55.76%	(1,438)
Retained earnings attributable to Class A shareholders	156,524	84.30%	131,950
			261,189
Goodwill			(19,248)
Other adjustments			(687)
Carrying amount of SaskCentral's investment in Concentra Financial			241,254

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

A reconciliation of Celero Solutions and SEF JV's financial information to the carrying amount of SaskCentral's interest in associates recognized in the consolidated financial statements is provided below.

	2016 $	
	Celero Solutions	**SEF JV**
Net assets of the associate	**11,649**	**1,745**
Proportion of SaskCentral's ownership interest	**33.3%**	**45.45%**
	3,883	**793**
Other adjustments	**22**	**-**
Carrying amount of SaskCentral's interest in associates	**3,905**	**793**

	2015 $	
	Celero Solutions	**SEF JV**
Net assets of the associate	12,297	2,366
Proportion of SaskCentral's ownership interest	31.40%	45.45%
	3,861	1,075
Other adjustments	23	1
Carrying amount of SaskCentral's interest in associates	3,884	1,076

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11. INVESTMENTS IN ASSOCIATES (continued)

During the period, SaskCentral received the following distributions from its investments in associates:

	2016 $	2015 $
Concentra Financial	**11,231**	4,492
Celero Solutions	**1,168**	979
SEF JV	**197**	273
	12,596	5,744

12. PROPERTY, PLANT AND EQUIPMENT

2016 $	Land	Building	Furniture and equipment	Total
Cost				
Balance as at January 1	**859**	**11,950**	**5,314**	**18,123**
Additions	-	**427**	**252**	**679**
Disposals	-	**(15)**	**(1,276)**	**(1,291)**
Ending Balance as at December 31	**859**	**12,362**	**4,290**	**17,511**
Accumulated Depreciation				
Balance as at January 1	-	**7,637**	**4,189**	**11,826**
Depreciation charges	-	**439**	**332**	**771**
Disposals	-	**(15)**	**(1,276)**	**(1,291)**
Ending Balance as at December 31	-	**8,061**	**3,245**	**11,306**
Carrying Value as at December 31	**859**	**4,301**	**1,045**	**6,205**

2015 $	Land	Building	Furniture and equipment	Total
Cost				
Balance as at January 1	859	10,875	4,516	16,250
Additions	-	1,474	473	1,947
Disposals	-	-	(74)	(74)
Transfers	-	(399)	399	-
Ending Balance as at December 31	859	11,950	5,314	18,123
Accumulated Depreciation				
Balance as at January 1	-	7,280	3,935	11,215
Depreciation charges	-	357	326	683
Disposals	-	-	(72)	(72)
Transfers	-	-	-	-
Ending Balance as at December 31	-	7,637	4,189	11,826
Carrying Value as at December 31	859	4,313	1,125	6,297

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13. INVESTMENT PROPERTY

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

	2016 $	2015 $
Cost		
Balance as at January 1	11,449	11,449
Ending Balance as at December 31	11,449	11,449
Accumulated Depreciation		
Balance as at January 1	1,462	1,261
Depreciation charges	201	201
Ending Balance as at December 31	1,663	1,462
Carrying Value as at December 31	9,786	9,987

The fair value of SaskCentral's investment property at December 31, 2016 is $24,484 (2015 - $27,141). The fair value of the investment property has been arrived at on the basis of a valuation completed by management.

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

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

Income approach	2016	2015
Rent per square foot (in actual Canadian dollars)	$13 - $18	$13 - $19
Parking rate per month (in actual Canadian dollars)	$212.50	$212.50
Vacancy rate	13.87%	10.96%
Capitalization rate	7.5%	7.5%

In 2016, investment property generated rental income of $3,227 (2015 - $3,139). Direct operating expenses recognized in the consolidated income statement were $2,054 (2015 - $1,797).

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14. INTANGIBLE ASSETS

2016
$

	Computer Software	Intangible Assets under Development	Total
Cost			
Balance as at January 1	4,299	1,035	5,334
Additions	58	14	72
Transfers	220	(220)	-
Disposals	(1,154)	(829)	(1,983)
Ending Balance as at December 31	3,423	-	3,423
Accumulated Amortization			
Balance as at January 1	4,264	829	5,093
Amortization charges	115	-	115
Disposals	(1,154)	(829)	(1,983)
Ending Balance as at December 31	3,225	-	3,225
Carrying Value as at December 31	198	-	198

2015
$

	Computer Software	Intangible Assets under Development	Total
Cost			
Balance as at January 1	4,650	836	5,486
Additions	-	206	206
Transfers	7	(7)	-
Adjustment	(358)	-	(358)
Ending Balance as at December 31	4,299	1,035	5,334
Accumulated Amortization			
Balance as at January 1	3,872	815	4,687
Amortization charges	410	14	424
Adjustment	(18)	-	(18)
Ending Balance as at December 31	4,264	829	5,093
Carrying Value as at December 31	35	206	241

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15. INCOME TAXES

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

	2016	2015
	$	$
Deferred income tax expense		
Origination and reversal of temporary differences	**7,139**	6,374
	7,139	6,374

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

	2016	2015
	$	$
Net unrealized gains on available-for-sale securities		
Deferred income tax (recovery) expense	**(2,250)**	585
	(2,250)	585
Reclassification of gains on available-for-sale securities to income		
Deferred income tax expense (recovery)	**959**	(201)
	959	(201)
	(1,291)	384

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

	2016	2015
	$	$
Reduction in income taxes due to payment of dividends		
Deferred income tax recovery	**(3,703)**	(2,673)
	(3,703)	(2,673)

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

Total income tax reported in the consolidated financial statements:

	2016	2015
	$	$
	2,145	4,085

Reconciliation of income tax expense from continuing operations:

	2016	2015
	$	$
Combined federal and provincial income tax rate applied to income from		
Continuing operations (2016 – 27%; 2015 – 27%)	**8,356**	8,823
Income tax expense adjusted for the effect of:		
Non-taxable dividend income	**(165)**	(141)
Rate reduction relating to equity income	**(1,618)**	(2,309)
Expenses not deductible for tax purposes	**43**	23
Adjustments related to prior periods	**523**	(22)
	7,139	6,374

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15. INCOME TAXES (continued)

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 16% (2015 - 16%). The movement in deferred income tax liability is as follows:

	2016 $	2015 $
Balance, beginning of year	**17,726**	13,641
Recognized in profit or loss	**7,139**	6,374
Available-for-sale securities:		
Fair value measurement	**(2,250)**	585
Transfer to profit or loss	**959**	(201)
Recognized in retained earnings	**(3,703)**	(2,673)
Balance, end of year	**19,871**	17,726

The components of deferred income taxes are as follows:

	2016 $	2015 $
Deferred income tax assets		
Non capital loss carryforward	**2,556**	2,817
Accounts payable and deferred revenue	**118**	91
Losses not yet deductible for tax purposes	**173**	216
Other	**8**	9
	2,855	3,133
Deferred income tax liabilities		
Securities	**(22,020)**	(20,121)
Property, plant and equipment	**(706)**	(738)
	(22,726)	(20,859)
Net deferred income tax liability	**(19,871)**	(17,726)

	2016 $	2015 $
Deferred income tax assets		
Recoverable after more than 12 months	**2,728**	3,033
Recoverable within 12 months	**127**	100
	2,855	3,133
Deferred income tax liabilities		
Payable after more than 12 months	**(22,726)**	(20,859)
	(22,726)	(20,859)
Net deferred income tax liability	**(19,871)**	(17,726)

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 $9,458 (2015 - $10,433) which are available to offset future taxable income. The balance of these loss carryforwards will expire in the year 2030 ($8,011) and 2032 ($1,447). The benefit of the tax losses has been recognized in SaskCentral's financial statements as realization of the related tax benefit is probable.

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16. DEPOSITS

Provincial Liquidity Program

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

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

2016
$

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

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

2015
$

	Term to maturity						
	On Demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	No fixed maturity	Total
Member							
Amortized Cost	129,839	-	-	-	-	-	129,839
Yield [1]	0.01%						0.01%
Provincial liquidity program							
Amortized Cost	-	66,959	210,356	944,625	-	570,101	1,792,041
Yield [1]		1.24%	1.29%	1.56%		0.61%	1.22%
	129,839	66,959	210,356	944,625	-	570,101	1,921,880
Accrued interest							4,644
							1,926,524

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

Interest rates on deposits are determined by market conditions.

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17. LOANS PAYABLE

SaskCentral has available credit facilities related to securities repurchase agreements from National Bank Financial, Toronto Dominion Bank, Royal Bank of Canada and Bank of Nova Scotia. These repurchase agreements mature within one month (2015 – one month).

In addition, SaskCentral has a credit facility with Central 1 for $100,000 (2015 - $100,000) for which SaskCentral has pledged securities with the Bank of Canada to support the group clearing agreement (note 30). The balance of the credit facility is unsecured, ranking equally with the deposit obligations of SaskCentral. SaskCentral also has a secured credit facility with Canadian Imperial Bank of Commerce for $50,000 (2015 - $100,000) where SaskCentral is required to maintain a borrowing base comprised of fixed income collateral.

	Loans payable (1)		Collateral			
			Securities pledged			
			Fair value		Carrying value	
	2016	2015	2016	2015	2016	2015
	$	$	$	$	$	$
Repurchase payable	**58,573**	57,909	**58,567**	57,905	**57,967**	57,080
Central 1 line of credit	**-**	-	**302,383**	309,903	**302,539**	311,105
	58,573	57,909	**360,950**	367,808	**360,506**	368,185

(1) Weighted average effective interest rate based on year-end carrying values is 0.60% (2015 - 0.55%).

18. NOTES PAYABLE

SaskCentral is authorized to issue a maximum of $300,000 (2015 - $300,000) under a commercial paper program. Outstanding commercial paper matures within one month (2015 – one month) and at December 31, 2016 has a weighted average effective interest rate of 0.94% (2015 – 0.87%).

19. SHARE CAPITAL

Under the Act, SaskCentral is authorized to issue an unlimited number of membership shares.

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.

SaskCentral's bylaws require credit unions to maintain membership share capital in SaskCentral at 1% of their previous year's assets. SaskCentral has the discretion to make this annual true-up in whole or in part. SaskCentral would not exercise this authority to require additional membership share capital contributions unless the SaskCentral capital plan indicated a projected borrowing multiple in excess of 16.0:1 in the subsequent year. In that case, SaskCentral would only exercise this authority to the extent that the required contribution would bring the projected borrowing multiple to 16.0:1 or to 1.0% of system assets, whichever was first met.

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

Issued share capital is comprised of 16,116,098 membership shares at December 31, 2016 (2015 – 13,868,844). Membership shares issued during the year were exchanged for cash.

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20. DIVIDENDS

In 2016, dividends of $13,715 (2015 - $9,900) were declared, as approved by the Board. Two cash dividends were paid to credit unions in 2016. The first was in March for $8,100 (2015 - $5,400) and the second in June for $5,615 (2015 - $4,500). On January 4, 2017, the Board approved payment of a dividend of $5,615 to be paid to credit unions on January 13, 2017.

21. DUES

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

22. FEE FOR SERVICE

	2016 $	2015 $
Fee for service revenue	**17,381**	18,796
Foreign exchange revenue	**46**	402
Miscellaneous revenue	**111**	187
Parking revenue	**355**	323
Tenant revenue	**4,636**	4,629
Unrealized and realized losses on foreign exchange	**(3)**	(100)
	22,526	24,237

23. SALARY AND EMPLOYEE BENEFITS

	2016 $	2015 $
Contributions to defined contribution plans	**574**	599
Employee training and development	**200**	245
Other employee benefits	**860**	968
Salaries and incentive compensation	**11,828**	12,333
	13,462	14,145

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 obligation for future contributions to fund benefits to plan members.

24. PROFESSIONAL AND ADVISORY SERVICES

	2016 $	2015 $
Concentra Financial consulting fees	**636**	567
Canadian Credit Union Association (formerly Credit Union Central of Canada) cost sharing	**1,471**	1,380
Professional fees	**6,175**	5,965
	8,282	7,912

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25. COMPUTER AND OFFICE EQUIPMENT

	2016 $	2015 $
Depreciation	292	613
Computer processing and development	3,296	3,190
Maintenance	23	14
	3,611	3,817

26. OCCUPANCY

	2016 $	2015 $
Depreciation and amortization	795	693
Maintenance	887	898
Professional fees	360	367
Property taxes and utilities	1,938	1,631
	3,980	3,589

27. GENERAL BUSINESS

	2016 $	2015 $
Administrative and service costs	2,053	2,357
Insurance and licenses	102	81
Marketing and public relations	246	254
Printing, office supplies and telephone	909	1,055
Rental and meeting expense	69	63
Travel and entertainment	593	497
	3,972	4,307

28. GAIN ON FINANCIAL INSTRUMENTS

	2016 $	2015 $
Realized gains on available-for-sale securities	524	580
Realized losses on available-for-sale securities	(61)	(64)
Unrealized gains on securities classified as held-for-trading	497	657
Recovery on loan provision	-	1,719
	960	2,892

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

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29. RELATED PARTY TRANSACTIONS

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

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

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

	2016 $	2015 $
Celero Solutions		
Loan receivable from (amount drawn on line of credit)	3,169	3,619
Due from included in trade and other receivables	94	79
Due to included in trade and other payables	455	385
Interest received from	94	107
Fee for service revenue received from	1,125	1,128
Technology services paid to	3,133	3,371
Concentra Financial		
Lines of credit authorized to	100,000	100,000
Loans receivables from (amount drawn on line of credit)	4,722	12,513
Collateral received from	24,469	27,971
Due from included in trade and other receivables	15	25
Deposits payable to	2,989	-
Due to included in trade and other payables	53	4
Interest received from	95	49
Fee for service revenue received from	1,392	1,215
Financial services fees paid to	589	576

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29. RELATED PARTY TRANSACTIONS (continued)

Key Management Compensation

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

	2016 $	2015 $
Directors		
Salaries and other short-term employee benefits	174	223
Post-employment benefits	6	10
	180	233
Key Management Personnel		
Salaries and other short-term employee benefits	2,886	2,529
Post-employment benefits	184	178
	3,070	2,707
	3,250	2,940

30. 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.

	2016 $	2015 $
Lines of credit and loan commitments		
Original term to maturity of one year or less	469,136	449,275
Original term to maturity of more than one year	400,000	400,000
	869,136	849,275
Letters of credit and guarantees		
Original term to maturity of one year or less	36	36
	869,172	849,311

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.

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31. SUBSIDIARY

SaskCentral owns 81.22% (2015 – 81.22%) of the partnership units of CUVentures LP. Through its 100% ownership of CUVentures Inc., SaskCentral has control over CUVentures LP and CUVentures LP is consolidated into these financial statements. CUVentures LP's principal place of business is Regina, Saskatchewan. CUVentures LP owns an investment in APEX Investment LP (APEX) on behalf of the credit unions, which SaskCentral consolidates and classifies as non-controlling interest in these consolidated financial statements. The credit unions have no voting rights in relation to the relevant decisions of CUVentures LP.

32. JOINT OPERATION

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

33. APPLICATION OF NEW AND REVISED IFRSs

SaskCentral has adopted the amendments to IAS 1, *Presentation of Financial Statements* issued by the IASB that was mandatorily effective for the accounting period that begins on or after January 1, 2016. The application of these amendments has not resulted in any impact to the financial statements of SaskCentral.

34. SUBSEQUENT EVENT

On January 1, 2017 Concentra Financial ceased operations as an association governed by the CCAA and continued as a Schedule 1 chartered bank governed by the *Bank Act (Canada).* On this date, Concentra Financial's legal name changed to Concentra Bank. As the effective date of continuance occurred after December 31, 2016 the transaction had no impact on these consolidated financial statements. The following disclosure therefore describes the effects of continuance in the subsequent reporting period.

Prior to the bank continuance, SaskCentral held 84.0% of the non-voting Class A shares and 47.1% of the voting membership shares of Concentra Financial and was limited to one vote out of 235 member votes on ordinary resolutions brought to members. Effective January 1, 2017, SaskCentral held 84.0% of the voting common shares of Concentra Bank. Management has concluded that SaskCentral has control over Concentra Bank and is currently assessing the accounting implications of this change in control.

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