

ANNUAL REPORT 2017

DEPOSIT PROTECTION & REGULATORY
EXCELLENCE



www.cudgc.sk.ca

MANDATE

Credit Union Deposit Guarantee Corporation (the Corporation) is the deposit guarantor for Saskatchewan credit unions, and the primary regulator for credit unions and Credit Union Central of Saskatchewan (SaskCentral) (together, Provincially Regulated Financial Institutions or "PRFIs"). The Corporation instills confidence in the province's credit union system with a mandate of:

- guaranteeing the repayment of deposits in Saskatchewan credit unions
- establishing regulatory standards and ensuring PRFIs are performing to those standards
- promoting responsible governance by PRFIs, and contributing to the strength and stability of the credit union system
- directing PRFIs to take remedial action on material deficiencies, and any issue that may put depositors' funds at risk and;
- maintaining and managing a guarantee fund in a sound and prudent manner

VISION

To instill public confidence in the Saskatchewan credit union system.

VALUES

Values guide individual and organizational behaviour. The Corporation's values are reflected in its Code of Conduct which provides a common frame of reference for staff, management and the board in fulfilling the Corporation's mission and strategic focus.

CO-OPERATION: As part of the co-operative financial services system, we respect co-operative principles and support credit unions and SaskCentral in enhancing their strength and development by working together.

HONESTY AND INTEGRITY: We perform our duties conscientiously with the highest level of honesty and professional integrity.

FAIRNESS: We approach issues and decisions with common sense, sound judgment, fairness and consistency.

RESPONSIBLE REGULATION: We act to protect the rights and interests of Saskatchewan depositors. We strike an appropriate regulatory balance that effectively protects depositors without unduly impairing a credit union's ability to compete in the market.

LEADERSHIP: We use our knowledge of the credit union system and the financial services industry to anticipate future trends and proactively respond to our environment. We demonstrate leadership provincially and nationally by advocating positive change that contributes to the strength and stability of the credit union system and its provincial central.

TEAMWORK AND RESPECT: We work as a team to achieve goals and progress towards our common vision. We recognize that people are the key to success. We consistently treat people with dignity, respect, fairness and the highest standards of ethics. We demonstrate co-operation when working with others, encouraging questions that generate innovative ideas and creative solutions.

STRATEGIC DIRECTION

To ensure the effective regulation of the Saskatchewan credit union system by continuing to adhere to national and international best practices. To promote and lead discussions with our stakeholders regarding emerging issues and the changing environment. The Corporation will continue to be flexible and adaptive.



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REPORT FROM THE CHAIR



I am pleased to present Credit Union Deposit Guarantee Corporation of Saskatchewan's annual report for 2017. It was another successful year for the Corporation, but one that also brought considerable change.

Effective January 15, 2017, the Corporation assumed responsibility for the supervisory oversight of SaskCentral. This was the result of the federal government's Bill C-43 legislation, and a move to transition exclusive responsibility for the regulatory oversight of the credit union centrals to the provinces. Consequentially members and employees of SaskCentral are no longer able serve on our board. A newly appointed board, with three new directors became effective January 15th. In addition, Dave Tulloch replaced Susan Amrud as the board representative from the Ministry of Justice in April. I would like to thank Susan for her input and contributions while on our board.

The Corporation undertook a comprehensive review of the support services that were being outsourced to SaskCentral. With our new regulatory relationship, it was determined that these service relationships would need to end in order to prevent real or perceived conflicts of interest. Efforts have begun to transition these services away from SaskCentral.

With the added responsibility for oversight of SaskCentral, the Corporation engaged with Financial and Consumer Affairs Authority (the Registrar of Credit Unions) to clarify and redefine regulatory roles and responsibilities as the former agreements included responsibilities for both parties, along with SaskCentral. The Regulatory Roles Agreement between the three parties was terminated, and the Corporation and the Registrar of Credit Unions developed a bilateral Memorandum of Understanding to document the responsibilities for each party. The Corporation also continues to be an active member of the Credit Union Prudential Supervisors Association (CUPSA), working with our counterparts in other jurisdictions to ensure a credible regulatory regime is in place for credit unions. A key focus of CUPSA this year was a review and subsequent proposed amendments to the structure and governance of the Group Clearer, relating to the credit union system's payments and settlement activities.

Another significant development this year was the approval by Innovation Credit Union's membership of a resolution to seek the necessary approvals for the credit union to continue as a federal credit union. The Corporation will monitor the developments and put effort towards assessing the impact of credit unions migrating from the provincial regime.

Despite a sluggish provincial economy, the Saskatchewan credit union system experienced another positive year with strong levels of capital, earnings and liquidity. In aggregate, our credit unions hold deposits in excess of \$19 billion and generated a return on assets of 0.59%, comparing very favorably with the industry and their peers in other jurisdictions.

This year marked the retirement of our long-term CEO, Garth Melle, in November. Under Garth's leadership, the Corporation underwent many changes, including the alignment of our regulatory approaches with industry held prudential standards and practices. Garth's experience with credit unions and the regulatory environment were a tremendous asset to the Corporation. We wish him well in retirement. The board engaged the assistance of a recruitment firm in searching for a new CEO to lead the Corporation. We were extremely pleased that Brent Schellenberg, who served as our Vice-President of Risk-Based Supervision, accepted the role. With Brent's more than 30 years of experience and more than a decade with the Corporation, the Corporation remains well positioned to meet future challenges.

Our credit unions hold
deposits in excess of
\$19 BILLION

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

Daniel Ish

REPORT FROM THE CEO

In reviewing 2017 and the accomplishments of the Corporation, it is evident that change continues to occur in the financial sector, and at an increasing pace. We continued to work through and implement legislative and regulatory changes brought about by federal legislation (Bill C-43), review new and evolving regulatory standards in the industry, and assess a changing landscape with credit unions having the ability to migrate to become federal credit unions.

This year saw the Corporation take on regulatory oversight of SaskCentral. Prudential Standards were introduced for SaskCentral, and the Corporation began monitoring adherence to these standards. While these new standards are unique to SaskCentral, they align with the same prudential, risk-based approach that we use for our credit unions.

Associated with the federal policy change are impacts to the manner in which payments and settlement activities are managed for credit unions. We continue our work with the Credit Union Prudential Supervisors Association (CUPSA) in facilitating changes with the Group Clearer to ensure potential risks are mitigated. Changes in federal regulations also meant the Corporation has had to evolve its deposit protection regime. This includes developing a crisis management framework and working with the Bank of Canada to pursue the potential for emergency lending assistance (ELA).

A key initiative for the Corporation has been our Operational Review. The initiative is in response to our new regulatory relationship with SaskCentral, and the need to review our support services and to eliminate the potential for conflict of interest. In 2017 we contracted external resources to review our existing service agreements and structure for an independent assessment, and to provide recommendations for a transition plan. These efforts have concluded and the Corporation has determined the best solution is a combination of building internal capacity and making arrangements with alternate service providers. Implementation will continue in 2018 with every effort made to minimize disruption to the Corporation and its stakeholders.

The Corporation continues to research and respond to regulatory changes at the national and international level. Efforts have been focussed both internally and on credit unions to ensure readiness for the impact of upcoming accounting rule changes (International Financial Reporting Standards [IFRS] 9) specifying how an entity should classify and measure financial assets and liabilities. 2017 also saw the implementation of new liquidity requirements and reporting for credit unions, along with continued diligence around cyber security risk measures. We remain committed to ensuring the regulatory expectations for Saskatchewan credit unions are credible, and contribute to the provincial credit union system's strength and stability.

Legislative and regulatory changes have also opened the door for provincial credit unions to move to the federal jurisdiction. As such, the Corporation developed a framework to establish the requirements for credit unions that want to make the transition. This framework outlines the criteria for the application process as well as the approval assessment criteria. The Corporation's assessment considers the impact on the Deposit Guarantee Fund when these transitions take place and any implications to the provincial credit union system.

Credit unions again produced solid financial results in spite of the continued challenging economy in the province. Credit unions have done a good job of managing the increased delinquency levels and remain focussed on improving operating efficiency. The credit union system experienced more modest growth in 2017, with consolidated assets reaching close to \$22.5 billion, while profitability continued to be quite strong with consolidated net income exceeding \$130 million.

This was definitely a year of transition for the Corporation, including the retirement of my predecessor, Garth Melle. Despite all of these changes, the Corporation continues its approach to hold credit unions and SaskCentral to industry standards while remaining committed to working with them to ensure their continued success.




Brent Schellenberg

CORPORATE GOVERNANCE

Corporate Governance Framework

Credit Union Deposit Guarantee Corporation was the first deposit guarantor in Canada, and has successfully guaranteed the full repayment of deposits held in Saskatchewan credit unions since 1953.

Strong governance practices demonstrate the strength of the Corporation's regulatory regime. The governance framework identifies the five main roles in the governance process and outlines the relationship between board and management.

Role	Board Responsibilities	Management Responsibilities
Leader Setting corporate direction	Participates in setting strategic direction and provides strategic oversight Functions independently from management Approves corporate objectives and performance targets Approves business plan and policy Selects and retains qualified and competent management	Leads development of strategic options and implements strategy Presents continuous improvement initiatives Supports the board in implementing governance processes to guide the work of the board and its committees
Steward Ensuring an effective control environment and allocation of resources	Ensures the effective allocation, use and protection of all resources, taking the Corporation's risks into account	Develops and implements enterprise risk management strategies and processes
Overseer Exercising effective control	Sets the "tone at the top" Monitors operating and financial performance Ensures compliance with legislation and code of conduct Ensures it receives appropriate information Monitors the internal control and management systems Obtains independent verification	Develops an appropriate control environment including the governance approach, organizational structure, management style, communication style, and policies and procedures
Risk Management	Reviews and approves an enterprise risk management framework that supports the proactive identification, assessment and management of significant risks and decision making Understands principal risks to credit unions and the Corporation, and monitors systems that are in place to manage those risks	Leads development and implementation of risk management policies, processes and procedures, and recommends risk management policies for board approval Develops risk tolerances in conjunction with the board and incorporates risk management into the strategic planning process Monitors and assesses risk, and reports to the board on risks and related results
Reporter Presenting a fair and objective picture of the organization to stakeholders	Approves policies for communicating effectively with stakeholders	Develops appropriate information for communicating with the board and stakeholders

Board of Directors

The Corporation's business affairs are governed by its board of directors. The board sets strategic direction and ensures the Corporation's efforts reinforce the strength and stability of Saskatchewan credit unions and Credit Union Central of Saskatchewan (SaskCentral).

Pursuant to *The Credit Union Central of Saskatchewan Act, 2016*, the Corporation assumed the supervisory and regulatory powers and responsibilities with respect to SaskCentral effective January 15, 2017. With this added change in responsibility, amendments to *The Credit Union Act, 1998* (the Act) were made to ensure independence and to appropriately define the composition of the Corporation's board.

The Act requires a selection committee, consisting of an equal number of individuals selected by each of Credit Union Central and the minister, shall select individuals for appointment to the board. The selection committee shall appoint individuals who meet the criteria for competency and experience as established by the board. The board consists of:

- the Deputy Ministry of Justice or the nominee of the Deputy Minister of Justice
- the Deputy Minister of Finance or the nominee of the Deputy Ministry of Finance
- five individuals appointed by the selection committee

On April 1, 2017 Dave Tulloch replaced Susan Amrud as the Ministry of Justice representative. On December 31, 2017 the Corporation's board was composed of the following individuals:



DAVE TULLOCH, MBA, CPA (CMA) Saskatchewan Justice

Dave works for the Ministries of Justice and Attorney General and Corrections and Policing as the Assistant Deputy Minister responsible for Corporate Services. Prior to joining Justice in 2010, Dave held senior financial positions in the Ministries of Environment and Education. From 1999 to 2006 Dave worked for the provincial wildfire program, and was responsible for developing and implementing a strategic planning and performance management framework. Through most of his career Dave has worked in the financial management functions of the provincial government. Dave holds a Master of Business Administration from the University of Saskatchewan, along with undergraduate degrees from the University of Regina in Business and Economics. In 2010, Dave obtained a Certified Management Accountant designation. He has served on board as the Ministry of Justice representative since 2017.



CLARE ISMAN, FCPA, FCMA, C.DIR. Saskatchewan Finance

Clare was appointed Senior Advisor to the Deputy Minister to the Premier in October 2017. Prior to this appointment Clare served as Saskatchewan's Deputy Minister of Finance from 2012 to October 2017 and was the Deputy Minister of Advanced Education, Employment and Immigration from 2009-2012. Clare joined the Saskatchewan Public Service Commission in 1998 and was appointed Chair from 2004-2009. Before joining the Government of Saskatchewan, she held various positions in Finance and Human Resources with the City of Regina. She holds a Bachelor of Commerce degree from the University of Saskatchewan, is a Fellow of the Institute of Chartered Professional Accountants of Saskatchewan (FCPA, FCMA) and a Chartered Director (C.Dir.). She has served on the board as the Ministry of Finance representative since 2014.



DON HANSEN, BA (ECON.), FCPA, FCA

Don is CEO of Vision Capital Inc. consulting on strategic and economic capital structures focusing on renewable energy markets in Canada and the UK. Don is also a Sessional Lecturer in Finance at the Hill School of Business, University of Regina. From 2009 – 2014, Don held several Executive Management positions with Concentra Financial as Chief Investment, Operating, Risk & Compliance, and Financial Officer positions (post the 2008 crisis management). Prior to this Don was Regina Office Managing and Assurance Services partner with MNP LLP and the Director of Asset Liability Management at SaskCentral. Don has held several board positions as chair of audit and finance. He joined the Corporation's board in 2017, and his current term will be ending on January 15, 2021.



DANIEL ISH, QC Chair

Daniel has served as professor of law at University of Saskatchewan (U of S) and McGill University, and was Dean of Law at the U of S for nine years. He was appointed to Queen's Counsel in 1991 and as an Officer of the Order of Canada in 2014. His extensive international work includes advising on legal reform projects in several developing countries mostly for the Canadian Co-operative Association. He is a public member (adjudicator) for the Investment Dealers Association and the Mutual Fund Dealers Association, and chairs the Prairie Region Panel of the Canadian Broadcast Standards Council. Daniel is a Treaty Land Entitlement arbitrator for Saskatchewan and is a former Chief Adjudicator of the Indian Residential Schools Adjudication Secretariat (Canada). He currently practices as a labour arbitrator and mediator. He was appointed to the Corporation's board in 2010, and his current term will be ending on January 15, 2019.



GREG WALLACE

Greg has extensive credit union experience in a wide range of roles and responsibilities including board and management functions. His cooperative background spans more than 50 years. He has spent the majority of his career in senior and executive management positions within the Canadian credit union system. He has also consulted with credit unions in Central America, Asia and Africa. During his 25 years at the executive level, Greg has served on countless provincial and national credit union system boards, committees and task forces. He has been a board member of Credit Union Electronic Transaction Services (CUETS) and Credit Union Payment Services (CUPS), and participated in the creation of several credit union entities. Greg had a leadership role in the merger of Co-operative Trust Company of Canada and parts of SaskCentral forming Concentra Financial. He has been actively involved in the redrafting of legislation regulating the various provincial central organizations whose fundamental role is the management of liquidity risk for Canadian credit unions. He joined the Corporation's board in 2017, and his current term will be ending on January 15, 2020.



TIM WARD Vice-Chair

Tim was employed in Financial Services for 36 years with the final 15 years of his employment as a Commercial Account Manager with Affinity Credit Union. Tim served for six years as a Commission Member of the Saskatchewan Real Estate Commission. He was appointed to the Corporation's board in 2011, and his current term will be ending on January 15, 2018.



BOB WATT, FCPA, FCA

Bob is an experienced professional accountant with broad-based skills developed during a forty-year career in public accounting, including 31 years as a partner. He retired from the Regina office of Deloitte in 2010. His public accounting career included general management roles and lead client service responsibilities for major private and public companies in Saskatchewan, including several co-operative financial institutions. Since retiring from Deloitte, Bob has carried on a part-time consulting practice and accepted several part year assignments and board appointments. He is currently Chair of the Audit and Risk Committee – Western Surety Company, member of the City of Regina Police Pension Plans board, a member of the Investment Committee, and Chair Audit Committee, APEX Investment Funds (1 and 11). Past board roles include Chair of the Technical Safety Authority of Saskatchewan and a member of the Law Foundation of Saskatchewan. He joined the Corporation's board in 2017, and his current term will be ending on January 15, 2020.

Audit Committee

The board establishes an audit committee to oversee the integrity of the Corporation's financial reporting and controls. Using input provided by management, the committee reports regularly to the board about the Corporation's:

- financial reporting
- internal control systems
- relationship with auditors
- adherence to policy and regulatory requirements
- business continuity and disaster recovery plans
- legal and ethical conduct

The committee ensures the independence of external and internal auditors. It also ensures the Corporation uses appropriate due diligence in its controls, accountability and financial reporting.

As of December 31, 2017 the following directors were members of the audit committee:

- Bob Watt (Chair)
- Don Hansen
- Greg Wallace

Board and committee meeting attendance

The Corporation's board held seven meetings in 2017, including a strategic planning session, while the audit committee met four times. The charts below outline director attendance at meetings. This includes directors who left or joined the board during the year.

Board

Name	Meetings Attended
Tulloch [◊]	3/5
Amrud [◊]	2/2
Isman	4/7
Hansen	7/7
Ish	7/7
Wallace	7/7
Ward	6/7
Watt	7/7

Audit committee

Name	Meetings Attended
Hansen	4/4
Wallace	4/4
Watt	4/4

[◊] Change in government appointment April 1, 2017

Board and committee remuneration

Director remuneration is intended to recognize effort and dedication, and to reasonably compensate directors for their time. Directors claim honorarium and per diem allowances at their discretion. The government directors have elected not to receive remuneration from the Corporation.

In 2017 the Corporation paid director compensation in the amount of \$93,470. This includes honorariums, per diems and other benefits as outlined below.

Name	Honorarium	Per Diem	Benefits
Tulloch [◊]	0	0	0
Amrud [◊]	0	0	0
Isman	0	0	0
Hansen	7,187	5,000	474
Ish	16,000	15,550	0
Kristoff [‡]	313	0	95
Walde [‡]	313	0	58
Wallace	7,187	10,000	986
Ward	7,500	5,950	1,346
Watt	7,187	7,600	724
Totals	\$ 45,687	\$ 44,100	\$ 3,683

[◊] Change in government appointment April 1, 2017

[‡] Term ended January 15, 2017

Executive Management

The executive management team provides strategic vision, leadership and direction to the Corporation:



BRENT SCHELLENBERG, Chief Executive Officer
(Effective November 11, 2017)

Brent has 34 years of credit union system experience and served as the Vice President of Risk-Based Supervision for eight years until his appointment as Chief Executive Officer. He has worked in corporate finance, investment management, risk management, policy development, loan portfolio management, sales leadership and information technology. Brent joined the Corporation in 2006.



GARTH MELLE, Chief Executive Officer
(Until November 11, 2017)

Garth served as Chief Executive Officer from 2000 until his retirement this year. He had more than 40 years of credit union system experience, including credit union management and leadership roles in business development, product and service development, information technology and strategic initiatives. Garth was with the Corporation from 1992 to 1994 in loss prevention, returning in 1999 as Director of Operations.



CORY STEPHEN, CFA, Vice-President Risk-Based Supervision
(Effective November 27, 2017)

Cory has 13 years of financial industry experience, including risk management, corporate finance, investment management and treasury. Cory joined the Corporation in 2009, and became responsible for the Risk-Based Supervision team in 2017.



C.A. HATLELID, CPA, CMA, CFA, FRM
Vice-President Regulatory Policy and Prevention

C.A. has 24 years of financial industry experience, including risk management, investment management, treasury, policy development and compliance. C.A. joined the Corporation in 2003, and has led the Regulatory Policy and Prevention team since 2009.



LINDA JACOB, Vice-President Corporate Operations

Linda has more than 40 years of credit union system experience including leadership positions in SaskCentral and Celero in areas such as information technology, project management, quality assurance, change management and training. Linda joined the Corporation in 2008, and became responsible for the Corporate Operations team in 2009.

Code of Conduct

All directors, executives, employees and contractors must adhere to a Code of Conduct. The code outlines responsibilities and guides the conduct of professional duties:

- compliance with laws, regulations and proprietary rights
- integrity of corporate records and communication
- privacy and confidentiality of corporate information
- fair dealing with employees, suppliers and service suppliers
- corporate political, social and environmental responsibility
- freedom from workplace harassment, violence and solicitation
- protection and proper use of corporate assets
- reporting of dishonest or suspected dishonest activities
- conflicts of interest

The Corporation's board and employees acknowledge their understanding of, and compliance with, the Code of Conduct on an annual basis. The Corporation reports to the board on code compliance each year.

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

The Corporation is the deposit guarantor for Saskatchewan credit unions, and the primary regulator for credit unions and SaskCentral (together, Provincially Regulated Financial Institutions or “PRFIs”). It establishes regulatory requirements through the Standards of Sound Business Practice (the Standards) for credit unions, Prudential Standards for SaskCentral, and regulatory guidelines and directives for PRFIs.

A key component of the Corporation's deposit protection strategy is the establishment and enforcement of requirements. The development of new (or revision of existing) regulatory requirements are generally driven by:

- changes to legislation, and developments in the financial services industry and regulatory environment
- issues or developments that necessitate providing credit unions and SaskCentral with information and/or clarity in the areas of corporate governance, the control environment, capital management, and financial and business practices

Regulatory requirements are generally modeled on industry-based requirements and time frames such as those established by the Office of the Superintendent of Financial Institutions (OSFI) in the federal jurisdiction.

Credit unions, SaskCentral and other key stakeholders are provided with advance notice of the Corporation's plans to issue regulatory requirements. Communication channels may include corporate publications, meetings, and other formal and informal communication.

Through its supervisory processes the Corporation will monitor an institution's implementation of regulatory requirements. Enforcement when an institution demonstrates elevated risk to depositors' funds and the Deposit Guarantee Fund will be conducted in a manner that aligns with the Corporation's Supervisory Framework.

Three Levels Of Deposit Protection

The Corporation's success with credit unions is the result of three levels of deposit protection:

1. Credit unions must follow the Corporation's Standards of Sound Business Practice and regulatory guidance. The Corporation monitors credit unions to ensure they operate according to the Standards, and can direct credit unions to take action on any issue that poses potential risk to depositors' funds.
2. Credit unions are required to hold sufficient liquidity and capital to support operations, including business risks. The capital reserves of Saskatchewan credit unions are among the strongest in Canada.
3. The Corporation's Deposit Guarantee Fund is one of the strongest such funds in the country and is funded through investment earnings and an annual assessment paid by credit unions.

Standards Of Sound Business Practice

The Corporation is empowered by *The Credit Union Act, 1998* to establish Standards of Sound Business Practice for Saskatchewan credit unions. The Standards are approved by the Corporation's board of directors and filed with the Registrar of Credit Unions (the Registrar). The Standards set minimum requirements and a framework to effectively regulate credit unions.

The Corporation develops directives and guidance for credit unions to support the implementation of the Standards. The level of supervision depends on the nature, scope, complexity and risk profile of each credit union.

The objectives of the Standards include:

- establish principles and minimum requirements for corporate governance and the control environment that contribute to the sound and prudent operations of credit unions and the protection of deposits
- prescribe limits and restrictions for credit unions in the context of sound business practices to manage and control exposure to risk

The Standards emphasize the careful and practical judgment that would be exercised by a reasonable person in the financial services industry, having regard to:

- the objectives of the credit union
- all risks to which the credit union is exposed
- the amount and nature of the credit union's liquidity and capital
- the regulatory compliance obligations of the credit union

Prudential Standards

Pursuant to *The Credit Union Central of Saskatchewan Act, 2016* and in consultation with the Registrar the Corporation establishes prudential standards for SaskCentral. These standards set minimum requirements and a framework to effectively regulate SaskCentral.

The objectives of the Prudential Standards are to:

- establish principles and minimum requirements for corporate governance and the control environment that contribute to sound and prudent operations
- prescribe limits and restrictions, in the context of sound business practices, to manage and control exposure to risk

Supervision

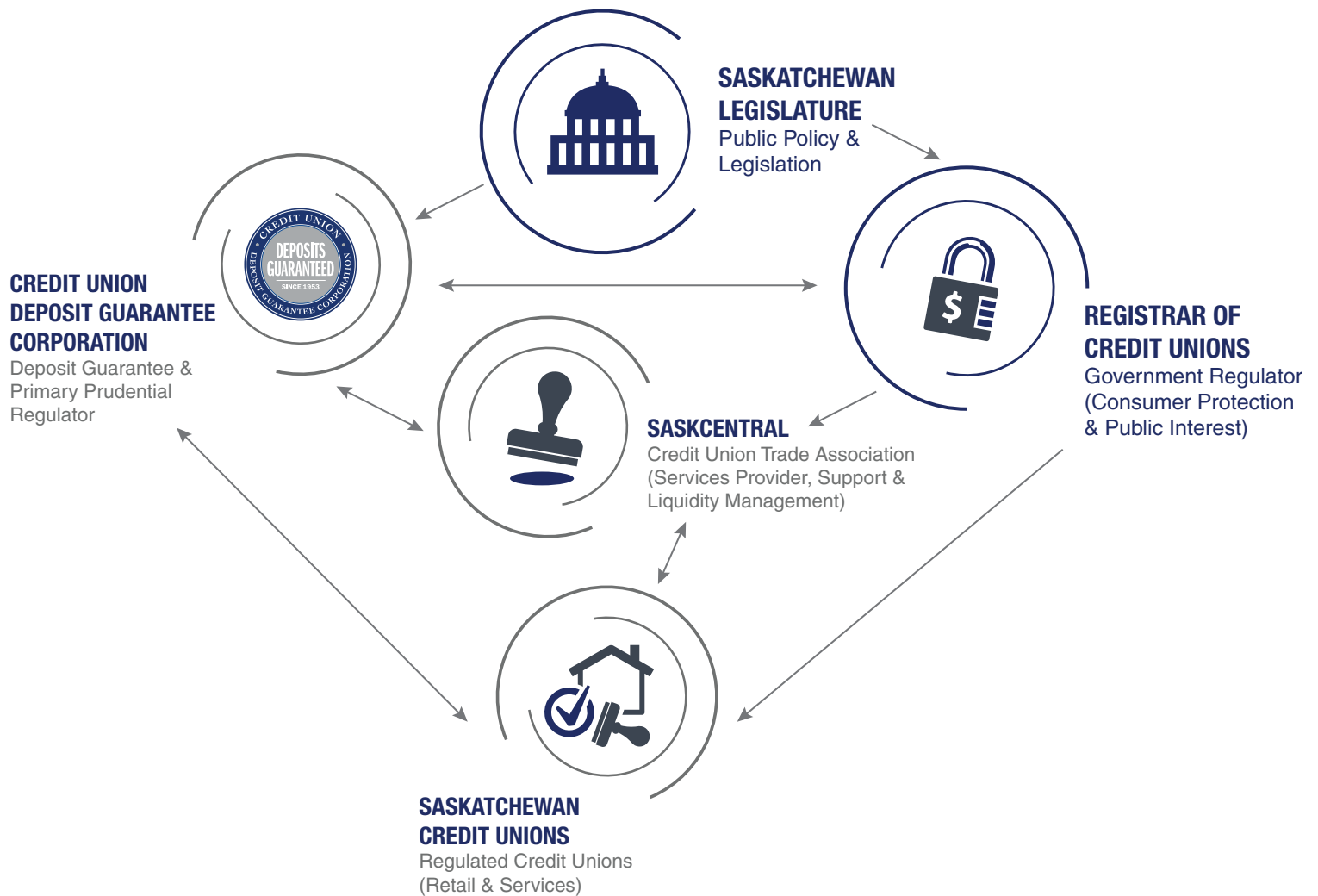
In addition to establishing and communicating requirements, the Corporation:

- monitors performance of PRFIs relative to requirements
- interacts with PRFIs whose results do not meet regulatory or compliance expectations
- intervenes with a PRFIs whose performance falls below requirements

2017 LEGISLATIVE AND GOVERNANCE MODEL

Legislation governing Saskatchewan credit unions includes *The Credit Union Act, 1998* (the Credit Union Act) and *The Credit Union Regulations, 1999* (the Regulations). On January 15, 2017, the oversight of SaskCentral transitioned from federal to provincial jurisdiction with the proclamation of *The Credit Union Central of Saskatchewan Act, 2016*. Credit unions and SaskCentral (together, Provincially Regulated Financial Institutions or “PRFIs”) must comply with the legal requirements and obligations established in the governing legislation, as well as other relevant provincial and federal legislation.

PRFIs must also comply with regulatory requirements established by Credit Union Deposit Guarantee Corporation (the Corporation), as well as the articles, bylaws and policies set by PRFIs.



Regulatory Roles

The regulation of PRFIs is a shared responsibility.

SASKATCHEWAN LEGISLATIVE ASSEMBLY

The Saskatchewan Legislative Assembly establishes public policy and enacts legislation for the Saskatchewan credit union system. Through the legislation, the provincial government prescribes responsibilities for both the Corporation and the Registrar of Credit Unions (the Registrar).

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

The Corporation is the primary regulator of PRFIs. It leads the development, monitoring and enforcement of regulatory requirements for PRFIs. The Corporation consults with the Registrar in developing regulatory requirements for PRFIs, such as Standards of Sound Business Practice for credit unions, Prudential Standards for SaskCentral, and regulatory guidelines and directives for PRFIs. The Corporation's primary focus is on deposit protection and the solvency of PRFIs. It also manages the Deposit Guarantee Fund. The Corporation is accountable to the Registrar.

THE REGISTRAR OF CREDIT UNIONS

The Registrar oversees and monitors the Corporation to ensure it is fulfilling its regulatory role. The Registrar has the ultimate responsibility and authority for the regulation of PRFIs, and is responsible for approving and accepting registrations and statutory filings of PRFIs, and issuing formal approvals of Prudential Standards. In overseeing and ensuring appropriate regulation of PRFIs, the Registrar's primary focus is consumer protection and the public interest. The Registrar has the overarching responsibility of ensuring a safe and sound credit union system in Saskatchewan. The Registrar may delegate powers and authority to the Corporation. The Registrar may also issue and enforce directives to the Corporation.

SASKATCHEWAN CREDIT UNIONS

Saskatchewan credit unions are member-owned financial cooperatives, democratically controlled by their members and operated for the purpose of providing financial services to their members. Financial products and services may be provided to non-members if authorized by the credit union's articles.

CREDIT UNION CENTRAL OF SASKATCHEWAN (SaskCentral)

SaskCentral is the statutory liquidity manager for the Saskatchewan credit union system. In this role, it ensures credit unions hold liquidity at SaskCentral to enable them to participate in the national payments system, including clearing and settlement programs. SaskCentral is also a trade association for credit unions and provides them with a wide range of products and services.

SASKATCHEWAN CREDIT UNION SYSTEM

Saskatchewan credit unions formed during the 1930s in response to social and economic issues of the time. Since that time they have evolved to become full-service financial institutions with a solid reputation. For 12 consecutive years, Canadian credit unions have ranked first among all financial institutions for overall customer service excellence.

Although Saskatchewan credit unions have evolved to meet changing needs, they maintain a deep commitment to co-operative principles and to those they serve. Credit unions continue to share their success with their members and communities, and every year they commit millions of dollars and countless volunteer hours to causes, organizations and events. Through member equity programs, they reward members for their loyalty. In 2017 credit unions returned \$8.3 million in patronage allocations and dividends to members.

Since Saskatchewan credit unions are independent financial service co-operatives, they are owned and controlled by the members they serve. An elected board of directors governs each credit union, sets strategic direction, and oversees the work of a management team that is responsible for the daily operations. SaskCentral is the trade association for credit unions and facilitates the establishment of credit union policy, develops programs, offers services that assist credit unions in meeting their regulatory requirements, and provides programs to assist in managing their image.

Credit unions are established under provincial legislation and regulated by the Corporation. They must comply with the Corporation's Standards of Sound Business Practice, the bylaws and policies established by each credit union, as well as:

- *The Credit Union Act, 1998*
- *The Credit Union Regulations, 1999*
- *The Credit Union Insurance Business Regulations*
- Other applicable provincial and federal laws

Pursuant to *The Credit Union Central of Saskatchewan Act, 2016* the Corporation has been given supervisory and regulatory powers and responsibilities regarding SaskCentral. The Registrar of Credit Unions provides oversight of the Corporation.

Canadian credit unions now have the option to be federally incorporated and regulated. There is currently one credit union in Saskatchewan that has received membership approval to pursue this option, which would allow it to conduct business across the country.

Despite the pressures of increased complexity and competitiveness in the financial services sector, Saskatchewan credit unions remain among the most stable financial institutions in the country. Credit unions have maintained their financial integrity by controlling operating expenses and carefully managing their balance sheets.

All credit unions face challenges as public and regulatory expectations continue to evolve. Larger credit unions are taking steps to enhance operating efficiency, such as making adjustments to their service delivery structures, while smaller credit unions are exploring opportunities to achieve economies of scale through collaboration and the sharing of back office functions.

There are now 46 credit unions as of December 31, 2017, and they range in asset size from \$18.2 million to nearly \$5.8 billion.

\$8.3 MILLION

in patronage allocations and dividends returned to Saskatchewan credit union members in 2017

SYSTEM PERFORMANCE

Risk Profile of Provincially Regulated Financial Institutions (PRFIs)

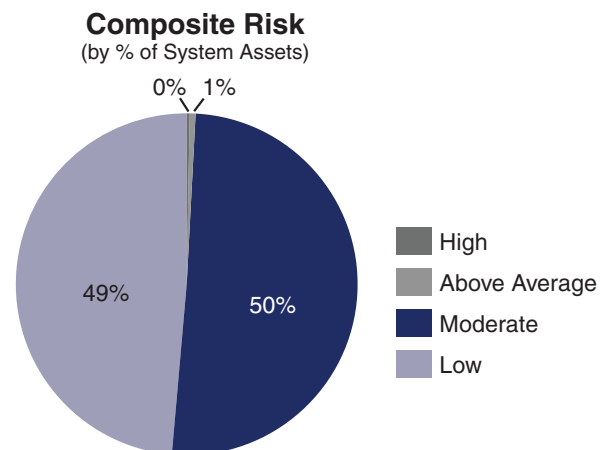
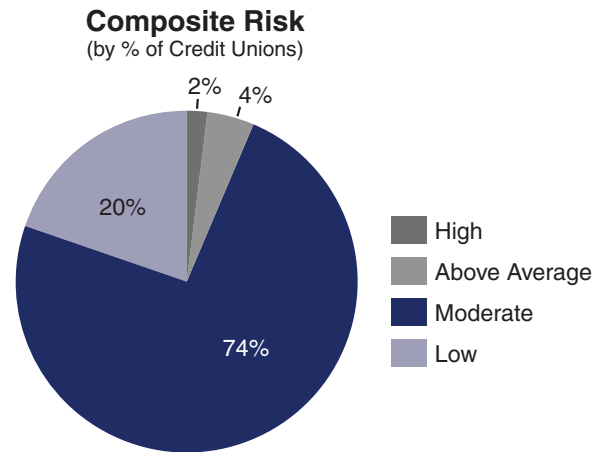
The Corporation uses industry best practices to review and assess the financial condition, safety and soundness of PRFIs. This approach evaluates credit unions' exposure to risks, and examines how they effectively manage and mitigate those risks.

All PRFIs are subject to the Corporation's regulatory oversight, which includes on-going monitoring of scheduled and requested regulatory reporting requirements. This process includes quarterly financial monitoring and reviews of key planning documents, board meetings, member disclosures as well as audit and risk reports. The resulting composite risk rating of moderate represents an overall assessment of safety and soundness for the credit union system. The Corporation's model includes four levels of composite risk: low, moderate, above average, and high.

In 2017, the Corporation issued 51 supervisory letters, confirming the risk profile and stage rating of all PRFIs. The Corporation also proactively interacted with institutions experiencing elevated levels of risk based on financial performance trends and progress in addressing key deficiencies to ensure that the risk profile of the institution remains low to moderate.

A moderate rating reflects the credit union system's resilience to normal adverse business and economic conditions, supported by stable earnings, and positive trending levels of capital and liquidity. Saskatchewan credit unions continue to demonstrate strength and stability. The Corporation encourages continued evolution of governance and risk management including:

- assessing policies and practices against new and existing regulatory policy (e.g. legislation, standards and guidelines) and ensuring compliance
- ensuring the board has, for all material risk areas, established prudent risk tolerances that align with its willingness and ability to bear risk, along with capital limits and targets that adequately offset the credit union's risk profile
- embedding risk management in strategic planning and daily decision making
- ensuring oversight functions (i.e. audit, compliance, risk management and financial analysis) have and fulfill a mandate that establishes the independence and authority required to express an opinion and follow up with management on action taken in response



Financial Performance

Credit unions achieved positive results for 2017. Their strength and resilience was demonstrated by earnings that were among the highest recorded, as well as historically high levels of capital and liquidity.

After two years of contraction, Saskatchewan continued its slow economic recovery in 2017 with GDP growth expected at 2.1%. Economists are projecting GDP growth of 2.7% in 2018 due to a rebound in the agricultural and mining sectors. The mining sector improves the prospects for capital spending and the construction sector, which should have a positive effect on the labour market.

PROFITABILITY – Net income was \$130.3 million in 2017 (2016 - \$136.7 million), for a return on average assets of 0.59% (2016 – 0.64%). Profitability was somewhat less compared to 2016, whose results included a non-recurring gain on the sale of an asset. As a result of continued cost management efforts, operating expenses as a percentage of average assets were reduced to 2.34% (2016 – 2.42%), improving operating efficiency to 70.3% (2016 – 72.9%).

GROWTH – Assets increased by 3.9% in 2017 (2016 – 3.8%) to \$22.4 billion. The majority of this growth came from loans which increased by 5.0% (2016 – 4.5%) to \$18.2 billion. Loans were primarily funded with new deposits which grew by 3.4% (2016 – 3.6%) to \$19.1 billion fully guaranteed by the Corporation.

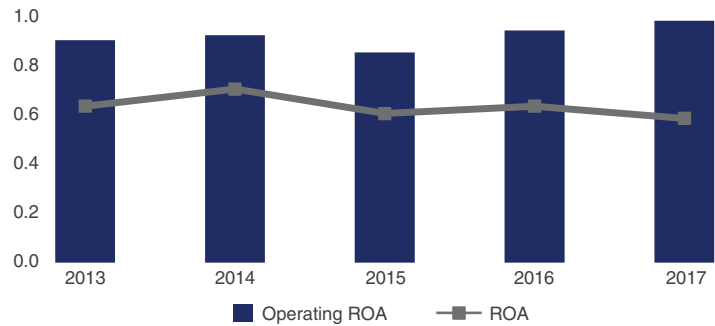
CAPITAL – As a result of strong earnings and moderate growth, credit unions increased total eligible capital as a percentage of risk-weighted assets to 13.7% (2016 – 13.6%). This is well above the minimum regulatory standard of 8%, and the additional regulatory capital conservation buffer of 2.5% that came into effect in 2016. The leverage ratio was 8.3% (2016 – 8.0%) compared to the minimum regulatory standard of 5%.

Assets increased 3.9% to **\$22.4 BILLION**

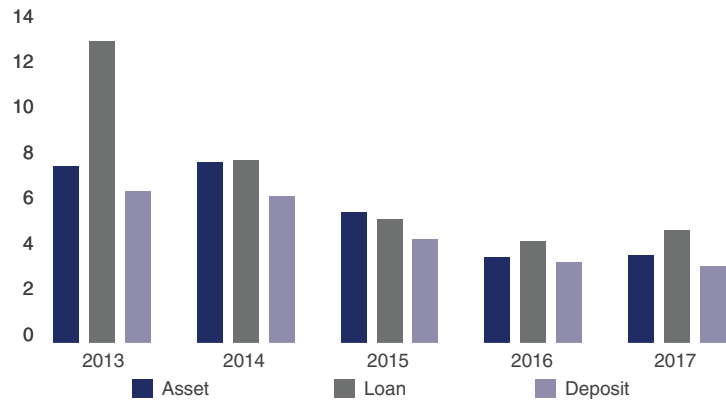
LIQUIDITY – In 2017, credit unions implemented new Liquidity Standards that require them to maintain a Liquidity Coverage Ratio (LCR) of at least 80%. The LCR is based on the level of high quality liquid assets available for net cash outflows over 30 days under a prescribed stress scenario. At year end, credit unions well exceeded the minimum LCR requirement, with a result of 150.6%. Effective January 1, 2018, the minimum standard increases to 90%.

OTHER FINANCIAL INDICATORS – Commercial loan delinquencies increased in 2017, consistent with the current economic environment, but very manageable since credit unions are well positioned with strong levels of capital.

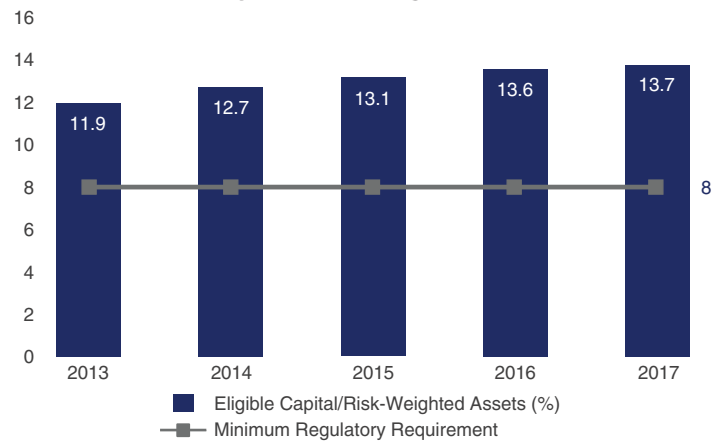
Operating Return on Average Assets and Return on Average Assets (%)



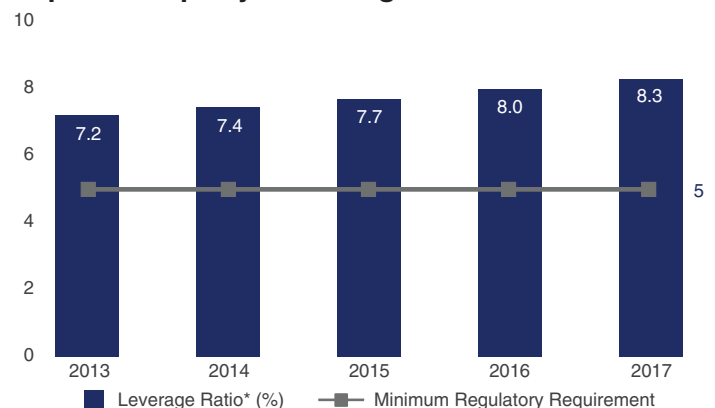
Growth (%)



Capital Adequacy – Risk-Weighted Capital



Capital Adequacy – Leverage Ratio



* Leverage is based on eligible capital relative to total assets and certain off-balance sheet items.

MANAGEMENT DISCUSSION AND ANALYSIS

Strategic Focus Areas

Through its annual planning process, the Corporation's board and executive management consider the broader financial environment, the corporate risk report, emerging regulatory issues and performance measurements in confirming the Corporation's strategic focus areas:

- Deposit protection and regulatory excellence
- Prevention
- Corporate excellence

In support of these, key initiatives are developed based on the progress of previous initiatives, and corporate, regulatory and business environments. 2017 initiatives were focussed on legislative and regulatory developments that resulted in the Corporation's regulatory oversight of SaskCentral, credit unions investigating federal continuance and potential impacts to our support services structure.

Deposit Protection and Regulatory Excellence

The Corporation strives for excellence in regulation and deposit protection by employing industry best practices to fulfill its mandate. It regulates responsibly by balancing the need for effective regulation with the realities of the competitive marketplace.

The Corporation holds credit unions to standards that support the continued movement towards prudential regulation, self-determination and self-regulation. As the Saskatchewan model is based on regulatory best practice, the Corporation will monitor and respond to new and emerging industry developments.

The Corporation is also the primary regulator of SaskCentral. It leads the development, monitoring and enforcement of its regulatory requirements.

The Corporation plays an active role in championing an effective regulatory framework for PRFIs. It will also provide leadership beyond provincial boundaries as a means of affecting positive change and managing jurisdictional issues. Through strong working relationships with regulators in other jurisdictions and the Registrar of Credit Unions, the Corporation strives to maintain a regime of effective regulation with minimal burden to PRFIs.

Financial strength will always be paramount to the mandate of the Corporation and it will continue to maintain a strong guarantee fund that reflects best practices in deposit protection. Investments in preventive programs and initiatives contribute to its ability to control and manage risk to the Deposit Guarantee Fund.

Performance and measures

GOAL: A comprehensive deposit protection regime supported by responsible, balanced regulation

Objectives	Targets and Thresholds	2017 Performance
Instill confidence in the safety and security of Saskatchewan credit unions	90% of depositors believe deposits are safe or very safe – with a threshold of 80%	99%
Manage risk to the Guarantee Fund	90% of credit unions surveyed believe regulatory processes are fair – with a threshold of 80%	96%
Provide fair and consistent regulation		

KEY INITIATIVES

SaskCentral Legislative and Regulatory Framework – With the proclamation of *The Credit Union Central of Saskatchewan Act, 2016*, the Corporation became the principal regulator of SaskCentral this year. A long-standing Regulatory Roles Agreement between SaskCentral, the Registrar of Credit Unions (the Registrar), and the Corporation was terminated. A new Memorandum of Understanding (MOU) was drafted between the Corporation and the Registrar to clarify the regulatory roles and responsibilities of each party in the regulation of PRFIs.

In 2018 the Corporation plans to finalize the MOU to include its mandate as prescribed by the Registrar, public policy objectives, a framework to formalize the Corporation's accountability to the Registrar, and documented roles and responsibilities for both the Corporation and the Registrar for crisis management.

Federal Credit Unions – With enhancements to the federal credit union framework and Innovation Credit Union's intent to become a federally-regulated credit union, the Corporation and the Registrar implemented processes to facilitate the approval of Innovation's continuance to federal jurisdiction. The Corporation also analyzed the financial impact of this continuance on the Deposit Guarantee Fund, and confirmed its strength and stability.

In 2018 the Corporation will assess policy options for the Deposit Guarantee Fund and assessments for credit unions exiting provincial jurisdiction. The Corporation will also assess the longer-term implications to the current provincial regulatory framework.

Regulation of Payments and Centrals – Through the Credit Union Prudential Supervisors Association (CUPSA), the Corporation has been actively monitoring progress on necessary changes to the structure and governance of the Group Clearer, and payments and settlement activity. This monitoring will continue in 2018.

Review of Supervisory Processes – The Corporation conducted a comprehensive review of its supervisory review processes and implemented enhanced risk-based approaches that aligned with the new supervisory framework. This review also included an examination of the Corporation's approach to monitoring credit union compliance with market code. There are no further actions planned for next year.

Regulatory Policy Enhancements – The Corporation continually researches and responds to regulatory changes at the international and federal levels to maintain current and credible requirements. Updates were focussed this year on aligning requirements for regulated institutions with International Financial Reporting Standards (IFRS) for financial instruments.

The Corporation will research and respond to emerging regulatory developments in 2018. These developments include corporate governance, residential mortgage underwriting, capital adequacy, and liquidity adequacy.

Bank of Canada Emergency Lending Assistance – The Corporation continues to focus on strengthening its deposit protection regime and pursue Emergency Lending Assistance (ELA) with the Bank of Canada. This year we continued to strengthen our relationship with the Bank of Canada and provided information under an MOU to support the Bank in assessing the Corporation's request to pursue ELA. Efforts were also focussed on enhancing the Corporation's crisis management framework, and drafting a framework and additional regulatory requirements for Provincially Systemic Important Financial Institutions (P-SIFIs).

The Corporation will continue to pursue ELA in 2018, and enhance the deposit protection regime by finalizing requirements for PRFIs and developing a recovery and resolution framework.

GOAL: Corporate financial strength

Objectives	Targets and Thresholds	2017 Performance
Meet deposit protection financial obligations	1.4% to 1.6% of total credit union deposits in the Guarantee Fund – with a threshold of 1.5%	1.6%
Demonstrate fiscal responsibility	Overall corporate operational budgets do not exceed a 5% negative variance*	5.8 million (actual) vs. 6.5 million (budget) reflecting an 11% positive variance

* includes personnel, corporate governance and general business expenses

KEY INITIATIVES

Fiscal Responsibility – The Corporation maintained costs where it was possible and reasonable to do so.

IFRS 9 – The Corporation completed the analysis of IFRS 9 to determine the impact on the Corporation. A strategy was created, approved by executive and implemented. This involved working with SaskCentral to develop an independent model that calculates the required impairment for adherence to the standard and can be used with any accounting system as needed. After receiving assurance from our external audit provider that the model was meeting the requirements of the standard, it was shared with our Alberta and Manitoba counterparts on a cost sharing basis.

No key initiatives are planned for this goal in 2018 since these activities are now deemed operational.

Prevention

Preventive programs and services support sound, prudent credit union operations. These measures help the credit union system to operate effectively and provide confidence to depositors. Credit unions are encouraged to implement proactive preventive programs and services that minimize the need for the Corporation to intervene or provide assistance from the Fund.

The Corporation regularly shares its outlook on credit union performance at the individual, aggregate and industry levels. Credit union leaders use this information to make informed decisions.

Performance and measures

GOAL: Credit union strength and stability

Objectives	Targets and Thresholds	2017 Performance
Invest in programs that reduce risk to the Guarantee Fund	90% of credit unions surveyed believe regulatory processes are fair – with a threshold of 80%	96%
Promote sound governance and strategic management in credit unions	90% of credit unions surveyed believe the Corporation is responsive to its stakeholders – with a threshold of 80%	99%
Foster positive working relationships	>90% of credit union assets with composite risk of low to moderate – with a threshold of 90%	99%
	Consolidated credit union risk-weighted capital >10.5% – with a threshold of 10.5%	13.74%

KEY INITIATIVES

There were no planned key initiatives for this year. The Corporation continued to provide leadership by actively sharing its perspective on credit union performance, both at the individual and the system level, and in relation to the broader industry. The Corporation also continued to engage boards and management of regulated institutions to gain their support and understanding of the Corporation's regulatory requirements, expectations and direction. These activities will continue in 2018, and as part of its operational activities, the Corporation is planning a system meeting with Saskatchewan stakeholders.

99% of credit union assets had a composite risk of **low to moderate in 2017**

Corporate Excellence

Corporate excellence is supported by effective strategic and operational planning processes that guide daily activities. The Corporation's governance includes policies that guide decisions and outline the authority and accountability of board, management and staff. An enterprise risk management framework identifies and assesses risks to the Corporation and the credit union system.

The Corporation's management team understands the environment and the industry, demonstrates leadership with stakeholders, and manages transitional change. The corporate culture recognizes individual contributions to organizational goals, promotes teamwork, and encourages leadership and on-going professional development.

Performance and measures

GOAL: Sound governance and business practices

Objectives	Targets and Thresholds	2017 Performance
Demonstrate best practices in corporate governance and strategic management	Board governance self-assessment rating at 85% – with a threshold of 80%	92%
Fulfill responsibilities professionally and with the utmost integrity	Audit committee self-assessment rating at 85% – with a threshold of 80%	87%
Foster a constructive work environment	Organizational Effectiveness Inventory rate at 80% or above – with a threshold of 75%	91%
	Organizational Culture Inventory average rating of constructive styles >50 th percentile – with a threshold at the 50 th percentile*	82 nd percentile

* biennial assessment – last conducted in 2016

KEY INITIATIVES

Operational Review – Pursuant to *The Credit Union Central of Saskatchewan Act, 2016*, the Corporation has been given supervisory and regulatory powers and responsibilities with respect to SaskCentral. Since SaskCentral is a primary service provider for the Corporation, all agreements and relationships were reviewed to determine if any amendments were required to deal with any practical issues that might arise due to the Corporation's new supervisory role. This service review identified the possibility for real or perceived conflict of interest in the provision of services to the Corporation by SaskCentral. A comprehensive review of services was done, and in 2018 the Corporation will proceed with the implementation of a support services transition plan.

Cyber Security – The Corporation continued to be proactive in the area of cyber security threats and provided staff with its cyber security readiness and response plan that outlines the Corporation's critical information, and identifies the resources and procedures to follow for responding to a cyber incident. The Corporation also joined with Concentra Bank, SaskCentral, Credit Union Central of Manitoba, Credit Union Central of Alberta, and Credit Union Payment Services to collaborate on proactive initiatives in defence of cyber security issues. The goal of this collaboration is to realize efficiencies as all organizations utilize Celero® Solutions (Celero) as their technical service provider. As well, the Corporation partnered with Concentra Bank and SaskCentral to have an independent third party perform a vulnerability scan of all office computers. Other shared activities are being explored as well as working together to assess Celero's overall cyber security readiness.

People – The Corporation's employees are its greatest asset and they ensure the Corporation remains an industry leader with a regulatory framework that holds credit unions to industry standards. The Corporation attracts and retains individuals with the necessary skills, abilities and expertise to achieve its goals. The Corporation provides a constructive culture, an appropriate human resource policy framework, team building initiatives, and a compensation system that is fair, equitable and competitive.

Financial Monitoring System (FMS) submission – This initiative conducted the research required to develop and implement an alternative method for credit unions to submit data to the Corporation in support of regulatory monitoring requirements. The Corporation approved a visual and technical system design and the project is expected to be completed in 2018.

IFRS 9 Technology Changes – Effective January 1, 2018 credit unions will be required to comply with new regulatory reporting related to IFRS 9. The Corporation has been working with Celero and the technical changes to the system will be ready for the 2018 budget reporting cycle.

SSBP Liquidity – Technology Changes – The changes to technical systems in support of the revised Liquidity Standards were successfully implemented in time for the 2017 budget cycle. Technical changes to the risk matrix tool were also successfully implemented.

Operational Activities

The Corporation's operational structure contains three divisions: Regulatory Policy and Prevention, Risk-Based Supervision, and Corporate Operations.

Regulatory Policy and Prevention

This division ensures an effective and responsible framework for the regulation of PRFIs by developing regulatory policy, executing the preventive strategy and overseeing the Deposit Guarantee Fund (the Fund). It maintains relevant Standards and develops supplemental regulatory guidance and directives for PRFIs. It adopts industry-leading regulatory approaches and takes a proactive, consultative approach. Staff regularly interact with PRFIs on various issues to provide leaders with a better understanding of the Corporation's regulatory expectations. These efforts are supported by preventive programming, including system meetings and educational sessions on fraud prevention and deposit services.

This division is responsible for managing the Fund, which includes providing leadership and oversight, and developing strategy and policies (e.g. fund size and the annual assessment to credit unions). This division allocates assets, appoints a portfolio manager and monitors fund performance. As per the policies and practices approved by the board, investments are purchased according to the priorities of:

- safety of principal
- sufficient liquidity to meet the Corporation's cash flow obligations
- reasonable return

This division chairs the asset liability committee that meets regularly to determine the investment strategy, performance and policy compliance, and reports to the board on a quarterly basis. The Corporation reviews the Fund's investment policy and practices at least once per year. Any changes to Fund policy must be approved by the board.

Risk-Based Supervision

This division is responsible for the monitoring, intervention and regulatory approvals for PRFIs. This ensures both thorough and effective assessment of PRFIs' performance, and protects the Fund by proactively addressing elevated risk and performance deficiencies.

The division assesses performance and risk management in PRFIs to ensure they meet regulatory expectations and operate with effective controls. Supervisory reviews are supplemented by ongoing engagement with management and board. The division reviews quarterly financial reports, annual budgets and external reports from PRFIs. In some cases the division may request monthly board reports and mid-year forecasts. This oversight allows staff to develop a composite risk rating for each PRFI as well as a provincial aggregate for Saskatchewan credit unions. The division also assesses requests from PRFIs:

- to engage in new lines of business
- for regulatory policy exemptions
- to enter into certain types of transactions

Corporate Operations

This division is responsible for several areas including:

GOVERNANCE

The decisions, authority and accountability of the board, management and staff are guided by a governance framework that includes policies and practices. Board and audit committee self-assessments identify opportunities for director development and enhanced governance practices.

ENTERPRISE RISK MANAGEMENT (ERM)

ERM outlines the Corporation's principal risks, risk appetite, risk tolerances and the actions taken to monitor and manage risks. An ERM report is created annually that describes the risk assessment and includes a consolidated risk map, overviews of each principal risk with a status summary, mitigation actions and the potential impact. A mid-year review is also conducted as part of the monitoring process and adjustments are made as required.

PERFORMANCE MEASUREMENT, PLANNING AND BUDGETING

The Corporation's board and management identify key strategic focus areas through the ERM report, corporate performance measurements and environmental scans. This annual planning develops corporate goals, objectives and key initiatives that are measured and reported at each board meeting.

HUMAN RESOURCES

Regular surveys and team building events help the Corporation maintain an engaged, enthusiastic workforce. The Corporation supports employees pursuing advanced educational qualifications, including degree and professional designations. Human resource policies and practices, benefits and compensation are regularly reviewed.

BUSINESS PROCESS SUPPORT AND INFORMATION TECHNOLOGY

The Business Process Support Services (BPSS) team provides direction in the development and maintenance of corporate systems that improve the Corporation's effectiveness and efficiency, including information management, reporting and office management systems.

BPSS manages technology operational strategies, policies and practices that streamline corporate business process, support internal and external stakeholders, and contribute to the Corporation's goals and objectives. BPSS also manages relationships with vendors that support information systems and technology requirements. The Corporation and its vendors use industry standard technology and processes, and follow best practices in security, privacy and data integration. Business continuity and disaster recovery plans that are regularly reviewed and updated are in place to recover operations from an unforeseen, significant business disruption.

AUDIT AND COMPLIANCE

Auditing services provide assurance that the Corporation's risk management, governance and internal control processes operate effectively. Management works with the auditors to identify and assess risks, and the results of this work form the basis of internal and external audit plans. The outcomes of the internal audit, the year-end compliance process, and the external audit are reported to the audit committee. The corporate operations team serves as the liaison with the auditors.

ACCOUNTING AND REPORTING

The corporate operations team manages accounting and reporting processes, as well as the relationship with the accounting services supplier. The team also manages the processes for monthly reporting and account reconciliations, quarterly financial statements and budget variance analysis, corporate tax, and annual external financial statements.

COMMUNICATION

The corporate operations team is responsible for maintaining branding standards, and for producing and maintaining communication tools, such as the website and printed publications.

SUPPORT SERVICES RELATIONSHIPS

The division contracts for and manages various support services including:

- accounting and reporting
- marketing and communications
- corporate administration
- distribution services
- facilities
- strategic support (research)
- information technology
- telecommunications
- human resource processes

Enterprise Risk Management

Enterprise Level Risk Appetite Statements

We will only restrict credit union activities by creating and enforcing regulations and guidelines that will allow credit unions to take prudent risks during the course of their business.

We regulate with an emphasis on preventing the need for payouts to depositors.






We will maintain the Guarantee Fund at a level sufficient to instill confidence in credit union depositors and other stakeholders.

We avoid actions that would damage the Corporation's or credit union system's reputation in the eyes of our stakeholders.

We maintain our operations at a level that supports our mandate. We will spend what is needed, but only what is needed, to acquire the capacity to regulate prudently.

The Corporation is exposed to various risks during its normal business activities. The management and board determine how much risk is acceptable in pursuing the Corporation's objectives. Enterprise risk management (ERM) is used to identify, assess and mitigate risks. This helps form the goals, objectives and strategies that guide the organization's strategic and business plans, and provides direction for its priorities and resource allocation. The ERM framework outlines the Corporation's principal risks, risk appetite and risk tolerances, and includes actions taken to effectively manage and monitor risks. Management reviews the current operating environment and updates the risk assessment twice a year. The board uses the year-end ERM report as the basis for strategic planning every second year.

Every year the Corporation reviews twenty principal risks that are divided into five risk categories: Deposit Guarantee/Solvency Risk, Strategic Risk, Regulatory Risk, Operational Risk, and Financial Risk.

Risk category	Definition	Direction of Risk
Deposit Guarantee/ Solvency Risk	Risks to the strength and stability of Saskatchewan credit unions arising from a broad range of economic and environmental factors that may impact depositors' confidence.	
Strategic Risk	Risks associated with the overall effectiveness of the board and management of the organization, including the ability to develop and execute appropriate business plans and strategies.	
Regulatory Risk	Risks associated with the failure to comply with laws, rules, regulations, prescribed practices or ethical standards within which the Corporation is governed.	
Operational Risk	Risks associated with the performance of business functions or processes within the Corporation. Risks may arise from deficiencies or breakdowns relative to the control environment, technology and information systems, human capital or communication methods.	
Financial Risk	Risks associated with the Corporation's ability to meet financial obligations and prudently manage its fiscal responsibilities.	

LEGEND  **Increased**  **Unchanged**  **Decreased**

2017 Risk Assessment

After reviewing these risks, the Corporation has identified movement of one principal risk within the Operational Risk category - People. There are three key factors that are influencing this risk.

The first factor is our leadership changes. In 2017 our CEO retired after 10 years in the position and 18 years with the Corporation. The board engaged external consultants to assist with a recruitment process, filling the position internally. This created an executive vacancy that was also filled internally. The internal filling of these positions helped to reduce the impact on that risk, as the new incumbents understand the business and direction of the Corporation.

The next factor is that in 2017 the Corporation was given supervisory and regulatory powers and responsibilities regarding SaskCentral, which is the primary service provider of business support services to the Corporation. To ensure there are no real or perceived conflicts of interest, the Corporation conducted a review of the provision of these services and has deemed it necessary to transition them from SaskCentral by either developing the capacity in house, or making arrangements with alternative service providers. The plans, effort and end results of the operational review are unknown and the change must be carefully planned and managed.

The final factor is that one management position remains vacant pending the results of the operational review.

It is critical to ensure the ongoing operations of the Corporation while the operational review takes place and to retain key personnel during this process. The Corporation will continue its focus on communication, change management, team building and leadership events during this transition.

With change comes the potential for uncertainty, and as a result there is an increase in the likelihood and impact of People risk.

Financial Summary

Deposit Guarantee Fund

The Deposit Guarantee Fund (the Fund) began with credit union contributions in 1953, and has grown to be one of the strongest funds in North America. Now sustained by investment interest and annual assessments paid by credit unions, the Fund covers the costs of the Corporation's deposit protection and regulatory responsibilities.

The Corporation offers a full guarantee on deposits held in Saskatchewan credit unions through three levels of deposit protection:

- a regulatory framework that ensures credit unions adhere to the Standards of Sound Business Practice and regulatory guidance provided by the Corporation
- strong levels of capital and liquidity that support operations including business risks. The reserves of Saskatchewan credit unions are among the strongest in Canada.
- the Fund is the last level of deposit protection

The board-approved target range for the Fund is 1.4% to 1.6% of total deposits, plus the amount of any deficiencies in credit unions' regulatory capital. The strategic intent of the target range is to instill confidence, accommodate all anticipated risks to the Fund during normal business cycles, and provide protection during difficult periods.

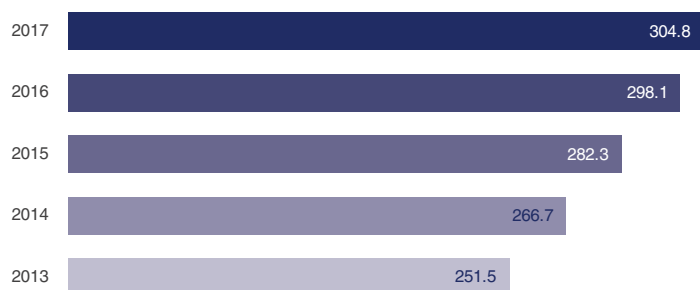
The Corporation monitors the financial performance of credit unions and their adherence to regulatory requirements to ensure the safety of member deposits. When issues or deficiencies are identified, the Corporation will work with institutions to ensure they are resolved in a prudent and timely manner. In some cases, the Corporation will provide financial assistance to facilitate their recovery or resolution. In 2017 the Corporation provided financial assistance totalling \$7.25 million.

At December 31, 2017 the balance of the Fund was \$304.8 million, representing 1.60% of total deposits (2016 – 1.62%). The Fund is at the top of the Corporation's target range.

The Deposit Guarantee Fund
balance as of December 31, 2017:
\$304.8 MILLION

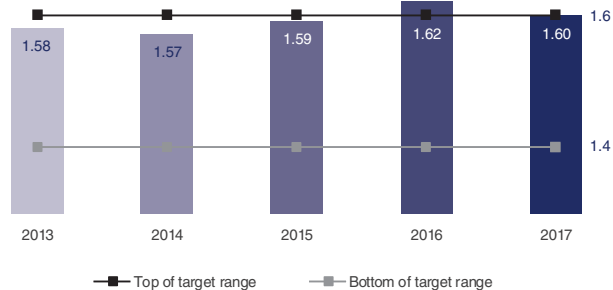
Guarantee Fund Balance

(in \$ millions)



Guarantee Fund Balance

(% of total credit union deposits plus capital deficiencies)



INCOME AND ASSESSMENTS

For 2017 the board approved an assessment of 0.08% of total credit union deposits held at year end (2016 – 0.09%). This reduction acknowledged the strength and capital position of Saskatchewan credit unions, and that the Fund was above the target range. The Fund level is expected to decline toward the midpoint of the range in future years.

Another source of revenue is the interest earned on the Fund's investments. At December 31, 2017, the yield was 1.72% (2016 – 1.72%). The investment yield exceeded expectations despite the continued low interest rate environment and returns offered on high quality, liquid and low-risk investments.

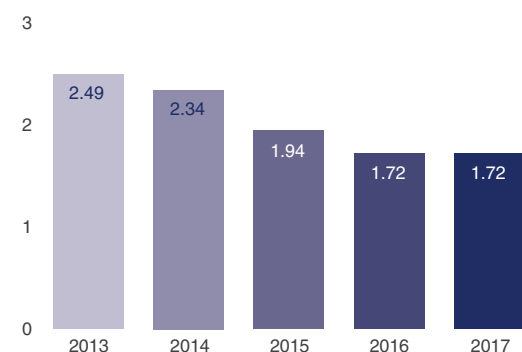
Income and Assessments

In thousands (\$)	2013	2014	2015	2016	2017
Credit union assessments	13,472	14,371	15,306	16,002	14,741
SaskCentral assessment	-	-	-	-	66
Interest from Investments	6,423	6,344	5,890	5,338	5,194
Recovery from unclaimed balances	-	38	-	-	-
TOTAL	19,895	20,753	21,196	21,340	20,001

Operating Expenses

In thousands (\$)	2013	2014	2015	2016	2017
Financial assistance	65	107	20	0	7,250
Registrar's fees	-	-	-	-	300
Operations	5,184	5,356	5,520	5,600	5,799
TOTAL	5,249	5,463	5,540	5,600	13,349

Yield on Investments (%)



MANAGEMENT'S RESPONSIBILITY

Management of the Corporation is responsible for preparing and ensuring the integrity, reliability and completeness of the accompanying financial statements. All financial statements were prepared in accordance with International Financial Reporting Standards.

In discharging its responsibility, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, proper records maintained and assets safeguarded.

The audit committee, on behalf of the board of directors of the Corporation, oversees management's responsibilities for the financial reporting procedures and internal control systems. The audit committee reviews the financial statements in detail prior to recommending approval to the board of the statements for publication.

The audit 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.



Brent Schellenberg
Chief Executive Officer



Linda Jacob
Vice-President, Corporate Operations

Independent Auditor's Report

To the Board of Directors
Credit Union Deposit Guarantee Corporation

We have audited the accompanying financial statements of Credit Union Deposit Guarantee Corporation, which comprise the statement of financial position as at December 31, 2017, and the statement of operations, other comprehensive income and fund balance and 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 Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of Credit Union Deposit Guarantee Corporation as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Chartered Professional Accountants
Licensed Professional Accountants

Regina, Saskatchewan
March 9, 2018

2017 FINANCIAL STATEMENTS

As at December 31 [in thousands]

Statement of Financial Position

	2017 \$	2016 \$
Assets		
Cash and cash equivalents <i>(note 4)</i>	906	923
Income tax receivable <i>(note 7)</i>	115	127
Investments <i>(note 5, 8, 11 and 13)</i>	304,772	297,849
Equipment	44	-
	305,837	298,899
Liabilities		
Accounts payable <i>(note 6)</i>	1,016	845
Fund balance		
Deposit Guarantee Fund <i>(note 12)</i>	304,821	298,054
	305,837	298,899

See accompanying notes

On behalf of the Board of Directors:



Director



Director

2017 FINANCIAL STATEMENTS

For the year ended December 31 [in thousands]

Statement Of Operations, Other Comprehensive Income and Fund Balance

	2017 \$	2016 \$
Revenue		
Credit union assessment	14,741	16,002
Credit Union Central of Saskatchewan assessment	66	-
Interest from investments	5,194	5,338
	20,001	21,340
Expenses		
Financial assistance	7,250	-
Registrar's fees	300	-
Operational services (note 9)	5,799	5,600
	13,349	5,600
Income before income taxes	6,652	15,740
Income tax recovery (note 7)	(115)	(38)
Net income and total comprehensive income	6,767	15,778
Fund balance, beginning of year	298,054	282,276
Net income and total comprehensive income	6,767	15,778
Fund balance, end of year	304,821	298,054

See accompanying notes

2017 FINANCIAL STATEMENTS

For the year ended December 31 [in thousands]

Statement of Cash Flows

	2017 \$	2016 \$
Cash flows from operating activities		
Net income and total comprehensive income	6,767	15,778
Adjustments for:		
Amortization of investment premiums	2,819	2,560
Depreciation of equipment	11	-
Interest from investments	(8,010)	(7,890)
Income tax recovery	(115)	(38)
Changes in non-cash working capital:		
Accounts receivable	-	4
Accrual for financial assistance	-	(20)
Accounts payable	171	165
Interest received	8,039	8,001
Income tax refund (paid)	127	(11)
Cash flows from operating activities	9,809	18,549
Cash flows used in investing activities		
Purchase of investments	(134,659)	(101,326)
Proceeds from redemption of investments	124,888	83,134
Purchase of equipment	(55)	-
Cash flows used in investing activities	(9,826)	(18,192)
Net (decrease) increase in cash and cash equivalents	(17)	357
Cash and cash equivalents, beginning of year	923	566
Cash and cash equivalents, end of year	906	923

See accompanying notes

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31 [in thousands]

1. Nature of Operations

Credit Union Deposit Guarantee Corporation (the Corporation) is the deposit guarantor for Saskatchewan credit unions, and the primary regulator for credit unions and Credit Union Central of Saskatchewan (SaskCentral) (together, Provincially Regulated Financial Institutions or "PRFIs"). The Corporation instills confidence in the province's credit union system with a mandate of:

- guaranteeing the repayment of deposits in Saskatchewan credit unions;
- establishing regulatory standards and ensuring PRFIs are performing to those standards;
- promoting responsible governance by PRFIs, and contributing to the strength and stability of the credit union system;
- directing PRFIs to take action on material deficiencies, and any issue that may put depositors' funds at risk; and
- maintaining and managing a guarantee fund in a sound and prudent manner.

The Corporation is a body corporate established and continued by Section 442 of *The Credit Union Act, 1998*. It has existed since July 1, 1952 and commenced operations in 1953. The Corporation is responsible for guaranteeing repayment to depositors of the full amount of deposits held in Saskatchewan credit unions. The Corporation operates within policies and standards established by its board of directors (the board). Management exercises judgment in establishing financial commitments. Effective January 15, 2017 the Corporation assumed supervisory and regulatory powers and responsibilities with respect to SaskCentral.

The Corporation is domiciled in Canada. The address of the Corporation's office is 2055 Albert Street, Regina, Saskatchewan, S4P 3G8.

Prevention is a primary deposit protection strategy for the Corporation. Programs are sponsored and developed to strengthen the knowledge and skills of credit union decision-makers. Credit union performance is monitored in accordance with the Standards of Sound Business Practice to ensure early identification of risks and actions required to protect deposits.

The Deposit Guarantee Fund (the Fund) is funded through investment earnings and an annual assessment collected from credit unions. The Corporation has established a fund target range based on credit union system deposits plus individual credit union capital deficiencies. The Corporation collects an annual assessment that is adjusted periodically in relation to the fund target range.

2. Basis Of Preparation And Statement Of Compliance

a) Statement of Compliance

The financial statements have been prepared in accordance with subsection 457(3) of *The Credit Union Act, 1998*. Section 457 states that, except as otherwise specified in the regulations, the annual statements must be prepared in accordance with Canadian Generally Accepted Accounting Principles (Canadian GAAP). Canadian GAAP for publicly accountable enterprises is International Financial Reporting Standards (IFRS). The Corporation's financial statements are prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB).

The financial statements for the year ended December 31, 2017 were authorized for issue by the board on March 9, 2018.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31 [in thousands]

2. Basis Of Preparation And Statement Of Compliance (continued)

d) Use of estimates and judgments

The preparation of the financial statements in compliance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from those estimates thereby affecting the financial statements. Management believes that the underlying assumptions are appropriate and that the Corporation's financial statements fairly present its financial position and operating results.

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.

The most significant uses of judgments and estimates are discussed under Note 3(c) provision for financial assistance.

e) Changes in accounting policies

The Corporation has not adopted any new accounting policies effective for its fiscal year ended December 31, 2017.

3. Significant Accounting Policies

a) Financial instruments

Financial assets and financial liabilities are initially recognized at their fair value at acquisition. Subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Corporation's designation of such instruments. Settlement date accounting is used.

CLASSIFICATION

Cash and cash equivalents	Loans and receivables
Receivables	Loans and receivables
Investments	Held to maturity
Accounts payable	Other liabilities

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, with revenue recognized on an effective yield basis.

HELD TO MATURITY

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Corporation has the positive intention and ability to hold to maturity. Held to maturity financial assets are subsequently measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

OTHER LIABILITIES

Other liabilities include liabilities that are measured at amortized cost using the effective interest method.

EFFECTIVE INTEREST METHOD

The effective interest method is used to calculate the amortized cost of a financial asset or financial liability and to allocate interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31 [in thousands]

3. Significant Accounting Policies (continued)

a) Financial instruments (continued)

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and on deposit.

TRANSACTION COSTS

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. The Corporation recognizes material transaction costs as part of the carrying amount of all financial instruments.

FAIR VALUE

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, the Corporation 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 disclosure purposes in these financial statements is determined on such a basis.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of their inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets 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.

FINANCIAL ASSET IMPAIRMENT

The Corporation assesses financial assets for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that have occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

For financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, indications that the borrower will enter bankruptcy, disappearance of an active market for the security, or other observable data relating to a portfolio of assets such as adverse changes in the payment status of borrowers in the portfolio, or national or local economic conditions that correlate with defaults on the assets in the portfolio.

Impairment losses on financial assets carried at amortized cost are measured as the difference between the financial asset's carrying amount and the present value of estimated future 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. Impairment losses are recognized in the statement of operations, comprehensive income and fund balance.

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31 [in thousands]

3. Significant Accounting Policies (continued)

b) Revenue recognition

ASSESSMENT REVENUE

Assessment revenue from credit unions and SaskCentral is recognized in the year the assessment is earned.

INTEREST FROM INVESTMENTS

Investment interest income is recognized on the accrual basis using the effective interest method. Purchase premiums and discounts are amortized using the effective interest method over the term to maturity of the applicable investment.

c) Provision for financial assistance

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that the outflow of economic benefits will be required to settle the obligation. The amount, timing and form of financial assistance that may be required for credit unions are dependent on future events and outcomes. Outcomes that may require financial assistance are stabilization, amalgamations, arrangements, liquidations or dissolutions. The Corporation provides for a provision for financial assistance based on three main components, as follows:

1. Where the need for financial assistance becomes likely and the amount for specific credit unions can reasonably be estimated.
2. Where the amount can be reasonably estimated and arises from indemnity agreements entered into with credit unions due to outcomes.
3. Where the Corporation has determined there is the potential for financial assistance based on analysis of the inherent risks in the credit union system.

A contingent liability for financial assistance arises from a liability of sufficient uncertainty with respect to the probability and amount of the expected outflows such that it does not qualify for recognition as a provision. Depending on the probability of loss occurring, contingent liabilities may be disclosed in the notes to the financial statements. Contingent liabilities may be established based on potential individual credit union financial assistance payments and/or an assessment of the inherent risk in the credit union system. Provisions and contingencies for financial assistance consist of the calculation of potential liabilities and contingencies to meet the IFRS standards. Calculations include management's judgment based on historical information and other factors. Credit union analysis for potential liabilities includes a review of all credit unions based on key financial and risk information and provisions related to amalgamations or arrangements and any indemnity agreements.

d) Employee future benefits

The Corporation's employee future benefit program is a defined contribution pension plan. A defined contribution plan is a post-employment benefit plan under which the Corporation pays fixed contributions to the Co-operative Superannuation Society (CSS) Pension Plan. The Corporation has no legal or constructive obligation to pay further contributions if the plan does not hold sufficient assets to provide pension benefits commensurate with past services.

The Corporation's contributions to the defined contribution plan are expensed as incurred. Pension funds of \$186 (2016 - \$185) were paid to defined contribution retirement plans during the year.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31 [in thousands]

3. Significant Accounting Policies (continued)

e) Taxation

CURRENT INCOME TAX

Income tax expense comprises current taxes and is recognized in the statement of operations, other comprehensive income and fund balance. Income tax (receivable) payable is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognized as an (income) expense for the period.

DEFERRED INCOME TAX

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Corporation's financial statements.

f) New and revised IFRSs issued but not yet effective

FINANCIAL INSTRUMENTS

The Corporation has not yet applied IFRS 9 – Financial Instruments (IFRS 9). IFRS 9 is expected to impact the classification and measurement of financial assets and financial liabilities. This standard 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 – Financial Instruments: recognition and measurement (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 other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity instrument (that is not held-for-trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

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.

Based on the preliminary assessment, the Corporation has concluded that all financial assets and financial liabilities will continue to be measured on the same basis as is currently treated under IAS 39. The Corporation's investment portfolio passes the business model and solely payments of principal and interest test and as such is measured at amortized cost. Using the Corporation's December 31, 2017 investments data, the preliminary assessment of the expected credit loss required under IFRS 9 on the investment portfolio is estimated to be \$40.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31 [in thousands]

3. Significant Accounting Policies (continued)

f) New and revised IFRSs issued but not yet effective (continued)

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 (IAS 11) 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 is effective for annual periods beginning on or after January 1, 2018. The Corporation has performed an initial assessment on the new standard and does not expect that there will be an impact on its financial statements.

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 (IAS 17) and related Interpretations and is effective for periods beginning on or after January 1, 2019. The Corporation is currently evaluating the impact of the new standard on its financial statements.

4. Cash and Cash Equivalents

Cash and cash equivalents consist of cash and an interest bearing operating account. Cash and cash equivalents are comprised of the following balance sheet amounts:

	2017 \$	2016 \$
Cash balances	225	292
Interest bearing short-term account	681	631
Total	906	923

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31 [in thousands]

5. Investments

The Corporation invests in fixed income securities with priority on safety, liquidity and return, with repricing dates matching maturity dates for the majority of its investments.

Category	2017				2016			
	Term to maturity				Carrying Value	Fair Value	Carrying Value	Fair Value
	0 to 1 year	1 to 3 years	3 to 5 years	5 to 10 years				
Government of Canada \$	16,539	49,493	19,582	-	85,614	84,928	83,339	83,554
Yield ⁽¹⁾	1.37%	1.34%	1.67%	-	1.42%		1.20%	
Provincial governments \$	45,475	22,688	18,342	940	87,445	87,767	89,600	91,282
Yield ⁽¹⁾	1.91%	1.84%	2.24%	4.87%	1.99%		2.04%	
Municipals \$	703	4,803	9,152	-	14,658	14,529	8,068	8,105
Yield ⁽¹⁾	4.66%	1.22%	1.96%	-	1.85%		2.56%	
Concentra Bank \$	4,850	7,250	-	-	12,100	12,024	12,000	12,104
Yield ⁽¹⁾	1.84%	1.45%	-	-	1.61%		1.75%	
Chartered banks \$	16,132	29,785	22,851	-	68,768	68,154	66,325	66,472
Yield ⁽¹⁾	1.86%	1.70%	1.95%	-	1.82%		1.77%	
Commercial securities \$	6,027	22,728	6,086	-	34,841	34,494	37,143	37,207
Yield ⁽¹⁾	1.44%	1.54%	1.65%	-	1.54%		1.83%	
	89,726	136,747	76,013	940	303,426	301,896	296,475	298,724
Accrued interest \$					1,346		1,374	
					304,772		297,849	

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

6. Accounts Payable

Accounts payable are generally paid within three months with the exception of unclaimed balances that are due on demand.

	2017 \$	2016 \$
Accounts payable	686	586
Unclaimed balances	330	259
	1,016	845

The Corporation is responsible to administer unclaimed balances received from credit unions pursuant to subsection 71(1) of *The Credit Union Act, 1998*, and subsections 10(1) and 11(1) of *The Credit Union Regulations, 1999*. The Corporation's policy is to retain unclaimed balances in accounts payable for 25 years following date of receipt by the Corporation, after which time these balances are recognized into income.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31 [in thousands]

7. Income Taxes

Income taxes are included in the statement of operations as follows:

	2017 \$	2016 \$
Current income tax recovery		
Relating to the current year	(115)	(38)
	(115)	(38)

Reconciliation of income tax (recovery) expense:

	2017 \$	2016 \$
Income tax expense calculated at 13% (2016 – 13%)	865	2,046
Adjustments for the effect of:		
Non-taxable income*	(1,925)	(2,087)
Expenses not deductible for tax purposes	945	3
	(115)	(38)

* Credit union assessments and financial assistance are non-taxable transactions.

8. Lines of Credit

The Corporation has the following authorized lines of credit available:

	2017 \$	2016 \$
Operating line of credit	2,000	2,000
Line of credit for financial assistance	10,000	10,000
	12,000	12,000

The lines of credit are renewed annually and have an interest rate equal to the lending institution's floating prime rate of interest, payable upon demand with interest payable monthly.

The Corporation has pledged investments with a market value of \$12,024 (2016 - \$12,104) and a carrying value of \$12,100 (2016 - \$12,000) as security for the lines of credit. The market value of pledged assets must be not less than 100% of the authorized credit as stated in the agreement. The Corporation monitors the pledged assets on a quarterly basis.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31 [in thousands]

9. Operational Services Expenses

	2017 \$	2016 \$
Corporate governance	233	124
Salaries and benefits	3,836	3,860
Technology	422	416
Professional fees	310	224
Travel	135	126
Facilities	213	212
Contract services	484	461
Preventive services	11	21
Other	155	156
	5,799	5,600

Salaries and benefits and corporate governance expenses include payments to the board and executive management. This is further discussed in Note 10.

10. 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 the Corporation. 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.

KEY MANAGEMENT COMPENSATION

Key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation, directly or indirectly. The Corporation's KMP are the board and executive management.

The following is compensation of KMP, as included in Note 9.

	2017 \$	2016 \$
The board and board committees		
Per diems, honorariums and other benefits	93	72
Executive management		
Salaries and other short-term employee benefits	1,024	1,013
Post-employment benefits	81	76
	1,105	1,089
	1,198	1,161

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31 [in thousands]

11. Nature and Extent of Risks Arising from Financial Instruments

The nature of the Corporation's holdings of financial instruments exposes the Corporation to credit, liquidity and market risk.

CREDIT RISK

Credit risk is the risk of loss associated with a counterparty's inability or unwillingness to fulfill its payment obligations. Credit risk may arise from principal and interest amounts on the Corporation's investment portfolio.

The Corporation manages credit risk through adherence to board-approved policy and practice for the acquisition of investments. Safety of principal is accomplished by ensuring that all investments purchased are reasonable and prudent. Investment decisions are made with due diligence to avoid undue risk of loss while obtaining a reasonable return. The Corporation has established a listing of eligible investments that meet the above requirements.

This listing is based on high credit quality ratings from Dominion Bond Rating Service (DBRS) and/or Standard & Poor's (S&P) and also includes unrated Concentra Bank term deposits.

The Corporation monitors investments on a monthly basis. The status of the investment portfolio in relation to performance targets and limits is reported to the board at each regular board meeting. An exception to policy will be immediately reported to the chief executive officer and in writing to the audit committee.

The Corporation's investment portfolio credit quality ratings are as follows:

Investment Portfolio Rating*	2017 Carrying Amount \$	2016 Carrying Amount \$
AAA	92,404	86,114
AA	68,921	97,699
A	130,001	100,662
Unrated	12,100	12,000
	303,426	296,475
Accrued Interest	1,346	1,374
Total Investments	304,772	297,849

* per DBRS and/or S&P

MARKET RISK

Market risk is the risk of loss that may arise from changes in market factors, notably interest rates. Interest rate risk is the potential adverse impact on earnings due to changes in interest rates. The Corporation's policy is to primarily invest in fixed income securities and to purchase with the intent to hold to maturity. Accordingly, interest rate risk arises from the re-pricing of investments as they mature.

The Corporation will not participate in lending of securities or purchasing of investments in foreign currencies, nor participate in derivative transactions. These policies help to mitigate the Corporation's exposure to market risk.

The investment portfolio is monitored by management on a monthly basis to ensure compliance with the policies, and reported to the board at each regular board meeting.

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31 [in thousands]

11. Nature and Extent of Risks Arising from Financial Instruments (continued)

MARKET RISK (continued)

The fair value of the investment portfolio is subject to fluctuation as a result of normal market risk. The principal factor influencing the fair value is the prevailing rate of interest. Applying a present value calculation demonstrates that an increase of 1% in interest rates will result in a decrease of approximately \$5,795 or 1.91% (2016 - \$5,544 or 1.87%) in the fair value of the investment portfolio. Conversely, a decrease of 1% in interest rates will result in an increase in the fair value of the same amount. Changes to interest rates have no impact on net income because investments are classified as held to maturity.

LIQUIDITY RISK

Liquidity risk arises from the inability to generate or obtain the necessary cash or its equivalents in a timely manner, at a reasonable price, to meet organizational commitments. In particular, the risk arises from failure to meet the Corporation's day-to-day operational needs or deposit protection obligations.

The Corporation must maintain sufficient liquidity to meet its cash flow obligations. The ability of the Corporation to meet cash flow obligations is achieved by the structure of investments and identification of operational requirements. Accordingly, the Corporation's investment policy includes liquidity score parameters to help mitigate liquidity risk. The status of the investment portfolio in relation to these parameters is monitored on a regular basis and reported to the board at each regular board meeting.

The liquidity score is a weighted average rating calculated on the investment portfolio that reflects probable loss upon immediate liquidation. The rating criteria are described as follows:

- Rating 4 – investments can be sold immediately to any dealer
- Rating 3 – investments can be sold quickly (i.e. within two business days), with a pricing discount that is not anticipated to be significant
- Rating 2 – investments can be sold, but there are limited buyers, it may take up to five business days to execute a sale and the pricing discount is anticipated to be moderate to significant
- Rating 1 – investments can be sold, but there are very limited buyers, it may take a prolonged period of time to execute a sale and the pricing discount is anticipated to be severe
- Rating 0 – investments are illiquid and unable to be sold

The Corporation's policy is to maintain a minimum liquidity score of 3.0. At December 31, 2017, the liquidity score is 3.4 (2016 – 3.4).

To further manage liquidity risk, the Corporation has \$12 million in authorized lines of credit available (Note 8).

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31 [in thousands]

12. Fund Management

The Corporation's objective when managing the Fund is to establish a fund target range that instills confidence, comfortably accommodating all anticipated risks to the Fund during normal business cycles, and provides a cushion in more difficult periods. The current target range for the Fund is 1.4% to 1.6% of total deposits, plus the amount of any deficiencies in credit unions' regulatory capital. At December 31, 2017, the Fund is 1.60% (2016 – 1.62%) of total deposits and there are no credit union capital deficiencies.

The Corporation is not subject to externally imposed capital requirements. Management monitors the Fund balance on a regular basis. Quarterly financial reporting to the board includes the Fund status. If at any time the Fund balance is below or in excess of the target, management will provide the board with a documented plan to bring the Fund back in line with the policy.

13. Fair Value Measurement

Fair value of financial assets and liabilities that are not measured at fair value (but fair value disclosure is required)

The Corporation considers the carrying amount of financial assets and financial liabilities, other than investments, recognized in the financial statements to approximate their fair values. Investments are measured at amortized cost and the fair value of investments is disclosed in Note 5.

Fair Value Hierarchy Investments	2017 \$	2016 \$
Level 1	-	-
Level 2	301,896	298,724
Level 3	-	-
	301,896	298,724

The fair values of the financial assets included in the Level 2 category above have been determined in accordance with generally accepted pricing models based on either quoted prices obtained from Bloomberg or a discounted cash flow analysis, with the most significant inputs being the appropriate discount rate for the instrument, which is obtained from observable data for similar instruments.

There have been no transfers between levels in the hierarchy and no changes to the valuation methods during the period.

SASKATCHEWAN CREDIT UNIONS

Regulated credit unions in Saskatchewan as of December 31, 2017

Credit Union Name	Head Office
Accent Credit Union	Quill Lake
Affinity Credit Union 2013	Saskatoon
Bengough Credit Union	Bengough
Biggar and District Credit Union	Biggar
Bruno Savings and Credit Union Limited	Bruno
Churchbridge Credit Union	Churchbridge
CONEXUS Credit Union 2006	Regina
Cornerstone Credit Union Financial Group Limited	Yorkton
Crossroads Credit Union	Canora
Cypress Credit Union Limited	Maple Creek
Debden Credit Union Limited	Debden
Delisle Credit Union Limited	Delisle
Diamond North Credit Union	Nipawin
Dodsland and District Credit Union Limited	Dodsland
Earl Grey Credit Union Limited	Earl Grey
Edam Credit Union Limited	Edam
Foam Lake Savings and Credit Union Limited	Foam Lake
Goodsoil Credit Union Limited	Goodsoil
Horizon Credit Union	Melville
Innovation Credit Union	Swift Current
Kerrobert Credit Union Limited	Kerrobert
Lafleche Credit Union Limited	Lafleche
Landis Credit Union Limited	Landis

Credit Union Name	Head Office
LeRoy Credit Union Limited	LeRoy
Luseland Credit Union Limited	Luseland
Macklin Credit Union Limited	Macklin
New Community Credit Union	Saskatoon
North Valley Credit Union	Esterhazy
Pierceland Credit Union Limited	Pierceland
Plainsview Credit Union	Kipling
Porcupine Credit Union Limited ¹	Porcupine Plain
Prairie Centre Credit Union (2006) Limited	Rosetown
Prairie Pride Credit Union	Alameda
Radius Credit Union Limited	Ogema
Raymore Savings and Credit Union Limited	Raymore
Rockglen-Killdeer Credit Union Limited	Rockglen
Sandhills Credit Union Limited	Leader
Saskatoon City Employees Credit Union	Saskatoon
Spiritwood Credit Union Limited ²	Spiritwood
St. Gregor Credit Union, Limited	St. Gregor
Stoughton Credit Union Limited	Stoughton
Synergy Credit Union Ltd.	Lloydminster
TCU Financial Group Credit Union	Saskatoon
Turtleford Credit Union Limited	Turtleford
Unity Credit Union Limited	Unity
Weyburn Credit Union Limited	Weyburn

¹ Merged with Affinity Credit Union 2013 January 1, 2018

² Merged with Prairie Centre Credit Union (2006) Limited January 1, 2018

Operating Principles

Our principles provide direction on how to carry out the Corporation's roles and responsibilities. They are what make us unique. These philosophical insights have contributed to the Corporation's notable success throughout its history and provide guidance in shaping the Corporation's future.

Effective Regulation

As the primary prudential and solvency regulator, we support and encourage a successful credit union system by working with stakeholders to balance prudential regulation with market forces.

We recognize the need for credit unions and SaskCentral to evolve in the marketplace and we support a strong and prosperous credit union system by:

- focusing on the future of the financial services industry
- striving to implement industry best practices where it is reasonable to do so
- developing flexible and enabling approaches to effective and efficient regulation

Our role is to regulate, not to manage. Our actions demonstrate our preference to prescribe rather than restrict, and demonstrate our respect for a credit union's right to determine its own destiny.

We believe that effective deposit protection is accomplished through investments in prevention including:

- analyzing credit union and SaskCentral performance on an ongoing basis to ensure early identification of potential risks
- communicating our expectations
- sponsoring and promoting programs that strengthen the knowledge and skills of credit union decision makers

AUTHORITY, RESPONSIBILITY, ACCOUNTABILITY

Authority

- We clearly communicate to all stakeholders our authority to take action to protect deposits. The Corporation has the authority to act to fulfill its deposit protection responsibilities in the best interests of the credit union system.

Responsibility

- We exercise great care and judgment in carrying out the authority that has been granted to us.
- We are responsible to act when others are either unwilling or unable to take action on matters concerning credit union and system solvency and the safety of deposits.

Accountability

- We demonstrate accountability through fiscal responsibility.
- We pursue economical business solutions to protect deposits and minimize costs to the credit union system.
- Our operating methods demonstrate effective and efficient use of system resources.

OBJECTIVITY AND INDEPENDENCE

Our actions are free of influence, interest or relationship that would impair professional judgment or objectivity.

We act independently and in the best interests of the Corporation to protect depositors' funds.

We carry out our responsibilities fairly and consistently, basing decisions on careful analysis of facts.

OPENNESS

We communicate openly with all stakeholders.

We respect our stakeholders' rights to privacy and confidentiality of information.

We value the opinions and ideas of our stakeholders and take care to ensure that we consult with them on matters that affect them.

COLLABORATIVE RELATIONSHIPS

Through constructive relationships with our stakeholders, we create opportunities to enhance the overall quality and effectiveness of our results.

We believe that the best solutions are arrived at by working with others to build common understanding and to identify and achieve common goals.



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