CONSOLIDATED FINANCIAL STATEMENTS

CREDIT UNION CENTRAL OF SASKATCHEWAN

December 31, 2018

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Independent Auditor's Report

To the Members of
Credit Union Central of Saskatchewan

Opinion

We have audited the consolidated financial statements of Credit Union Central of Saskatchewan and its subsidiaries (the "Company"), which comprise the consolidated balance sheet as at December 31, 2018, and the consolidated statement of profit or loss, consolidated statement of comprehensive income or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte LLP

Chartered Professional Accountants

Regina, Saskatchewan
March 6, 2019

Credit Union Central of Saskatchewan

CONSOLIDATED BALANCE SHEET

[in thousands of Canadian dollars]

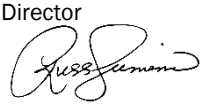
As at December 31

	2018 $	2017 $
Assets		
Cash and cash equivalents [note 8]	655,050	728,789
Securities [note 9]	2,995,653	3,077,842
Derivative assets [note 10]	23,542	27,975
Loans [note 11]	8,311,602	7,721,935
Other securitization assets [note 13]	60,875	36,499
Trade and other receivables	5,676	3,172
Other assets	1,522	1,774
Investments in associates [note 14]	34,775	5,719
Property, plant and equipment [note 15]	26,436	26,732
Investment property [note 16]	6,427	21,587
Intangible assets [note 17]	2,872	2,584
Current income tax assets [note 18]	-	128
Deferred income tax assets [note 18]	22,204	19,187
Goodwill [note 33]	41,979	41,979
Assets held for sale [note 34]	16,736	-
	12,205,349	11,715,902
Liabilities		
Deposits [note 19]	7,039,434	5,998,315
Derivative liabilities [note 10]	24,080	28,132
Loans and notes payable [note 20]	375,626	531,510
Securitization liabilities [note 13]	3,971,890	4,329,747
Trade and other payables	40,385	79,893
Other liabilities [note 21]	10,965	7,254
Current income tax liabilities [note 18]	2,148	12,325
Deferred income tax liabilities [note 18]	14,246	17,666
Liabilities held for sale [note 34]	218	-
	11,478,992	11,004,842
Equity		
Share capital [note 22]	162,832	161,607
Retained earnings	390,294	361,487
Accumulated other comprehensive (loss) income	(1,176)	17,291
Total equity attributable to equity holders of SaskCentral	551,950	540,385
Non-controlling interest [note 31]	174,407	170,675
	726,357	711,060
	12,205,349	11,715,902

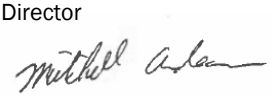
See accompanying notes

On behalf of the Board:

Director



Director



CONSOLIDATED STATEMENT OF PROFIT OR LOSS

[in thousands of Canadian dollars]

Year ended December 31

	2018 $	2017 $
Interest income		
Securities	63,540	56,116
Loans	243,486	209,950
	307,026	266,066
Interest expense		
Deposits	118,975	83,662
Loans and notes	7,550	5,089
Securitization liabilities	72,993	72,800
Subordinated debentures	-	385
Other direct expenses	6,599	3,571
	206,117	165,507
Net interest income [note 24]	100,909	100,559
Provision for credit (recoveries) losses [note 12]	(7,612)	618
Net interest income after provision for credit losses	108,521	99,941
Non-interest income		
Dues [note 25]	2,791	5,375
Fee for service [note 25]	45,417	37,451
Gain on financial instruments [note 28]	3,107	4,803
Share of profits of associates [note 14]	1,361	1,569
Gain on sale of business line [note 29]	200	-
Gain on acquisition of control [note 33]	-	48,297
	52,876	97,495
Net interest and non-interest income	161,397	197,436
Non-interest expense		
Salary and employee benefits [note 26]	53,135	49,918
Professional and advisory services [note 27]	12,505	18,796
Computer and office equipment	10,666	3,401
Occupancy	5,251	5,327
General business	16,328	14,768
	97,885	92,210
Profit for the year before income taxes	63,512	105,226
Income tax expense (recovery) [note 18]	17,986	(7,911)
Profit for the year	45,526	113,137
Attributable to:		
Owners of SaskCentral	34,581	103,248
Non-controlling interest	10,945	9,889
	45,526	113,137

See accompanying notes

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OR LOSS

[in thousands of Canadian dollars]

Year ended December 31

	2018 $	2017 $
Profit for the year	**45,526**	113,137
Other comprehensive income (loss)		
Items that will be reclassified subsequently to profit or loss:		
Financial assets at FVTOCI		
Net unrealized gains on FVTOCI securities during the year	**4,039**	8,893
Reclassification of gains on FVTOCI securities disposed of in the year	**(1,683)**	(569)
Reclassification of impairment losses on FVTOCI securities [note 12]	**455**	-
Cash flow hedges		
Net (loss) gains on derivatives designated as cash flow hedges	**(227)**	3,760
Reclassification of gains on derivatives designated as cash flow hedges to profit or loss	**(985)**	(715)
Share of other comprehensive loss of associates	**(31)**	-
Reclassification of other comprehensive loss of associates disposed of in the year [note 33]	**-**	46
Income tax relating to items that will be reclassified subsequently [note 18]	**(332)**	(578)
Items that will not be reclassified subsequently to profit or loss:		
Net change in fair value due to change in own credit risk on financial liabilities [note 28]	**(8,270)**	-
Income tax related to items that will not be reclassified subsequently [note 18]	**2,233**	-
Other comprehensive (loss) income for the year, net of tax	**(4,801)**	10,837
Total comprehensive income for the year	**40,725**	123,974
Attributable to:		
Owners of SaskCentral	**29,583**	114,367
Non-controlling interest	**11,142**	9,607
	40,725	123,974

See accompanying notes

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

[in thousands of Canadian dollars]

Year ended December 31

			Accumulated other comprehensive income				
	Share capital	Retained earnings	Fair value reserves	Own credit risk reserve	Total	Non-controlling interest	Total equity
Balance as at December 31, 2016	161,161	269,505	6,172	-	436,838	489	437,327
Profit for the year	-	103,248	-	-	103,248	9,889	113,137
Other comprehensive income (loss) for the year, net of tax	-	-	11,119	-	11,119	(282)	10,837
Increase (decrease) in share capital	446	-	-	-	446	(489)	(43)
Dividends [notes 23 and 31]	-	(14,145)	-	-	(14,145)	(5,749)	(19,894)
Reduction in income taxes [note 18]	-	2,879	-	-	2,879	-	2,879
Non-controlling interest arising on the acquisition of Concentra Bank [note 33]	-	-	-	-	-	166,817	166,817
Balance as at December 31, 2017	161,607	361,487	17,291		540,385	170,675	711,060
Impact of adopting IFRS 9 at January 1, 2018 [note 3]	-	21,023	(16,750)	3,334	7,607	(1,447)	6,160
Adjusted balance as at January 1, 2018	161,607	382,510	541	3,334	547,992	169,228	717,220
Profit for the year	-	34,581	-	-	34,581	10,945	45,526
Other comprehensive income (loss) for the year, net of tax	-	-	1,039	(6,037)	(4,998)	197	(4,801)
Increase in share capital	1,225	-	-	-	1,225	-	1,225
Dividends [notes 23 and 31]	-	(35,112)	-	-	(35,112)	(5,963)	(41,075)
Reclassification of own credit risk on derecognition of related financial liabilities, net of tax	-	53	-	(53)	-	-	-
Reduction in income taxes [note 18]	-	8,262	-	-	8,262	-	8,262
Balance as at December 31, 2018	162,832	390,294	1,580	(2,756)	551,950	174,407	726,357

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS

[in thousands of Canadian dollars]

Year ended December 31

	2018 $	2017 $
Cash flows from (used in) operating activities		
Profit for the year	45,526	113,137
Adjustments to determine net cash used in operating activities:		
Depreciation of property, plant and equipment and investment property [note 15/16]	2,228	2,189
Other amortization	6,071	11,250
Gain on financial instruments [note 28]	(3,107)	(4,803)
Net interest income	(100,909)	(100,559)
Provision for credit (recoveries) losses [note 12]	(7,612)	618
Gain on acquisition of control [note 33]	-	(48,297)
Gain on sale of business line [note 29]	(200)	-
Share of profits in associates, net of losses	(1,361)	(1,569)
Income tax expense (recovery)	17,986	(7,911)
Changes in operating assets and liabilities:		
Loans, net of repayments and sales	(642,997)	20,926
Trade and other (payables) receivables	(38,320)	32,833
Other assets	252	(300)
Deposits, net of withdrawals	1,033,638	(237,891)
Securitization liabilities, net of repayments	(139,860)	69,353
Loans payable and notes payable, net of repayments	(413,643)	65,731
Other liabilities	(474)	491
Interest received	337,700	291,457
Dividends received	533	587
Interest paid	(188,567)	(179,672)
Net realized gains (losses) from derivatives	555	(1,244)
Net realized (losses) gains from derivatives designated as cash flow hedges	(227)	3,760
Income taxes (paid) recovered	(25,847)	4,081
Cash flows (used in) from operating activities	(118,635)	34,167
Cash flows from (used in) financing activities		
Redemption of subordinated debt	-	(25,500)
Proceeds from issuance of share capital	1,225	446
Dividends paid to members [note 23]	(37,368)	(10,761)
Dividends paid to non-controlling interest [note 31]	(5,963)	(5,749)
Cash flows used in financing activities	(42,106)	(41,564)

Continued on following page

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

[in thousands of Canadian dollars]

Year ended December 31

	2018 $	2017 $
Cash flows from (used in) investing activities		
Purchase of securities	(9,220,165)	(6,079,138)
Proceeds from sales of securities	9,309,761	6,515,589
Proceeds from sale of business line [note 29]	200	-
Distributions from investments in associates [note 14]	1,693	550
Property, plant and equipment [note 15]	(1,127)	(1,190)
Investment property [note 16]	(1,804)	(522)
Intangible assets [note 17]	(1,020)	(951)
Cash flows from investing activities	87,538	434,338
Net (decrease) increase in cash and cash equivalents	(73,203)	426,941
Cash and cash equivalents, beginning of year	728,789	107,469
Cash acquired from business combination [note 33]	-	194,379
Cash reclassified to assets held for sale [note 34]	(536)	-
Cash and cash equivalents, end of year	655,050	728,789

See accompanying notes

1. REPORTING ENTITY

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

SaskCentral functions as a liquidity manager and key service supplier on behalf of and for Saskatchewan credit unions. SaskCentral also maintains business relationships with, and investments in, a number of co-operative entities on behalf of Saskatchewan credit unions, including Concentra Bank, CUPS Payment Services (CUPS), Celero Solutions, CU CUMIS Wealth Holdings LP (CUC Wealth) and CUVentures LP as described in notes 14, 31 and 32.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except those policies related to IFRS 9, *Financial Instruments* (IFRS 9) and IFRS 15, *Revenue from Contracts with Customers* (IFRS 15) as described in note 2.1(e).

2.1 Basis of presentation

(a) Statement of compliance

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

These consolidated financial statements were authorized for issue by the Board on March 6, 2019.

SaskCentral has adopted IFRS 9 issued in July 2014 with a date of initial application of January 1, 2018. The requirements of IFRS 9 represent a significant change from IAS 39, *Financial Instruments: Recognition and Measurement* (IAS 39). IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities and impairment for financial assets. Details of these new requirements as well as their impact to SaskCentral are described in notes 2.1(e) and 3.

SaskCentral has also adopted IFRS 15 with a date of initial application of January 1, 2018. Apart from providing more extensive disclosures on SaskCentral's revenue transactions, the application of IFRS 15 has not had a significant impact on SaskCentral's financial statements. Details of the IFRS 15 adoption, as well as its impact to SaskCentral are described in note 2.1(e).

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except financial assets and liabilities held at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVTOCI – applicable from January 1, 2018) and available-for-sale financial assets (applicable before January 1, 2018), which have been measured at fair value, including all derivative contracts.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of presentation (continued)

(b) Basis of measurement (continued)

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

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

Information about key sources of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements are described in note 4.

(e) Changes in accounting policies

IFRS 9, *Financial Instruments*

As permitted under IFRS 9, SaskCentral has elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and financial liabilities at the date of transition were recognized as an adjustment to opening retained earnings and accumulated other comprehensive income (AOCI) on January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9. For full transition details, refer to note 3.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of presentation (continued)

(e) Changes in accounting policies (continued)

Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, FVTOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed as well as by its contractual cash flow characteristics. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available-for-sale.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an expected credit loss (ECL) model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

IFRS 15, Revenue from Contracts with Customers

IFRS 15 provides a single revenue recognition standard to align the financial reporting of revenue from contracts with customers and related costs. It replaces IAS 18, *Revenue*, IAS 11, *Construction Contracts* and related interpretations.

Under IFRS 15, SaskCentral will recognize revenue when it transfers goods or services to a customer in the amount of consideration it expects to receive from the customer. The new standard provides a single, principles-based five step model to be applied to all sales contracts, based on the transfer of control of goods and services to customers. The revenue arising from financial instruments is not within scope of IFRS 15.

SaskCentral has adopted this standard retrospectively using the cumulative effects method, and therefore the comparative information has not been restated. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 15. The application of IFRS 15 had no impact on the timing or amount of SaskCentral's revenue recognition and consequently no transition adjustment was recognized on January 1, 2018.

SaskCentral has applied IFRS 15 without using the practical expedients for modified contracts in IFRS 15:C5(c), or for transaction price disclosure in IFRS 15:C5(d) but using the practical expedients for completed contracts in IFRS 15:C5(a), and (b), where SaskCentral need not restate contracts that begin and end within the same annual reporting period or are completed contracts at the beginning of earliest period presented, i.e. 1 January 2018. SaskCentral's accounting policies on the revenue recognition under IFRS 15 are provided in note 2.12.

2.2 Basis of consolidation

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

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

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

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

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

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

The following entities are included in these consolidated financial statements:

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

Concentra Trust – Concentra Bank owns 100% (2017 – 100%) of the common shares of Concentra Trust; as such these consolidated financial statements include the assets and liabilities and results of the operations of this wholly owned subsidiary.

CUVentures LP – SaskCentral owns 100% (2017 – 100%) of CUVentures LP as a result of SaskCentral's 100% ownership (2017 – 100%) ownership of CUVentures Inc., the General Partner; as such, these consolidated financial statements include the assets and liabilities and results of the operations of this wholly owned subsidiary.

(a) Acquisition of control

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Investments in associates

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

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

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

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

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

Celero Solutions – SaskCentral has a 33.3% (2017 – 33.3%) interest in Celero Solutions and has concluded that Celero Solutions is considered an investment in associates. Celero Solutions is accounted for in these consolidated financial statements using the equity method.

CU CUMIS Wealth Holdings LP (CUC Wealth) – SaskCentral has a 10.92% (2017 – nil) interest in CUC Wealth. CUC Wealth serves as a holding company for the five provincial credit union centrals and other co-operatives' ownership in Aviso Wealth Inc. (Aviso). Aviso was formed on April 1, 2018 as a result of a merger between Credential Financial Inc., Northwest and Ethical Investments (NEI) and Qtrade Canada Inc. (Qtrade). Aviso is a national, integrated financial services company serving the wealth management needs of Canadian credit unions and independent financial organization.

Saskatchewan Entrepreneurial Fund Joint Venture (SEF JV) – CUVentures LP has 100% ownership of Saskatchewan Entrepreneurial Fund Limited Partnership (SEF LP), which has a 45.45% (2017 – 45.45%) interest in SEF JV. SaskCentral has concluded that SEF JV is an investment in an associate and is accounted for in these consolidated financial statements using the equity method.

2.4 Interests in joint operations

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Interests in joint operations (continued)

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

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

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

CUPS – SaskCentral owns a 50% interest in CUPS (2017 – 50%) and accounts for its share of assets, liabilities, revenue and expenses, which are recorded following SaskCentral's accounting policies for these assets, liabilities, revenues and expenses.

2.5 Sale and repurchase agreements

Securities sold subject to repurchase agreements are treated as collateralized borrowing transactions when the transferee has the right by contract or custom to sell or repledge the collateral and are classified as FVTOCI from January 1, 2018 (available-for-sale before January 1, 2018) and recorded at fair value. Obligations related to assets sold under repurchase agreements are recorded in loans payable (note 20). Interest incurred on repurchase agreements is included in loans and notes interest expense.

2.6 Financial instruments

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

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

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

(a) Financial assets

Policy applicable from January 1, 2018

Debt instruments are classified as amortized cost, FVTOCI or FVTPL on the basis of SaskCentral's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

(a) Financial assets (continued)

Business model assessment

SaskCentral makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The business model assessment involves determining whether financial assets are managed in order to generate cash flows from collection of contractual cash flows, from the sale of financial assets, or both. For the assessment of business models, SaskCentral takes into consideration the factors such as performance of assets in the portfolio, risks that affect the performance of assets, management compensation for those managing the assets and the frequency, reason for sales, and volume of sales in prior periods and expectations about future sales activity.

Cash flow characteristics assessment

The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are solely payments of principal and interest on the principal amount outstanding.

'Principal' is defined as the fair value of the financial asset on initial recognition. Principal may change over the life of the instrument due to repayments. 'Interest' is defined as consideration for the time value of money and the credit risk associated with the principal amount outstanding for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In performing this assessment, SaskCentral takes into consideration contractual features that could change the amount or timing of contractual cash flows, such that the cash flows are no longer consistent with a basic lending arrangement. If SaskCentral identifies any contractual features that could modify the cash flows of the instrument such that they are no longer consistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Debt instruments measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized cost are initially measured at fair value and subsequently measured at amortized cost using the effective interest method.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

(a) Financial assets (continued)

Debt instruments measured at FVTOCI

A debt instrument is measured at FVTOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, unrealized gains and losses on debt instruments measured at FVTOCI are recorded in OCI, unless the instrument is designated in a fair value hedge relationship. When designated in a fair value hedge relationship any changes in fair value due to changes in the hedged risk are recognized in the consolidated statement of profit or loss. If the hedging instrument expires or is sold, or when the hedge no longer meets the criteria for hedge accounting, hedge accounting is discontinued prospectively. Premiums, discounts and related transaction costs are amortized over the expected life of the instrument to interest income in the profit or loss using the effective interest rate method. Upon derecognition, realized gains and losses are reclassified from OCI to profit or loss.

Debt instruments designated at FVTPL

SaskCentral may, at initial recognition, irrevocably designate a financial asset as at FVTPL when one of the following criteria is met:

- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- A group of financial assets is managed with its performance being evaluated on a fair value basis; or
- The financial asset contains one or more embedded derivatives which significantly modifies the cash flows otherwise required by the contract.

For financial assets designated at FVTPL, changes in fair value are recognized in the separate statement of profit or loss.

Equity instruments measured at FVTPL

Equity instruments are measured at FVTPL unless an election is made to designate them at FVTOCI upon purchase. For equity instruments measured at FVTPL, changes in fair value are recognized in the consolidated statement of profit or loss.

Policy applicable before January 1, 2018

Prior to the adoption of IFRS 9, SaskCentral classified it financial assets as FVTPL, available-for-sale and loans and receivables. The classification depended on the nature and purpose of the financial assets and was determined at the time of the initial recognition.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

(a) Financial assets (continued)

Financial assets at FVTPL

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

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

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

Financial assets at FVTPL were stated at fair value, with any gains or losses arising on re-measurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and was included in the consolidated statement of profit or loss and was reported as gains on financial instruments. Gains and losses arising from SaskCentral's foreign exchange contracts were classified as held-for-trading and are included in the consolidated statement of profit or loss and reported as fee for service. Fair value was determined in the manner described in note 6.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables or financial assets at FVTPL. Available-for-sale financial assets are initially recognized at fair value and measured subsequently at fair value with gains and losses being recognized in OCI in the consolidated statement of comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognized. Fair value is determined in the manner described in note 6.

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

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

Loans and receivables

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

(b) Financial liabilities

Policy applicable from January 1, 2018

SaskCentral classifies its financial liabilities as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition.

SaskCentral may, at initial recognition, irrevocably designate a financial liability as at FVTPL when one of the following criteria is met:

- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- A group of financial liabilities is managed with its performance being evaluated on a fair value basis; or
- The financial liability contains one or more embedded derivatives which significantly modifies the cash flows otherwise be required by the contract.

For liabilities at FVTPL, all changes in fair value are recognized in the consolidated statement of profit or loss, except for changes in fair value arising from changes in SaskCentral's own credit risk which are recognized in OCI. Changes in fair value of liabilities due to changes in SaskCentral's own credit risk, recognized in OCI, are not subsequently reclassified to profit or loss upon derecognition/extinguishment of the liabilities. Instead, these changes are reclassified from AOCI to retained earnings upon derecognition/extinguishment of the liabilities.

Policy applicable before January 1, 2018

Prior to the adoption of IFRS 9, financial liabilities were classified as either financial liabilities at FVTPL or other financial liabilities measured at amortized cost. Management determined the classification of its financial liabilities at initial recognition.

Financial liabilities at FVTPL

Financial liabilities were classified at FVTPL when the financial liability is either held-for-trading or it is designated as FVTPL. Financial liabilities at FVTPL were stated at fair value, with any gains and losses arising from re-measurement recognized in profit or loss. Fair value was determined in the manner described in note 6.

Other financial liabilities

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

(c) Reclassification of financial assets

Financial assets are not reclassified subsequent to their initial recognition, except in the period after SaskCentral changes its business model for managing financial assets. There were no changes to any of the SaskCentral's business models for the year ended December 31, 2018.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

(d) Impairment of financial assets

Policy applicable from January 1, 2018

SaskCentral establishes an allowance for credit losses for the following categories of financial assets that are not measured at FVTPL:

- Financial assets at amortized cost;
- Financial assets at FVTOCI;
- Undrawn lending commitments;
- Commercial leases; and
- Financial guarantee contracts.

No impairment is recognized on equity investments in the scope of IFRS 9. The impairment of financial assets is presented in the consolidated balance sheet as a deduction in the gross carrying amount of securities and loans.

Expected credit loss impairment model

SaskCentral uses an expected credit loss methodology to measure impairment of its financial instruments. Expected credit losses reflect the present value of all cash shortfalls related to default events which may occur over a specified period of time. Consequently, SaskCentral's allowance for credit losses is an output of a model with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The impairment amount reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

The impairment model measures the ECL using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – where there has not been a significant increase in credit risk since initial recognition of a financial asset, an amount equal to 12-month ECL is recorded. For those instruments with a remaining maturity of less than twelve months, a probability of default corresponding to remaining term to maturity is used.
- Stage 2 – when a financial asset experiences a significant increase in credit risk subsequent to the origination but is not considered to be in default, an amount equal to lifetime ECL is recorded.
- Stage 3 – when a financial asset is considered to be in default, an amount equal to lifetime ECL continues to be recorded or the financial asset is written off.

Financial assets may migrate forward or backward through the three stages as their credit risk deteriorates or improves. When measuring ECL, SaskCentral considers the maximum contractual period over which it is exposed to credit risk (expected life). All contractual terms are considered when determining the expected life, including prepayment and extension or rollover options.

Measurement of ECL

The measurement of ECL is a function of the probability of default (PD), loss given default (LGD) and the exposure at default (EAD). The PD is an estimate of the likelihood that a financial asset will not be repaid and will go into default. LGD is an estimate of the amount that may not be recovered in the event of default. The assessment of the PD and LGD is based on historical data and current market conditions adjusted by reasonable and supportable information about future economic conditions. EAD is an estimate of the outstanding amount of credit exposure at the time a default may occur.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

(d) Impairment of financial assets (continued)

The ECL parameters are generally derived from internally developed statistical models utilizing SaskCentral's own historical loss data by major asset class with the exception of PD and LGD for commercial mortgages/loans and securities. Due to the limited number of historical losses within these portfolios, SaskCentral has mapped its internal risk ratings to external ratings and utilized both public and proprietary third party data to determine the appropriate parameters by rating.

Significant increase in credit risk

At each reporting date, SaskCentral assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information with the impact of forward-looking macroeconomic factors.

SaskCentral's assessment of significant increase in credit risk is performed quarterly based on the following three factors. If any of these factors indicate that a significant increase in credit risk has occurred, the instrument is moved from Stage 1 to Stage 2:

- The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if the credit rating has dropped below investment grade, based on DBRS ratings.
- SaskCentral considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.
- Additional qualitative reviews are performed to assess the staging results and make adjustments, as necessary, to better reflect the positions whose credit risk has increased significantly.

The common assessments for significant increase in credit risk on retail and non-retail portfolios include macroeconomic outlook, management judgment, and delinquency and monitoring. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap. Examples of situations include changes in adjudication criteria for a particular group of borrowers, changes in portfolio composition, and natural disasters impacting certain portfolios. With regards to delinquency and monitoring, there is a rebuttable presumption that the credit risk of the financial instrument has increased significantly since initial recognition when contractual payments are more than 30 days overdue. SaskCentral currently does not rebut this presumption.

For retail and small commercial exposures, SaskCentral considers past delinquency history for individual loans as the primary indicator of significant increase in credit risk. Additionally, SaskCentral assesses a significant increase in credit risk at the portfolio level using historical correlations between macroeconomic factors and past delinquency rates within the portfolio.

For its other commercial exposures, SaskCentral uses its internal risk rating scale unless an external credit rating is available. All exposures have a risk rating assigned that reflects the PD of the borrower which are reviewed and updated at least annually. Significant increase in credit risk is evaluated based on the risk rating migration of the exposures with consideration of forward-looking macroeconomic factors.

Movements between Stage 1 and Stage 2 are based on whether an instrument's credit risk as at the reporting date has increased significantly relative to the date it was initially recognized. For the purpose of this assessment, credit risk is based on an instrument's PD, not the losses SaskCentral expects to incur. The assessment is generally performed at the instrument level.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

(d) Impairment of financial assets (continued)

For certain instruments with low credit risk as at the reporting date, it is presumed that credit risk has not increased significantly relative to initial recognition. Credit risk is considered to be low if the instrument has a low risk of default, and the borrower has the ability to fulfill their obligations both in near term and in the longer term, including periods of adverse changes in the economic or business environment. SaskCentral considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

If a debt security had low credit risk at the date of initial application of IFRS 9, then SaskCentral has assumed that credit risk on the asset had not been increased significantly since its initial recognition to the date of initial application of IFRS 9.

Definition of default

SaskCentral considers a financial asset to be in default when:

- The external rating agencies have assigned a default rating to the investment;
- The debt issuer or obligor has not met a legally scheduled payment or has indicated that it will miss such a payment in near future;
- The borrower has sought or been placed in bankruptcy resulting in the delay or avoidance of repayment of the amount owing;
- Significant financial difficulty of the borrower; or
- There is a measurable decrease in the estimated future cash flows from the loan or the underlying assets that back that loan.

In addition to the above observable indicators, there is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due. SaskCentral does not currently rebut this presumption except for certain insured loans where, due to the strength of the underlying credit enhancement, it is reasonably certain that collection efforts will result in a full recovery of the defaulted loan.

Forward looking information

The measurement of ECL and the assessment of significant increase in credit risk consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward looking information requires significant judgment.

Macroeconomic factors

In its ECL models, SaskCentral relies on a broad range of forward looking information as economic inputs, such as: GDP growth, unemployment rates, Bank of Canada interest rates, oil price per barrel, the Canadian equity index, and new housing starts. Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data. Where available, SaskCentral will utilize geographic specific macroeconomic factors. Due to the limited loss history, SaskCentral has relied upon industry norms and best practices to identify key drivers of credit risk and credit losses for each portfolio of financial instruments and has estimated relationship between macro-economic variables, credit risk and credit losses.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

(d) Impairment of financial assets (continued)

Multiple forward-looking scenarios

SaskCentral determines ECL using multiple probability-weighted forward looking scenarios. Based on economic forecasts of large Canadian banks, SaskCentral formulates a 'base case' scenario of the future direction of relevant economic variables as well as representative range of other possible forecast scenarios. This process involves developing additional economic scenarios and considering the relevant probabilities of each outcome. External information includes economic data and forecasts published by the Bank of Canada, provincial government bodies and large Canadian financial institutions. SaskCentral also relies upon forecasts for the ECL model for certain loans generated by an external vendor that specializes in economic forecasting in both the Canadian and global markets. The external vendor provides multiple forecasted scenarios which are then assessed and probability-weighted by SaskCentral using judgment.

SaskCentral will typically probability weight the 'base case' scenario most heavily as it represents the most likely outcome and is aligned with information used by SaskCentral for other purposes such as planning and budgeting. The other scenarios represent more optimistic and pessimistic outcomes.

The economic scenarios used in the determination of expected credit losses as at December 31, 2018 include the following ranges of macro-economic factors:

	12 month forecast			5 year forecast		
% change	Base case	Optimistic	Pessimistic	Base case	Optimistic	Pessimistic
Bank of Canada interest rates	19.6%	43.6%	(4.3%)	N/A	N/A	N/A
Canadian equity index	(5.4%)	4.3%	(6.2%)	13.3%	17.8%	9.1%
Canadian unemployment						
National	3.0%	(11.1%)	5.5%	10.9%	7.1%	14.6%
Regional	0.2%	(9.8%)	3.2%	4.3%	0.4%	7.6%
GDP growth	(11.9%)	5.8%	(29.5%)	N/A	N/A	N/A
New housing starts	1.5%	21.8%	(18.8%)	N/A	N/A	N/A
Oil price	(3.3%)	20.7%	(7.2%)	(5.2%)	18.4%	(9.0%)

Presentation of allowance for ECL in the statement of financial position

For financial assets measured at amortized cost and commercial leases, loss allowances for ECL are presented in the consolidated balance sheet as a deduction from the gross carrying amount of the assets.

The allowance for credit losses for financial assets measured at FVTOCI does not reduce the carrying amount of the asset in the consolidated balance sheet, which remains at its fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI with a corresponding recognition to the provision for credit losses line in the consolidated statement profit or loss.

For undrawn lending commitments, the allowance is recorded as a provision in other liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

(d) Impairment of financial assets (continued)

Modified financial assets

If the terms of a financial asset are modified or an existing financial asset is replaced with a new one, an assessment is made to determine if the financial asset should be derecognized. Where the modification does not result in derecognition, the date of origination continues to be used to determine significant increase in credit risk. Where modification results in derecognition, the original asset is derecognized and the new asset is recognized at its fair value. The difference between the carrying value of the derecognized asset and the fair value of the new asset is recognized as a gain or loss in the income statement.

Write-off

SaskCentral writes off an impaired financial asset (and the related impairment allowance), either partially or in full, when there is no realistic prospect of recovery. Where the financial assets are secured, write-off is generally after receipt of any proceeds from the realization of the security. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may occur earlier. In subsequent periods, any recoveries of amounts previously written off are credited to the net provision for credit losses in the statement of profit or loss.

Policy applicable before January 1, 2018

Prior to adoption of IFRS 9, SaskCentral assessed financial assets, other than those at FVTPL, for indicators of impairment at the end of each reporting period. Financial assets were considered to be impaired when there was objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset had been affected.

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

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

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

SaskCentral first assessed whether objective evidence of impairment existed individually for loans that were individually significant, and individually or collectively for loans that were not individually significant. If SaskCentral determined that no objective evidence of impairment existed for an individually assessed loan, whether significant or not, it included the loan in a group of loans with similar credit risk characteristics and collectively assessed them for impairment. Loans that were individually assessed for impairment and for which an impairment loss was or continued to be recognized through the use of a specific allowance were not included in a collective assessment of impairment.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

(d) Impairment of financial assets (continued)

Impairment losses on financial assets carried at amortized cost were 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 was reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. When a trade or other receivable was considered uncollectible, it was written off against the allowance account. Changes in the carrying amount of the allowance were recognized in profit or loss. When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in OCI are reclassified to profit or loss in the period.

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

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

(e) Property held for resale

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

(f) Derecognition of financial assets or liabilities

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have expired or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred. SaskCentral tests control to ensure that continuing involvement on the basis of any retained powers of control do not prevent derecognition. Where substantially all of the risks and rewards of ownership of the financial asset are neither retained nor transferred, SaskCentral derecognizes the transferred asset only if it has lost control over that asset. Control over the assets is represented by the practical ability to sell the transferred asset without the need to impose additional restrictions. If SaskCentral retains control over the asset, it will continue to recognize the asset to the extent of its continuing involvement. When financial assets are derecognized in full, a gain or loss is recognized in profit or loss for an amount equal to the difference between the carrying amount of the asset and the value of the consideration received.

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

2.7 Asset securitizations

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial guarantees

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

SaskCentral has not issued any financial guarantee contracts with the exception of limited guarantees related to assets that did not qualify for derecognition as described in note 13.

2.9 Offsetting financial assets and liabilities

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

2.10 Derivative financial instruments and hedge accounting

(a) Derivative financial instruments

SaskCentral enters into derivative financial instruments to hedge interest rate and foreign currency risks, and for economic and asset/liability management purposes. Hedge accounting may be applied when appropriate. SaskCentral does not have a trading program for derivatives. SaskCentral also enters into derivative transactions on an intermediary basis on behalf of credit unions. These derivatives are carried at fair value on a gross basis as derivative assets and liabilities. Economic and asset/liability management derivatives are used to manage interest rate and currency exposure on SaskCentral's balance sheet, but do not meet the specific criteria to qualify as hedge derivatives. These derivatives include contracts that reposition SaskCentral's overall interest rate and foreign exchange risk profile. Further details of derivative financial instruments are disclosed in note 10.

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

(b) Hedge accounting

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

Note 10 sets out the details of the fair values of derivatives used for hedging purposes.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Derivative financial instruments and hedge accounting (continued)

(b) Hedge accounting (continued)

Cash flow hedge

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

Fair value hedge

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

2.11 Interest income and expense

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

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

Total interest income and total interest expense for specific categories of financial assets and financial liabilities is presented in note 24.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Revenue recognition

Policy applicable from January 1, 2018

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. SaskCentral recognizes revenue when it transfers control of a product or service to a customer. Determining the timing of the transfer of control, at a point in time or over time, requires judgment.

SaskCentral earns revenue outside of interest income on financial assets. Revenues arising from these streams are recognized based on contracts with customers. The consideration received does not include any significant financing components that are not included in the transaction price.

The following is a description of the principal activities for SaskCentral from which revenue is generated including the nature of its performance obligations, the timing of when they are satisfied and the significant payment terms:

(a) SaskCentral revenue recognition

Dues

SaskCentral collects dues from credit union members to fund various products and services such as corporate governance, member relations, trade services, network services, system memberships and sponsorships. These services give member credit unions access to a wealth of expertise. Saskatchewan credit unions pay an annual dues assessment fee to SaskCentral based on a charge per membership (50% of the dues assessment) and a charge on assets (50% of the dues assessment). The assessment of operating dues-funded functions is determined annually based on an operating dues budget which is subsequently approved by the Board for which payment is due immediately upon demand. The services are rendered over time and performance obligations are satisfied in the same manner; therefore, revenues are recognized over time. In the instance, when revenue from dues exceeds related expenses materially, there is an element of variable consideration. It is considered highly probable that a significant reversal in the cumulative revenue for dues will not occur given historical level of refunds in prior years.

Liquidity management assessment

SaskCentral collects liquidity management assessment fees from member credit unions to provide services such as clearing and settlement, daily cash flow management and emergency liquidity management. The liquidity management assessment fees are reviewed and approved by SaskCentral's Board annually. The fees are assessed based on the size of member credit unions' liquidity deposits held at SaskCentral. The services are rendered over time and performance obligations are satisfied in the same manner; therefore, revenues are recognized over time. Payment for the liquidity management assessment fee is due on a monthly basis.

Consulting revenues

SaskCentral provides consulting services to Canadian credit unions in the areas of internal audit, anti-money laundering, fraud management, deposit and lending compliance, risk management, strategic planning and board governance. SaskCentral employees and external consultants provide these services. Credit unions leverage SaskCentral's expertise for their operational success. These services are provided under standard contracts for which performance obligations are satisfied over time. Accordingly, revenue is accrued over the term when the consulting services are provided and typically invoiced upon the completion of contract. The payment for consulting services is due immediately upon completion of the contract.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Revenue recognition (continued)

(a) SaskCentral revenue recognition (continued)

Deposit and lending education

SaskCentral helps credit unions develop and maintain their competitive edge in the marketplace by offering annual educational sessions. The sessions are designed to provide staff with the skills to be successful in today's competitive financial services environment. SaskCentral collects revenue on a per-participant basis and participation is at discretion of credit unions. The performance obligation related to training is satisfied upon delivery of the training workshops and revenue is recognized at a point in time. Payment for the educational session is due immediately prior to the session.

Management oversight revenues

SaskCentral provides support and management oversight of contractual arrangements between credit unions and suppliers in regards to retail banking products, card issuance services, digital banking services and procurement services. Credit unions can choose these services based on the size and complexities of the individual credit union.

The revenue is comprised of the fixed monthly fees and a per-member charge is billed monthly, for which payment is due immediately. Management oversight is an ongoing activity and as such, performance obligations are satisfied over time.

Clearing and settlement fee

SaskCentral charges a transaction fee to ensure timely and accurate clearing and settlement services are provided to Saskatchewan credit unions and their members. Total transactions cleared and settled in a month are billed to credit unions on a per-transaction basis, for which payment is due immediately. Therefore, revenue is recognized at a point in time based on the right to invoice.

(b) Concentra Bank revenue recognition

Syndication and servicing fees

Syndication and servicing fees represent fees earned by Concentra Bank for syndicating loans and providing ongoing loan administration and servicing. Syndication fees are paid upon funding of the loan and recognized as revenue when Concentra Bank transfers control of the syndicated interest to the co-owner. Loan servicing fees are paid monthly and are recognized as the services are performed.

Professional fees

Professional fees represent financial management consulting and other support services which Concentra Bank provides to commercial clients. Revenue is recognized as the services are performed. Fees are billed and paid at the same frequency at which the services are provided.

Banking fees

Banking fees consist of fees paid by loan and deposit customers for specific banking services. Certain services are ad-hoc in nature with payment and revenue recognition occurring upon completion of the requested task (e.g. account transfer fees). Other fees are provided on an ongoing basis (e.g. standby fees) and are recognized at the same time the services are delivered. Ongoing fees are typically billed and paid at the same frequency that the services are provided.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Revenue recognition (continued)

(b) Concentra Bank revenue recognition (continued)

Trust fees

Trust fees primarily consist of fees paid to Concentra Bank to act as trustee for a registered plan, custodianship, escrow or other trust arrangement. These arrangements often cover an indefinite term. Concentra Bank typically charges an upfront fee which is recognized as revenue upon establishment of the legal trust structure. Thereafter a recurring fee is charged monthly, quarterly or annually to compensate Concentra Bank for continuing to act as trustee and provide the necessary support services to the trust. Revenue is recognized monthly as the related services are performed.

Estate fees

Estate fees represent fees earned by Concentra Bank for administering estates either as an executor/administrator or through the provision of specific services to a third party executor/administrator. When Concentra Bank has been appointed as the executor/administrator, revenue is recognized when the estate is settled and control of the estate assets have transferred to the beneficiaries. At this point Concentra Bank is entitled to deduct its fee from the estate. When Concentra Bank provides specified services to a third party executor/administrator, revenue is recognized as the related services are performed. Billing and payment occurs upon completion of the agreed upon services.

(c) Consolidated revenue recognition

Policy applicable before January 1, 2018

Prior to the adoption of IFRS 15, SaskCentral's fee for service revenues, except for estate administration fees, were recognized over the period in which the related service is rendered. Estate administration fees were recognized as income when SaskCentral had rendered all services and is entitled to collect the fee.

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

2.13 Cash and cash equivalents

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

2.14 Leases

Leases are divided into finance leases and operating leases.

(a) As lessor

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Leases (continued)

(b) As lessee

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

2.15 Property, plant and equipment

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

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

The applicable depreciation periods are as follows:

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

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

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

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

2.16 Investment property

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Intangible assets

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

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

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

2.18 Impairment of non-financial assets

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

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

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

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date and when there is an indication that reversal of the impairment may have occurred. Upon reversal of an impairment loss the carrying amount is increased to the revised recoverable amount and the revised recoverable amount does not exceed the carrying amount had the impairment loss not been recognized in prior years. The reversal is recognized in profit or loss immediately. No non-financial assets were impaired in 2018 or 2017.

2.19 Taxation

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

(a) Current tax

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Taxation (continued)

(b) Deferred tax

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

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

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

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

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

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

2.20 Employee benefits

(a) Pension benefits

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Employee benefits (continued)

(b) Short-term employee benefits

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

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

(c) Termination benefits

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

2.21 Provisions

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

2.22 Dividends

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

2.23 Goodwill

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

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

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

2.24 Assets under administration

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 New standards and interpretations not yet adopted

At December 31, 2018 a number of standards and interpretations, and amendments thereto have been issued by the International Accounting Standards Board (IASB), which are not effective for these consolidated financial statements. Those which could have an impact on SaskCentral's consolidated financial statements are discussed below.

(a) 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. SaskCentral is currently evaluating the impact of the new standard on its financial statements.

SaskCentral plans to initially adopt IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings on January 1, 2019 with no restatement of comparative information. SaskCentral's current assessment of the impacts of initial adoption are as follows:

- As the lessee, certain leases which are currently classified as operating leases under IAS 17 will now be recognized in the consolidated balance sheet as assets and liabilities. The nature of the expenses related to these leases will also change as SaskCentral will no longer recognize its lease payments as an expense in the consolidated statement of profit or loss. Instead the lease payments shall reduce the corresponding lease liability and SaskCentral shall recognize amortization expense for its right-of-use assets and interest expense on the lease liabilities. SaskCentral estimates that it will recognize $1,500 of additional assets and liabilities for these leases on the transition date.
- As the lessor, SaskCentral anticipates that there will be no impact on the transition date.

The above information represents SaskCentral's best estimate of the impacts of IFRS 16 based on information currently available. Management will continue to review the impacts of implementation and refine this estimate during the adoption process, which may result in changes to the amounts currently presented.

SaskCentral did not early adopt any new or amended standards in 2018.

3. TRANSITION IMPACT OF IFRS 9 ADOPTION

SaskCentral adopted IFRS 9 effective January 1, 2018. Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and AOCI as at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

The following assessments have been made on the basis of facts and circumstances that existed at the date of initial application:

- An assessment regarding the business model within which a financial asset is held.
- For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

SaskCentral has deferred the adoption of hedge accounting under IFRS 9 and continues to apply the hedge accounting requirements of IAS 39.

3. TRANSITION IMPACT OF IFRS 9 ADOPTION (continued)

(a) Classification and measurement of financial assets and financial liabilities on the date of initial application of IFRS 9

If a debt instrument had low credit risk at the date of initial application of IFRS 9, then SaskCentral has assumed that credit risk on the asset had not increased significantly since its initial recognition.

IFRS 9 is not applied to financial assets or financial liabilities that have been derecognized as at January 1, 2018.

SaskCentral's accounting policies on the classification and measurement of financial instruments under IFRS 9 are set out in note 2.6. The application of these policies resulted in significant changes for SaskCentral.

The following table provides the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for SaskCentral's financial assets and financial liabilities as at January 1, 2018.

	Note	IAS 39 classification	IFRS 9 classification	IAS 39 carrying amount $	IFRS 9 carrying amount $
Financial assets					
Cash and cash equivalents	8	Loans and receivables	Amortized cost	728,789	728,789
Certain debt and equity Securities	9	Available-for-sale	FVTOCI	3,070,375	1,063,299
			Designated FVTPL	-	1,962,867
			Amortized cost	-	1,836
			FVTPL	-	42,064
			Designated FVTOCI	-	3,986
Certain debt securities	9	Loans and receivables	Amortized cost	7,000	6,993
MAV	9	FVTPL	FVTPL	467	467
Derivative assets	10	FVTPL	FVTPL	27,975	27,975
Loans	11	Loans and receivables	Amortized cost	7,721,935	7,070,082
			FVTOCI	-	639,762
Other securitization assets	13	Loans and receivables	Amortized cost	36,499	36,499
Trade and other receivables		Loans and receivables	Amortized cost	3,172	3,512
Total financial assets				11,596,212	11,588,131
Financial liabilities					
Deposits	19	Other financial liabilities	Amortized cost	5,998,315	4,036,069
			Designated FVTPL	-	1,945,801
Derivative liabilities	10	FVTPL	FVTPL	28,132	28,132
Loans and notes payable	20	Other financial liabilities	Amortized cost	531,510	531,510
Securitization liabilities	13	Other financial liabilities	Amortized cost	4,329,747	4,329,747
Trade and other payables		Other financial liabilities	Amortized cost	79,893	79,893
Other liabilities	21	Other financial liabilities	Amortized cost	7,254	7,919
Total financial liabilities				10,974,851	10,959,071

3. TRANSITION IMPACT OF IFRS 9 ADOPTION (continued)

(a) Classification and measurement of financial assets and financial liabilities on the date of initial application of IFRS 9 (continued)

The following table provides the impact from the transition to IFRS 9 on the separate balanced sheet as at January 1, 2018 transition date showing the carrying values reclassified as a result of changes in classification, the changes in carrying values resulting from applying the measurement requirements of IFRS 9 and the adjustment for recognizing impairment under IFRS 9.

	IAS 39 carrying amount Dec 31, 2017 $	Adjustment for reclassification $	Adjustment for remeasurement $	Adjustment for own credit risk [1] $	Adjustment for impairment $	Adjustment for tax $	IFRS 9 carrying amount January 1, 2018 $
Assets							
Cash and cash equivalents	728,789	-	-	-	-	-	728,789
Securities at FVTOCI	3,070,375	(2,007,076)	-	-	-	-	1,063,299
Securities designated at FVTP	-	1,962,867	-	-	-	-	1,962,867
Securities at amortized cost	7,000	1,838	(2)	-	(7)	-	8,829
Securities at FVTPL	467	42,064	-	-	-	-	42,531
Securities designated at FVTOCI	-	307	3,679	-	-	-	3,986
Derivative assets	27,975	-	-	-	-	-	27,975
Loans at amortized cost [2]	7,721,935	(640,561)	-	-	(11,292)	-	7,070,082
Loans at FVTOCI	-	640,561	(799)	-	-	-	639,762
Other securitization assets	36,499	-	-	-	-	-	36,499
Trade and other receivables	3,172	-	-	-	340	-	3,512
Other assets	119,690	-	-	-	-	(1,539)	118,151
Total assets	11,715,902	-	2,878	-	(10,959)	(1,539)	11,706,282
Liabilities							
Deposits at amortized cost	5,998,315	(1,962,246)	-	-	-	-	4,036,609
Deposits designated at FVTPL	-	1,962,246	(16,445)	-	-	-	1,945,801
Derivative liabilities	28,132	-	-	-	-	-	28,132
Loans and notes payable	531,510	-	-	-	-	-	531,510
Securitization liabilities	4,329,747	-	-	-	-	-	4,329,747
Trade and other payables	79,893	-	-	-	-	-	79,893
Other liabilities [3]	37,245	-	-	-	665	-	37,910
Total liabilities	11,004,842	-	(16,445)	-	665	-	10,989,062

(1) Reclassification of cumulative changes in SaskCentral's own credit risk on deposits classified as FVTPL.
(2) A sub-portfolio within the residential mortgages asset class has been reclassified to FVTOCI due to the results of the business model assessment of the sub-portfolio which included consideration of the high frequency of sales that typically occur.
(3) Expected credit losses for undrawn commitments are recorded in other liabilities within the consolidated balance sheet.

Continued on the following page

3. TRANSITION IMPACT OF IFRS 9 ADOPTION (continued)

(a) Classification and measurement of financial assets and financial liabilities on the date of initial application of IFRS 9 (continued)

	IAS 39 carrying amount Dec 31, 2017 $	Adjustment for reclassification $	Adjustment for remeasurment $	Adjustment for own credit risk [1] $	Adjustment for impairment $	Adjustment for tax $	IFRS 9 carrying amount January 1, 2018 $
Equity							
Share capital	161,607	-	-	-	-	-	161,607
Retained earnings	361,487	22,532	16,445	(4,552)	(9,806)	(3,596)	382,510
Accumulated other comprehensive income	17,291	(22,532)	3,006	4,552	36	1,522	3,875
Non-controlling interest	170,675	-	(128)	-	(1,854)	535	169,228
Total equity	711,060	-	19,323	-	(11,624)	(1,539)	717,220

[1] Reclassification of cumulative changes in SaskCentral's own credit risk on deposits classified as FVTPL.

(b) Recognition of impairment on financial assets

The following table reconciles the allowance for credit losses on financial assets in accordance with IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* at December 31, 2017 to the opening allowance for credit losses determined in accordance with IFRS 9 as at January 1, 2018.

	December 31, 2017 (IAS 39/IAS 37) $	Remeasurement $	January 1, 2018 (IFRS 9) $
Loans and undrawn commitments			
Residential mortgages	2,363	(350)	2,013
Consumer loans	2,025	2,353	4,378
Commercial mortgages and loans	15,036	10,658	25,694
Commercial leases	2,637	(704)	1,933
Securities	-	43	43
Total	22,061	12,000	34,061

3. TRANSITION IMPACT OF IFRS 9 ADOPTION (continued)

(c) Impact to opening retained earnings and reserves

The following table analyzes the impact, net of tax of transition to IFRS 9 on retained earnings, AOCI reserves and non-controlling interest. The impact relates to the own credit risk reserve, the fair value reserve and retained earnings. There is no impact on other components of equity.

	$
Retained earnings, net of tax	
Closing balance under IAS 39 (December 31, 2017)	361,487
Reclassification of securities from available-for-sale to FVTPL	22,532
Remeasurement under IFRS 9	16,445
Own credit risk adjustments under IFRS 9	(4,552)
Recognition of expected credit losses under IFRS 9	(9,806)
Income tax adjustments under IFRS 9 (January 1, 2018)	(3,596)
Impact of adopting IFRS 9 at January 1, 2018	21,023
Opening balance under IFRS 9 (January 1, 2018)	382,510
Accumulated other comprehensive income, net of tax [1]	
Own credit risk reserve	
Closing balance under IAS 39 (December 31, 2017)	-
Own credit risk adjustments under IFRS 9	4,552
Income tax adjustments under IFRS 9 (January 1, 2018)	(1,218)
Impact of adopting IFRS 9 at January 1, 2018	3,334
Opening balance under IFRS 9 (January 1, 2018)	3,334
Fair value reserve	
Closing balance under IAS 39 (December 31, 2017)	17,291
Reclassification of securities from available-for-sale to FVTPL	(22,532)
Remeasurement under IFRS 9	3,006
Recognition of expected credit losses under IFRS 9 for financial assets at FVTOCI	36
Income tax adjustments under IFRS 9 (January 1, 2018)	2,740
Impact of adopting IFRS 9 at January 1, 2018	(16,750)
Opening balance under IFRS 9 (January 1, 2018)	541
Non-controlling interest, net of tax	
Closing balance under IAS 39 (December 31, 2017)	170,675
Reclassification under IFRS 9	-
Remeasurement under IFRS 9	(128)
Own credit risk adjustments under IFRS 9	-
Recognition of expected credit losses under IFRS 9	(1,854)
Income tax adjustments under IFRS 9 (January 1, 2018)	535
Impact of adopting IFRS 9 at January 1, 2018	(1,447)
Opening balance under IFRS 9 (January 1, 2018)	169,228

[1] Expected credit losses of $1,268 ($925 net of taxes) representing the impairment reserve on FVTOCI instruments have been reclassified from AOCI to retained earnings.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Critical judgments in applying accounting policies

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

Business model assessment

Classification and measurement of financial assets under IFRS 9 depends on the results of the solely payments of principal and interest test, and the business model test. SaskCentral determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment requires judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed, and how the managers of the assets are compensated.

Allowance for credit losses

For the current year ended December 31, 2018

The ECL model requires the recognition of credit losses based on twelve months of expected losses for performing financial assets and recognition of lifetime expected losses on performing loans that have experienced a significant increase in credit risk since origination. The determination of a significant increase in credit risk takes into account many different factors and varies by product and risk segment. The main factors considered in making this determination are relative changes in probability of default since origination, and certain other criteria such as 30-days past due and DBRS ratings. The assessment of significant increase in credit risk requires experienced credit judgement.

In determining whether there has been a significant increase in credit risk and in calculating the amount of expected credit losses, SaskCentral must rely on estimates and exercise judgement regarding matters for which the ultimate outcome is unknown. These judgements include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the expected credit loss allowance.

For the year ended December 31, 2017

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Critical judgments in applying accounting policies (continued)

Allowance for credit losses (continued)

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

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

Transfer of control of goods or services

Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control, at a point in time or over time, requires judgement. In making the judgment, management considered the detailed criteria for recognition of revenue set out in IFRS 15.

Impairment of goodwill

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

Control of Concentra Bank

Concentra Bank is a subsidiary of SaskCentral as a result of SaskCentral's ability to call a special resolution vote on any matter or Board decision related to Concentra Bank and its 84.0% (2017 - 84.0% of Concentra Financial) voting interest in Concentra Bank. In addition, SaskCentral has the power to appoint and remove four out of the twelve directors of Concentra Bank. Management has concluded that SaskCentral has control due to SaskCentral's ability to call a special resolution on any matter and its power to appoint and remove directors of Concentra Bank. Note 33 provides further details on the business combination resulting in acquisition of control that occurred on January 1, 2017.

Significant influence over Celero Solutions

SaskCentral has significant influence over Celero Solutions by virtue of its 33.3% (2017 – 33.3%) interest in Celero Solutions. SaskCentral has the right to appoint two out of six (33.3%) members of the Celero Solutions Management Committee. Management has concluded that due to the lack of unanimous consent required to make decisions regarding relevant activities, SaskCentral does not have joint control over Celero Solutions. However, since SaskCentral has 33.3% of the voting power of Celero Solutions, management has concluded that SaskCentral has significant influence over Celero Solutions.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Critical judgments in applying accounting policies (continued)

Control of CUVentures LP

CUVentures LP is a subsidiary of SaskCentral as a result of SaskCentral's 100% (2017 – 100%) ownership of CUVentures Inc., the General Partner. In addition, SaskCentral has the power to appoint and remove two out of two directors of CUVentures Inc. SaskCentral also owns 100% (2017 - 100%) of the partnership units of CUVentures LP. Management has concluded that SaskCentral has control over CUVentures LP since SaskCentral has 100% of the voting power of CUVentures Inc., who has the full power and authority to make all decisions on behalf of CUVentures LP.

Significant influence over Saskatchewan Entrepreneurial Fund Joint Venture

CUVentures LP has 100% ownership of Saskatchewan Entrepreneurial Fund Limited Partnership (SEF LP), which has a 45.45% share in Saskatchewan Entrepreneurial Fund Joint Venture (SEF JV). Note 14 describes that SaskCentral has significant influence over SEF JV by virtue of SEF LP's 45.45% (2017 – 45.45%) interest in SEF JV. SaskCentral has the ability to appoint two out of five members (40%) to the Executive Committee of SEF JV. Management has concluded that due to the lack of unanimous consent required to make decisions, SaskCentral does not have joint control of SEF JV. However, since SaskCentral has 40% of the voting power of SEF, through CUVentures LP, management has concluded that SaskCentral has significant influence over SEF.

Significant influence over CUC Wealth

Effective April 1, 2018, SaskCentral transferred its shares and subordinated debt of NEI and Credential Financial Inc. in exchange for ownership of 10.92% of the newly formed CUC Wealth. CUC Wealth serves as a holding company for the five provincial credit union centrals and other co-operatives' ownership in Aviso. Aviso was formed on April 1, 2018 as a result of a merger between Credential Financial Inc., NEI and Qtrade. Aviso is a national, integrated financial services company serving the wealth management needs of Canadian credit unions and independent financial organization.

SaskCentral has significant influence over CUC Wealth through its representation on the board of directors and participation in policy-making processes. SaskCentral has the right to appoint one out of nine (11.1%) members to the CUC Wealth board of directors and management has concluded that SaskCentral has significant influence over CUC Wealth. SaskCentral's representation on the CUC Wealth board of directors provides the ability to participate in and influence financial, operating and policy-making processes, including participation in decisions around distributions of CUC Wealth.

In accordance with IFRS 3 – Business Combinations and IAS 28 - Investments in Associates and Joint Ventures, management elected to use the fair value as deemed cost approach for this transaction. As a result, the existing shares and subordinated debt of NEI and Credential Financial Inc. were re-valued at fair value on the date of acquisition of CUC Wealth.

Business combination

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Critical judgments in applying accounting policies (continued)

Classification of CUPS Payment Services as a joint operation

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

Key sources of estimation uncertainty

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

Fair value measurements and valuation processes

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

To the extent practical, models use only observable data; however, areas such as credit risk (both own-credit risk and counterparty credit risk), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments. Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in notes 6, 14 and 16.

Own credit risk

Determination of fair value changes in own credit risk on financial liabilities designated at FVTPL requires SaskCentral to utilize valuation techniques, such as discounted cash flow model, where observable data is obtained from sources such as Bloomberg. Where valuation techniques such as models are used to determine SaskCentral's own credit risk, they are validated and periodically reviewed.

Calculation of expected credit losses

The calculation of expected credit losses includes the explicit incorporation of forecasts of future economic conditions. SaskCentral has developed models incorporating specific macroeconomic variables that are relevant to each specific portfolio. SaskCentral exercises judgement to incorporate multiple economic forecasts which are probability-weighted in the determination of the final expected credit loss. The allowance is sensitive to changes in both economic forecast and the probability-weight assigned to each forecast scenario.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Key sources of estimation uncertainty (continued)

Valuation of Concentra Bank

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

Income taxes

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

The deferred income tax liability recognized at December 31, 2018 is based on future profitability assumptions within the foreseeable future. SaskCentral has determined that it is not probable that the temporary differences relating to Concentra Bank will reverse in the foreseeable future. Therefore, no deferred tax liability has been recorded on the temporary differences related to Concentra Bank. In the event of changes to these profitability assumptions, the deferred income tax liability recognized may be adjusted.

5. FINANCIAL RISK MANAGEMENT

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

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

Credit risk

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

SaskCentral

SaskCentral manages credit risk by:

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

5. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

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

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

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

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

The SaskCentral credit risk objectives, policies, and methodologies have not changed materially from December 31, 2017.

Concentra Bank

Concentra Bank manages credit risk by:

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

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

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

Consolidated risk measurement

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

5. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

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

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

	2018 $		
	Amount outstanding	Undrawn commitments [1]	Total
Cash and cash equivalents	655,050	-	655,050
Securities	2,995,660	-	2,995,660
Derivative assets	25,227	-	25,227
Loans	8,333,219	962,077	9,295,296
Investments in associates	34,775	-	34,775
Letters of credit and financial guarantees	-	48,555	48,555
Total exposure	12,043,931	1,010,632	13,054,563

[1] *Excludes origination commitment as they are not tied to specific borrowers and therefore do not represent a credit risk exposure. Refer to note 30 for more information.*

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

[1] *Excludes origination commitments as they are not tied to specific borrowers and therefore do not represent a credit risk exposure. Refer to note 30 for more information.*

5. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

The following table summarizes the credit quality of SaskCentral's non-derivative financial assets and undrawn commitments by risk rating category:

	2018 $				2017 $
	Stage 1	Stage 2	Stage 3	Total	Total
Loans at amortized cost					
Low risk	4,974,759	45,134	-	5,019,893	5,580,543
Standard monitoring	2,024,017	82,308	-	2,106,325	2,005,873
Special monitoring	-	62,184	-	62,184	130,633
Default	-	-	30,313	30,313	26,947
Total exposure	6,998,776	189,626	30,313	7,218,715	7,743,996
Allowance for credit losses	(7,308)	(6,775)	(7,534)	(21,617)	(22,061)
Loans at FVTOCI					
Standard monitoring	1,095,753	7,828	-	1,103,581	N/A
Special monitoring	-	6,134	-	6,134	N/A
Default	-	-	4,789	4,789	N/A
Total exposure	1,095,753	13,962	4,789	1,114,504	N/A
Allowance for credit losses	(2,249)	(188)	(718)	(3,155)	N/A
Undrawn commitments and letters of credit [1]					
Low risk	711,351	-	-	711,351	718,499
Standard monitoring	288,580	8,467		297,047	356,003
Special monitoring	-	1,856	-	1,856	-
Default	-	-	378	378	1,209
Total exposure [2]	999,931	10,323	378	1,010,632	1,075,711
Allowance for credit losses	(741)	(74)	-	(815)	-
Securities at FVTOCI (2017 - available-for-sale)					
AAA/R1H	617,069	-	-	617,069	1,478,993
AA/R1M	73,920	-	-	73,920	333,642
A/R1L	261,636	-	-	261,636	1,160,674
BBB/R2H	15,477	-	-	15,477	57,728
BB/R2M	-	-	-	-	3,039
Unrated	4,331	-	-	4,331	36,291
Total exposure	972,433	-	-	972,433	3,070,367
Allowance for credit losses [3]	(194)	-	-	(194)	N/A
FVTPL securities					
AAA/R1H	765,994	-	-	765,993	-
AA/R1M	437,812	-	-	437,812	-
A/R1L	699,511	-	-	699,514	-
BBB/R2H	87,738	-	-	87,737	-
Unrated	25,160	-	-	25,159	467
Total exposure	2,016,215	-	-	2,016,215	467

[1] *Excludes origination commitments as they are not tied to specific borrowers and therefore do not represent a credit risk exposure. Refer to note 30 for more information.*

[2] *The total exposure for undrawn commitments represents the maximum amount SaskCentral is contractually committed to fund. Many of these contracts will expire without being drawn upon and thereby reduce SaskCentral's credit risk from the maximum commitment.*

[3] *Allowance for credit losses on FVTOCI securities represent the accumulated expected credit losses which have been reclassified from OCI to profit or loss since inception of FVTOCI securities.*

5. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Collateral and other credit enhancements

(a) Residential mortgages

All of SaskCentral's residential mortgages are secured by a first charge mortgage against the underlying property. SaskCentral considers the value of the underlying collateral as a key indicator of credit quality and quantifies risk within its residential mortgages portfolio, in part, with reference to a mortgage's loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for undrawn commitments – to the value of the underlying collateral. For loans whose LTV exceeds 80% at origination, SaskCentral will obtain an additional credit enhancement in the form of default insurance. Default insurance is issued either by the government backed Canada Mortgage and Housing Corporation (CMHC) or another highly rated financial institution and covers shortfalls in the realized value of collateral relative to the principal balance of a defaulted loan upon completion of foreclosure procedures.

As at December 31, 2018 69.5% (2017 – 83.1%) of SaskCentral's residential mortgages were insured against borrower default.

(b) Consumer loans

Certain loans issued to finance vehicle insurance premiums are secured by a power of attorney over the borrower's insurance policy. The power of attorney gives SaskCentral the ability to cancel the borrower's policy and receive the premium refund should the borrower fail to make a scheduled payment. This results in the consumer loans being fully secured by a monetary instrument and thus SaskCentral's credit risk exposure is limited to the loss of interest income between the date the borrower defaults and the premium is refunded. These secured loans represented approximately 12.9% (2017 – 8.6%) of SaskCentral's consumer loans at December 31, 2018.

The remainder of SaskCentral's consumer loans portfolios are treated as unsecured credit exposures due to the relatively poor collateral value provided by the underlying assets (used automobiles, home renovations, retail goods, etc.). Thus as a further credit enhancement, SaskCentral has entered into an arrangement with its largest third party originator to provide a limited financial guarantee over the loans they originate. The guarantee is secured by a cash reserve held on deposit with SaskCentral and SaskCentral has the right to reimburse any credit losses experienced within the portfolio from the funds held in the reserve. The originator's guarantee is limited to the value of the cash reserve and SaskCentral has no further recourse against the originator should actual losses exceed the reserve amount. As at December 31, 2018 the cash reserve had a balance of $3,524 (2017 - $2,282) providing credit enhancement to $172,688 (2017 - $101,282) of SaskCentral's consumer loans.

(c) Commercial mortgages and loans

Approximately 91.7% (2017 – 88.3%) of SaskCentral's commercial portfolio consists of real estate and construction lending which are secured by a first charge mortgage over the underlying property. SaskCentral will also take collateral in the form of general security agreements over business assets and guarantees from shareholders and/or members of the corporate group when appropriate. SaskCentral does not routinely update the valuation of collateral held against its commercial loans as its ongoing risk management practices are focused around the general credit worthiness of the borrower rather than quality of collateral. Consequently, valuations of collateral are updated only when required to negotiate a significant restructuring/refinancing of an existing loan or to determine workout strategies for distressed assets.

Approximately 8.3% (2017 – 11.7%) of SaskCentral's commercial portfolio consists of lines of credit to credit unions. SaskCentral doesn't hold any collateral on these line of credit to credit unions.

5. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

(d) Securities

SaskCentral is exposed to credit risk related to its securities. SaskCentral doesn't hold any collateral on these securities.

Credit risk by industry

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

The following table summarizes the authorized credit exposures by industry for financial assets, excluding credit exposures on residential mortgages and consumer loans.

	2018 $	2017 $
Accommodation and food services	-	144,147
Agriculture, forestry, fishing & hunting	175,308	95,656
Arts, entertainment and recreation	-	19,230
Automobile financing	57,300	50,584
Banking (Schedule 1)	848,475	1,213,238
Banking (Schedule 2 and Schedule 3)	-	-
Construction	519,974	537,391
Credit card issuing/financing	17,393	32,287
Diversified holdings	-	74,457
Health care and social assistance	20,010	52,798
Hospitality	118,799	-
Information	44,020	15,139
Insurance carriers and related activities	1,797	1,797
Local credit union	777,741	712,132
Manufacturing	154,433	137,220
Master asset vehicles	350	467
Mining & oil and gas extraction	18,471	10,465
Other non-depository (co-operatives)	77,805	258,464
Public administration (federal, provincial, and municipal government)	1,808,079	2,011,144
Real estate	649,419	599,985
Residential mortgages - conventional	1,095	1,184
Retail trade	12,428	46,121
Securities, commodity contracts and other FI's	3,034	-
Transportation and warehousing	83,739	94,548
Utilities	44,246	33,259
Wholesale trade	1,006	1,017
Other	593,824	44,488
Total Exposure	6,028,746	6,187,218

5. FINANCIAL RISK MANAGEMENT (continued)

Market risk

Market risk arises from three components:

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

SaskCentral

SaskCentral manages market risk by:

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

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

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

SaskCentral's market risk objectives and methodologies have not changed materially from December 31, 2017.

Concentra Bank

Concentra Bank manages market risk by:

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

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

5. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Consolidated risk measurement

The market risk position is measured on a monthly basis. Measurement of risk is based upon key assumptions such as future interest rate movements, asset growth, and funding mix. The short term (next 12 months) risk position is assessed by measuring both the impact of an immediate 200 basis points (bp) shock and a 30% rate ramp scenario on the adjusted net interest income which is the net interest income adjusted for realized gains and losses on derivatives. In prior years, the short term risk position was assessed by measuring the impact of an immediate 100 bp shock and a 30% rate ramp scenario on the adjusted net interest income. The long term risk position is assessed by measuring both the impact of an immediate 200 bp shock and a 30% rate ramp scenario on the economic value of equity. In prior years, the long term risk position is assessed by measuring both the impact of an immediate 200 bp shock and a 30% rate ramp scenario on the economic value of equity.

The short term risk position of Concentra Bank is assessed by measuring both the impact of an immediate 100 bp shock and a rate ramp scenario on net interest income. The long term risk position of Concentra Bank is measured by both the impact of an immediate 100bp shock and a steepening or inverted yield curve on the economic value of equity,

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

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

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

	2018		2017	
	Adjusted net interest income	Economic value of equity	Adjusted net interest income	Economic value of equity
Impact of:				
200 bp increase in rates	29.8%	(1.0%)	N/A	N/A
200 bp decrease in rates	(24.1%)	0.9%	N/A	N/A
Impact of:				
30% rate ramp increase	7.0%	(0.2%)	1.9%	(0.6%)
30% rate ramp decrease	(4.0%)	0.2%	(3.9%)	0.4%
Policy applicable before January 1, 2018				
100 bp increase in rates	N/A	N/A	7.1%	(0.4%)
100 bp decrease in rates	N/A	N/A	(8.1%)	0.4%

5. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

The following represents the Concentra Bank market risk position:

	2018		2017	
	Adjusted net interest income	Economic value of equity	Adjusted net interest income	Economic value of equity
Impact of:				
100 bp increase in rates	**5.6%**	**3.2%**	1.3%	(0.1%)
100 bp decrease in rates [1]	**(5.6%)**	**(3.4%)**	(1.2%)	0.1%
Impact of:				
Ramp up of rates	**4.5%**	**3.2%**	1.1%	0.0%
Ramp down of rates	**2.0%**	**(0.2%)**	(1.0%)	(0.4%)

[1] *The rates have been adjusted to zero where effective rates were less than 100 bp.*

(a) Interest rate risk

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

SaskCentral

SaskCentral evaluates interest rate risk by determining the financial impact under a variety of scenarios. SaskCentral limits the impact of interest rate changes so that an immediate 2% parallel shift in the yield curve will not negatively affect the economic value of equity by more than 20% or projected annual net interest income by more than 40% and a 30% rate ramp scenario will not negatively affect the economic value of equity by more than 10% one year forward or projected annual net interest income by more than 20%.

In prior years, SaskCentral limited the impact of interest rate changes so that an immediate 100 bp change in the interest rate will not negatively affect economic value of equity by more than 10% or projected annual net interest income by more than 10% and a 30% rate ramp scenario will not negatively affect the economic value of equity by more than 10% or projected annual net interest income by more than 10%.

5. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

(a) Interest rate risk (continued)

SaskCentral's interest rate sensitivity, excluding Concentra Bank, to fluctuations in the yield curve over the next twelve months are outlined in the following table:

	2018 $		2017 $	
	Profit (loss) for the year	Other comprehensive (loss) income	Profit (loss) for the year	Other comprehensive (loss) income
Impact of:				
200 bp increase in rates	7,901	(2,607)	N/A	N/A
200 bp decrease in rates	4,619	2,504	N/A	N/A
Policy applicable before January 1, 2018				
100 bp increase in rates	N/A	N/A	13,802	(3,005)
100 bp decrease in rates	N/A	N/A	11,845	2,945

Concentra Bank

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

(b) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument, including derivatives, will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. SaskCentral's most significant consolidated other price risk relates to its holdings of asset-backed commercial paper (ABCP) as described in note 9. SaskCentral manages its other price risk by adhering to the *Financial Management Policy*.

Liquidity risk

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

5. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

SaskCentral

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

- Investing in a stock of high quality liquid assets (HQLA);
- Ensuring liquidity funding sources are sufficient to meet the requirements for normal operating mode, emergency operating mode, and bridge operations;
- Complying with the requirements of the Group Clearer, which is based on a 95% confidence interval of the rolling one-year average of daily net cash flows to meet the standards described by the Bank of Canada's Standing Liquidity Facility;
- Maintaining a Liquidity Crisis Management Plan document and a Capital & Liquidity Options for Credit Unions document and disseminating to credit unions;
- Undertaking stress testing to assist in identifying, measuring and controlling liquidity risks and assessing liquidity sufficiency in case of both internal and market-wide stress events; and
- Maintaining an investment grade rating of R1-low.

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

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

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

SaskCentral uses three metrics to monitor liquidity risk: the SaskCentral stand-alone Liquidity Coverage Ratio (LCR), a system-wide LCR and a liquidity score. The system-wide LCR is a combined view of Saskatchewan credit unions and is calculated by CUDGC. The stand-alone LCR is modeled after the 2017 *Liquidity Adequacy Requirements* (LAR) Guidelines published by OSFI. This guideline does not apply to SaskCentral; however, SaskCentral has incorporated the LAR principles in the LCR.

	2018		2017	
	System-wide LCR	Stand-alone LCR	System-wide LCR	Stand-alone LCR
Policy limit	120%	110%	120%	110%
Actual	241%	180%	214%	136%

SaskCentral also evaluates liquidity quality of investments using the liquidity score. The liquidity score is an internal rating system developed by all Group Clearing participants. Ratings range from 0 to 4 with 0 indicating the investment is illiquid and 4 indicating the investment can be sold immediately to any dealer. The policy limit describes a liquidity score of 3.0 or better. The liquidity score was 3.5 at December 31, 2018 (2017 – 3.4).

SaskCentral's liquidity risk objectives and policies have not changed materially from December 31, 2017.

5. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

Concentra Bank

Concentra Bank manages liquidity risk by:

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

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

The liquidity position is monitored for policy purposes in reference to OSFI's prescribed LCR which is based on a thirty-day liquidity stress scenario, with assumptions defined in the LAR Guideline. The LCR is calculated as the ratio of HQLA to net cash outflows over the next thirty days. HQLA are defined in the LAR Guideline, and are grouped into three main categories, with varying haircuts applied. The total weighted values for net cash outflows for the next thirty days are derived by applying the assumptions specified in the LAR Guideline to specific items, including loans.

Concentra Bank also incorporates a number of internal liquidity measures to forecast liquidity requirements including minimum survival horizon. Throughout 2018 and 2017, Concentra Bank has been in compliance with the OSFI prescribed guideline.

Consolidated risk measurement

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

5. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

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

	2018						
	$						
	On Demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	No fixed maturity	Total
Loans and notes payable	141	287,371	88,114	-	-	-	375,626
Securitization liabilities	-	4,145	523,361	3,444,384	-	-	3,971,890
Total exposure	141	291,516	611,475	3,444,384	-	-	4,347,516

	2017						
	$						
	On Demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	No fixed maturity	Total
Loans and notes payable	631	416,832	114,047	-	-	-	531,510
Securitization liabilities	-	4,377	346,641	3,978,729	-	-	4,329,747
Total exposure	631	421,209	460,688	3,978,729	-	-	4,861,257

Offsetting financial instruments

Offsetting financial assets

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

	2018 $					
				Related amounts not offset in the balance sheet		
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset in the balance sheet	Net amounts of financial assets presented in the balance sheet	Impact of master netting agreements or similar agreements [1]	Collateral received [2]	Net amount [3]
Derivative assets	23,542	-	23,542	(12,342)	-	11,200

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

5. FINANCIAL RISK MANAGEMENT (continued)

Offsetting financial instruments (continued)

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

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

Offsetting financial liabilities

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

	2018 $					
				Related amounts not offset in the balance sheet		
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets offset in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Impact of master netting agreements or similar agreements [1]	Collateral pledged [2]	Net amount [3]
Derivative liabilities	24,080	-	24,080	(12,342)	(675)	11,063
Repurchase payable	181,717	-	181,717	-	(181,190)	527

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

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

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

5. FINANCIAL RISK MANAGEMENT (continued)

Offsetting financial instruments (continued)

For the financial assets and financial liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between SaskCentral and the counterparty allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis, however, each party to the master netting arrangement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

Based on the terms of each agreement, an event of default includes failure by a party to make payment when due; failure by a party to perform any obligation required by the agreement (other than payment) if such failure is not remedied within periods defined in the respective agreements after notice of such failure is given to the party; or bankruptcy.

6. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

Instrument	Classification	Fair value as at 2018 $	Fair value as at 2017 $	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Financial assets						
Government						
Government	FVTOCI	808,896	-	Level 2	Market comparable prices using quoted bid prices obtained from Bloomberg, or dealer quoted prices where applicable.	N/A
	Designated FVTPL	1,265,866	-	Level 2		N/A
	Available-for-sale [1]	-	1,961,366	Level 2		N/A
Corporate						
Corporate debt	FVTOCI	51,721	-	Level 2	Market comparable prices using quoted bid prices obtained from Bloomberg, or dealer quoted prices where applicable.	N/A
	Designated FVTPL	322,512	-	Level 2		N/A
	Available-for-sale [1]	-	303,212	Level 2		N/A
Asset-backed securities	FVTOCI	-	-	Level 2	Market comparable prices using quoted bid prices obtained from Bloomberg, or dealer quoted prices where applicable.	N/A
	Available-for-sale [1]		23,068	Level 2		N/A

[1] *Presented for comparative purposes. Applicable before January 1, 2018.*

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

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

Instrument	Classification	Fair value as at 2018 $	Fair value as at 2017 $	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Financial assets (continued)						
Corporate (continued)						
Credential Financial subordinated debentures	Available-for-sale [1]	-	574	Level 2	Discounted cash flow. Future cash flows are determined based on a fixed coupon rate of 5.13%. Discount rate of 5.06%, estimated using market comparable rates from Bloomberg.	N/A
Credential Securities subordinated debentures	Available-for-sale [1]	-	658	Level 2	Discounted cash flow. Future cash flows are determined based on a fixed coupon rate of 3.65%. Discount rate of 3.76%, estimated using market comparable rates from Bloomberg.	N/A
Credential Financial partnership units	Available-for-sale [1]	-	16,380	Level 3	Combined multiplier approach using comparable entities and precedent transactions and discounted cash flow. Prior year value equal to cost because a quoted price in an active market was not available and the fair value could not be reliably measured.	Earnings multipliers ranging from 7.0 to 13.5 and assets under administration multipliers ranging from 1.0% to 2.0%.
Northwest and Ethical Investments partnership units	Available-for-sale [1]	-	12,285	Level 3	Combined multiplier approach using comparable entities and precedent transactions and discounted cash flow. Prior year value equal to cost because a quoted price in an active market was not available and the fair value could not be reliably measured.	Earnings multipliers ranging from 8.0 to 10.0 and assets under administration multipliers ranging from 2.5% to 3.5%.
Chartered banks	FVTOCI	99,810	-	Level 2	Market comparable prices using quoted bid prices obtained from Bloomberg, or dealer quoted prices where applicable.	N/A
	FVTPL and designated FVTPL	395,343	-	Level 2		N/A
	Available-for-sale [1]	-	730,818	Level 2		N/A

[1] *Presented for comparative purposes. Applicable before January 1, 2018.*

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

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

Instrument	Classification	Fair value as at 2018 $	Fair value as at 2017 $	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Financial assets (continued)						
Corporate (continued)						
Co-operatives [1]	FVTOCI	**9,724**	-	Level 2	Discounted cash flow. Future cash flows based on projected operating results of the entity and a terminal growth rate of 2%. Discount rate ranging 10% - 11%.	N/A
	FVTPL	**17**	5,459	Level 2	Market comparable prices using quoted bid prices obtained from Bloomberg, or dealer quoted prices where applicable.	N/A
MAV III	FVTPL	**350**	467	Level 2	Market comparable prices using dealer quoted prices	N/A
Derivative assets						
Index-linked term deposits	FVTPL	**5,594**	9,399	Level 2	Discounted cash flow. Future cash flows are estimated based on observable market inputs (third party quotes, pricing on trading venues and prices for comparable transactions) and a discount rate derived from relevant market inputs for each asset class.	N/A
Interest rate swaps	FVTPL	**15,976**	17,423	Level 2	Market comparable prices using yields with matching terms to maturity. The fair values reflect the estimated amounts that SaskCentral would receive if the contracts were terminated at the reporting date.	N/A
Forward rate swaps	FVTPL	**973**	482	Level 2	Market comparable prices using yields with matching terms to maturity. The fair values reflect the estimated amounts that SaskCentral would receive if the contracts were terminated at the reporting date.	N/A
Foreign exchange contracts	FVTPL	**999**	671	Level 2	Market comparable prices using yields with matching terms to maturity. The fair values reflect the estimated amounts that SaskCentral would receive if the contracts were terminated at the reporting date.	N/A

[1] Certain co-operative securities with a carrying value at December 31, 2018 of $24,793 (2017 - $6,394) are not included in this note as these securities are carried at cost because a quoted price in an active market is not available and the fair value cannot be reliably measured.

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

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

Instrument	Classification	Fair value as at 2018 $	Fair value as at 2017 $	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Financial assets (continued)						
Loans	FVTOCI	**1,112,530**	-	Level 3	Discounted cash flows based on current market rates of interest for similar lending.	The credit risk adjustment based on perceived credit worthiness of a borrower is an unobservable input resulting in certain loans being classified at Level 3 in the fair value hierarchy.
Financial liabilities						
Deposits [1]	Designated at FVTPL	**2,019,044**	-	Level 2	Discounted cash flow. Future cash flows are determined based on rates for the underlying asset portfolio, estimated using market comparable rates from Bloomberg.	N/A
Derivative liabilities						
Index-linked term deposits	FVTPL	**5,594**	9,399	Level 2	Discounted cash flow. Future cash flows are estimated based on observable market inputs (third party quotes, pricing on trading venues and prices for comparable transactions) and a discount rate derived from relevant market inputs for each asset class.	N/A
Interest rate swaps	FVTPL	**16,529**	17,602	Level 2	Market comparable prices using yields with matching terms to maturity. The fair values reflect the estimated amounts that SaskCentral would receive or pay to terminate the contracts at the reporting date.	N/A

[1] Prior to adoption of IFRS 9, certain deposits were recorded at amortized cost. Therefore, comparative figures have not been provided.

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

Instrument	Classification	Fair value as at 2018 $	2017 $	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Financial liabilities (continued)						
Derivative liabilities (continued)						
Foreign exchange contracts	FVTPL	**990**	657	Level 2	Market comparable prices using yields with matching terms to maturity. The fair values reflect the estimated amounts that SaskCentral would receive if the contracts were terminated at the reporting date.	N/A
Forward rate contracts	FVTPL	**967**	474	Level 2	Market comparable prices using yields with matching terms to maturity. The fair values reflect the estimated amounts that SaskCentral would receive or pay to terminate the contracts at the reporting date.	N/A

SaskCentral's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1 and 2 during the year.

Reconciliation of Level 3 fair value measurements

The following table summarizes the changes in Level 3 assets and liabilities recorded at fair value for the year ended December 31, 2018:

	2018 $	2017 $
Level 3, beginning of year	**28,665**	15,270
Impact of adopting IFRS 9 [note 3]	**639,762**	-
Additions from business combination [note 33]	**-**	38,070
Realized (losses) gains in profit or loss	**(1,211)**	21
Unrealized gains in OCI	**988**	28,019
Sales/settlements	**871,120**	(38,070)
Principal payments	**(399,340)**	(14,844)
Transfer (out) in of Level 3	**(27,454)**	199
Level 3, end of year	**1,112,530**	28,665
Total (losses) gains for the period included in profit or loss for assets held at the end of the reporting period	**(1,211)**	21

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

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

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

	Carrying value as at		Fair value as at			
	2018 $	2017 $	2018 $	2017 $	Fair value hierarchy	Valuation technique
Financial assets						
Loans	**8,614**	31,169	**8,597**	31,156	Level 2	Discounted cash flows based on current market rates of interest for similar lending.
	7,212,075	7,678,000	**7,149,727**	7,609,515	Level 3	Discounted cash flows based on current market rates of interest for similar lending. The credit risk adjustment based on perceived credit worthiness of a borrower is an unobservable input resulting in certain loans being classified at Level 3 in the fair value hierarchy.
Central 1 subordinated debentures	**7,000**	7,000	**6,834**	6,537	Level 2	Discounted cash flows based on current market rates of interest for similar lending.
Financial liabilities						
Deposits [1]	**5,020,390**	5,998,315	**5,015,250**	6,005,132	Level 2	Discounted cash flows based on current market rates of interest for similar maturities.
Loans and notes payable	**375,626**	531,510	**375,612**	529,948	Level 2	
Securitization liabilities	**3,971,890**	4,329,747	**3,928,081**	4,250,625	Level 2	

[1] *With the adoption of IFRS 9, certain deposits were designated at FVTPL and are measured at fair value on a recurring basis. The fair value methods for these deposits have been disclosed in the preceding charts.*

7. CAPITAL MANAGEMENT

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

SaskCentral

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

7. CAPITAL MANAGEMENT (continued)

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

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

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

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

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

	2018 $	2017 $
Capital		
Tier 1 and Tier 2 regulatory capital	550,370	523,094
Less deductions:		
Substantial investments	372,550	324,774
Assets of little value	8,071	8,162
Total borrowing multiple capital	169,749	190,158
Borrowing multiple	13.5:1	12.2:1

Concentra Bank

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

7. CAPITAL MANAGEMENT (continued)

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

Throughout 2018 and 2017, Concentra Bank has been in compliance with OSFI prescribed capital adequacy requirements.

	2018 $	2017 $
Capital		
Common Equity Tier 1 regulatory capital	**346,147**	324,220
Tier 1 regulatory capital	**457,134**	435,207
Total regulatory capital	**472,015**	435,207
Risk-weighted assets		
Credit risk	**2,731,068**	2,303,352
Market risk	**-**	-
Operational risk	**195,810**	179,504
Total risk-weighted assets	**2,926,878**	2,482,856
Capital ratios		
Common Equity Tier 1 regulatory capital to risk-weighted assets	**11.8%**	13.1%
Tier 1 regulatory capital to risk-weighted assets	**15.6%**	17.5%
Total regulatory capital to risk-weighted assets	**16.1%**	17.5%
Leverage ratio	**4.6%**	4.7%

7. CAPITAL MANAGEMENT (continued)

Concentra Bank's wholly owned subsidiary, Concentra Trust, is also required to meet these regulatory capital requirements. Throughout 2018 and 2017, Concentra Trust has been in compliance with OSFI's prescribed capital adequacy requirements.

	2018 $	2017 $
Capital		
Common Equity Tier 1 regulatory capital	**14,589**	14,073
Tier 1 regulatory capital	**14,589**	14,073
Total regulatory capital	**14,598**	14,073
Risk-weighted assets		
Credit risk	**4,085**	3,704
Market risk	**-**	-
Operational risk	**16,198**	15,218
Total risk-weighted assets	**20,283**	18,922
Capital ratios		
Common Equity Tier 1 regulatory capital to risk-weighted assets	**71.9%**	74.4%
Tier 1 regulatory capital to risk-weighted assets	**71.9%**	74.4%
Total regulatory capital to risk-weighted assets	**72.0%**	74.4%
Leverage ratio	**88.6%**	90.1%

8. CASH AND CASH EQUIVALENTS

	2018 $	2017 $
Cash and balances with Central 1	**119,702**	202,233
Cash and balances with banks	**157,667**	412,364
Cash equivalents	**377,681**	114,192
	655,050	728,789

9. SECURITIES

SaskCentral's securities portfolio is comprised of a large number of securities carrying a variety of terms and conditions. Approximately 75.7% (2017 – 78.5%) of the portfolio bears interest at fixed rates and pays interest semi-annually and/or upon maturity. The remainder of the portfolio earns interest at variable rates and pays interest monthly or quarterly, provides a return of dividends over varying periods of time or provides an index-linked return.

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

	2018 $						
		Term to maturity					
	Yield [1]	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	No fixed maturity	Total
FVTOCI							
Government – non-securitized							
Fair value	1.88%	8,589	41,027	415,417	-	-	465,033
Amortized cost		8,588	41,041	420,625	-	-	470,254
Government – securitized							
Fair value	1.69%	1,210	92,592	250,061	-	-	343,863
Amortized cost		1,210	92,628	249,167	-	-	343,005
Corporate debt [2]							
Fair value	2.37%	9,997	2,986	38,738	-	-	51,721
Amortized cost		9,996	2,996	38,906	-	-	51,898
Chartered banks							
Fair value	2.37%	13,415	25,897	60,498	-	-	99,810
Amortized cost		13,408	25,956	60,724	-	-	100,088
Co-operatives [3]							
Fair value	2.17%	-	-	-	5,393	4,331	9,724
Amortized cost		-	-	-	5,500	307	5,807
Total FVTOCI fair value		33,211	162,502	764,714	5,393	4,331	970,151
Total FVTOCI amortized cost		33,202	162,621	769,422	5,500	307	971,052
Designated FVTPL							
Government							
Fair value	2.06%	224,012	194,296	799,421	48,137	-	1,265,866
Amortized cost		224,045	194,353	799,733	47,591	-	1,265,722
Corporate debt [2]							
Fair value	2.37%	24,141	116,871	181,500	-	-	322,512
Amortized cost		24,148	117,042	182,865	-	-	324,055
Chartered banks							
Fair value	1.90%	38,912	98,341	247,781	-	-	385,034
Amortized cost		38,936	98,515	251,389	-	-	388,840
Total designated FVTPL fair value		287,065	409,508	1,228,702	48,137	-	1,973,412
Total designated FVTPL amortized cost		287,129	409,910	1,233,987	47,591	-	1,978,617

[1] represents weighted average effective interest rates based on year-end carrying values
[2] corporate debt includes: commercial paper and medium-term notes
[3] SaskCentral has chosen to elect certain equity securities at FVTOCI under IFRS 9

Continued on the following page

9. SECURITIES (continued)

	2018 (continued) $						
		Term to maturity					
	Yield [1]	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	No fixed maturity	Total
FVTPL							
Chartered banks							
Fair value	3.20%	-	-	-	-	10,309	10,309
Amortized cost		-	-	-	-	10,501	10,501
Co-operatives							
Fair value	-	-	-	-	-	24,810	24,810
Amortized cost		-	-	-	-	24,815	24,815
MAV							
Fair value		-	-	-	350	-	350
Total FVPTL fair value		-	-	-	350	35,119	35,469
Total FVTPL amortized cost		-	-	-	-	35,316	35,316
Amortized cost							
Central 1 subordinated debentures							
Amortized cost	2.41%	-	-	-	7,000	-	7,000
Total carrying value of securities							2,986,032
Accrued interest							9,628
Allowance for credit losses [note 12]							(7)
							2,995,653

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

9. SECURITIES (continued)

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

[1] represents weighted average effective interest rates based on year-end carrying values
[2] corporate debt includes: commercial paper, medium-term notes
[3] asset-backed securities are comprised of short-term paper backed by specifically pledged assets.

9. SECURITIES (continued)

Unrealized gains and losses on FVTOCI and available-for-sale securities

	2018 $			
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
FVTOCI securities				
Government	470,254	486	(5,707)	465,033
Corporate	157,793	4,187	(725)	161,255
Securitized portfolio	343,005	894	(36)	343,863
	971,052	5,567	(6,468)	970,151
Designated FVTPL securities				
Government	1,265,722	2,613	(2,469)	1,265,866
Corporate	712,895	268	(5,617)	707,546
	1,978,617	2,881	(8,086)	1,973,412
FVTPL securities				
Corporate	35,666	-	(197)	35,469
	35,666	-	(197)	35,469
	2,985,335	8,448	(14,751)	2,979,032

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

MAV, which consist of pools of assets, issued notes on January 19, 2009, to replace non-bank sponsored or third party ABCP which had experienced a liquidity event or market disruption in 2007. During the year SaskCentral received $86 (2017 - $14,915) of principal and interest payments on the MAV notes held.

There were no credit impaired (Stage 3) securities in either 2018 or 2017.

10. DERIVATIVE ASSETS AND LIABILITIES

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity instrument or index. Derivative contracts are expressed in notional amounts. The notional amounts, which are off-balance sheet, do not represent amounts exchanged and, thus, are not a measure of SaskCentral's exposure through the use of derivatives. The notional amount is the reference amount used to determine the payment required by contract and is a common measure of business volume.

10. DERIVATIVE ASSETS AND LIABILITIES (continued)

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

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

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

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

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

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

	2018 $						
	Notional amount by term to maturity					Fair value	
	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total	Asset	Liability
Asset / liability management							
Interest rate swaps	19,102	159,657	183,656	26,715	389,130	1,935	2,925
	19,102	159,657	183,656	26,715	389,130	1,935	2,925
Designated in fair value hedges							
Interest rate swaps	-	-	-	5,500	5,500	5	14
	-	-	-	5,500	5,500	5	14
As intermediary							
Interest rate swaps	260,000	760,436	815,361	52,606	1,888,403	14,036	13,590
Forward rate contracts	100,400	-	-	11,078	111,478	973	967
Foreign exchange contracts	23,919	29,728	-	-	53,647	999	990
Index-linked term deposits	9,038	12,169	75,088	-	96,295	5,594	5,594
	393,357	802,333	890,449	63,684	2,149,823	21,602	21,141
	412,459	961,990	1,074,105	95,899	2,544,453	23,542	24,080

10. DERIVATIVE ASSETS AND LIABILITIES (continued)

	2017 $						
	Notional amount by term to maturity					Fair value	
	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total	Asset	Liability
Asset / liability management							
Interest rate swaps	11,780	179,356	321,866	27,731	540,733	3,161	3,785
	11,780	179,356	321,866	27,731	540,733	3,161	3,785
Designated in fair value hedges							
Interest rate swaps	-	-	-	5,500	5,500	3	6
	-	-	-	5,500	5,500	3	6
As intermediary							
Interest rate swaps	-	124,500	1,352,408	32,904	1,509,812	14,259	13,811
Forward rate contracts	120,200	-	-	11,078	131,278	482	474
Foreign exchange contracts	24,986	14,107	-	-	39,093	671	657
Index-linked term deposits	10,532	8,260	90,461	-	109,253	9,399	9,399
	155,718	146,867	1,442,869	43,982	1,789,436	24,811	24,341
	167,498	326,223	1,764,735	77,213	2,335,669	27,975	28,132

Amounts expected to be recovered or settled

	2018 $		2017 $	
	Asset	Liability	Asset	Liability
Within 12 months	16,932	16,438	11,880	11,528
After 12 months	6,610	7,642	16,095	16,604
	23,542	24,080	27,975	28,132

SaskCentral is required to post collateral to derivative counterparties when the sum of the mark to market of the derivative financial instruments in favour of the counterparty exceeds the established threshold. SaskCentral has pledged securities with a fair value of $1,096 (2017 - $2,157) to support this obligation.

Counterparty risk

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

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

10. DERIVATIVE ASSETS AND LIABILITIES (continued)

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

	2018 $		
	Interest rate contracts	Foreign exchange contracts	Total
Notional amounts	2,394,511	53,647	2,448,158
Positive replacement cost	16,949	999	17,948
Potential credit risk exposure	6,434	536	6,970
Credit equivalent amount	23,382	1,536	24,918
Risk-weighted equivalent	4,676	307	4,983

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

Results of hedge activities

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

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

10. DERIVATIVE ASSETS AND LIABILITIES (continued)

	2018 $	2017 $
Cash flow hedges		
Effective portion – net (losses) gains recorded in OCI during the year	(227)	3,760
Reclassification of gains to profit or loss during the year	(985)	(715)
Fair value hedges		
Ineffective portion recorded in gain on financial instruments [note 28]	(5)	(12)
Reclassification of gains on hedged risk components from OCI to profit or loss	6	(24)
Unrealized losses on derivatives related to hedged risk components	(9)	26

11. LOANS

	2018 $		
	Gross carrying value	Allowance for credit losses	Total
Loans at amortized cost			
Residential mortgages [1]	5,484,906	(2,029)	5,482,877
Consumer loans	407,468	(4,678)	402,790
Commercial mortgages and loans (includes credit union loans)	1,081,965	(13,781)	1,068,184
Commercial leases	232,305	(1,129)	231,176
Loans at FVTOCI			
Residential mortgages	1,112,530	-	1,112,530
	8,319,174	(21,617)	8,297,557
Accrued interest			14,045
			8,311,602

[1] *Residential mortgages include $210 of property held for resale.*

	2017 $		
	Gross loan balance	Specific allowances	Total
Loans			
Residential mortgages [1]	6,089,439	(460)	6,088,979
Consumer loans [2]	367,870	(60)	367,810
Commercial mortgages and loans (includes credit union loans)	1,092,344	(3,500)	1,088,844
Commercial leases	181,795	(878)	180,917
	7,731,448	(4,898)	7,726,550
Collective allowances			(17,163)
Accrued interest			12,548
			7,721,935

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

11. LOANS (continued)

SaskCentral's loans are principally held for the purpose of collecting the contractual cash flows with the following exceptions.

For residential mortgages, SaskCentral holds a separately identifiable sub-portfolio within which it both sells and holds a significant portion of newly originated assets. As the business model for this portfolio is managed to generate cash flows through both sales and collection of the contractual cash flows, the loans are classified as at FVTOCI.

For commercial mortgages and loans, excluding credit union loans, SaskCentral's overall business model is such that it issues loan commitments with the intent of selling down a pre-determined amount prior to funding in order to meet the established credit risk policy limits. As a result, SaskCentral's credit risk policies create a clear line of demarcation for each originated commercial asset resulting in the recognition of two distinct sub-portfolios:

- a sub-portfolio which contains the portion of loans SaskCentral intends to sell which are measured at FVTPL. As these loan sales occur prior to funding, SaskCentral does not typically recognize loans at FVTPL in its consolidated balance sheet. Instead, the portion of commitment designated for sale is measured at FVTPL up to the date of transfer [note 30]
- a sub-portfolio which contains the portion of loans SaskCentral intends to hold on-balance sheet which are measured at amortized cost.

The following table provides information on the unrealized gains (losses) for the SaskCentral's loans measured at fair value:

	2018 [1] $			
Loans at FVTOCI	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Residential mortgages	1,112,835	1,790	(2,095)	1,112,530

[1] *Prior year comparative amounts have not been provided as these loans were classified at amortized cost in 2017.*

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

	2018 $					
	Effective rate	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Loans at amortized cost						
Residential mortgages	2.96%	229,867	1,040,414	4,212,090	2,535	5,484,906
Consumer loans	7.63%	11,222	50,923	219,154	126,169	407,468
Commercial mortgages and loans (includes credit union loans)	4.38%	143,073	256,873	639,338	42,681	1,081,965
Commercial leases	4.32%	397	12,495	196,885	22,528	232,305
Loans at FVTOCI						
Residential mortgages	4.16%	160,578	792,230	159,722	-	1,112,530
		545,137	2,152,935	5,427,189	193,913	8,319,174
Accrued interest						14,045
Total gross carrying value						8,333,219

11. LOANS (continued)

	2017 $					
	Effective rate	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Loans						
Residential mortgages	2.85%	202,991	896,825	4,985,997	3,166	6,088,979
Consumer loans	7.39%	5,823	37,502	193,381	131,104	367,810
Commercial mortgages and loans (includes credit union loans)	4.12%	162,616	215,422	631,049	79,757	1,088,844
Commercial leases	4.00%	448	5,668	161,479	13,322	180,917
		371,878	1,155,417	5,971,906	227,349	7,726,550
Accrued interest						12,548
Total carrying value before collective allowance and accrued interest						7,739,098

Impaired loans

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as credit impaired (Stage 3) because they are either: (1) less than 90 days past due; or (2) fully secured and collection efforts are reasonably expected to result in full repayment (90 day default presumption rebutted):

	2018 $			
	1 – 29 days	30 – 89 days	90 days and greater	Total
Loans at amortized cost				
Residential mortgages	33,722	13,314	9,491	56,527
Consumer loans	1,767	1,770	-	3,537
Commercial mortgages and loans (includes credit union loans	1,787	3,799	-	5,586
Commercial leases	1,603	5,372	-	6,975
Loans at FVTOCI				
Residential mortgages	22,461	6,084	-	28,545
	61,340	30,339	9,491	101,170

	2017 $			
	1 – 29 days	30 – 89 days	90 days and greater	Total
Residential mortgages	44,525	10,919	11,060	66,504
Consumer loans	1,676	1,027	-	2,703
Commercial mortgages and loans (includes credit union loans)	346	-	-	346
Commercial leases	1,914	218	-	2,132
	48,461	12,164	11,060	71,685

11. LOANS (continued)

The following table presents the gross amount of credit impaired loans (Stage 3) and the corresponding allowance for credit losses:

	2018 $		
	Gross impaired loans	Allowance for credit losses	Net
Loans at amortized cost			
Residential mortgages	1,424	(436)	988
Consumer loans	308	(276)	32
Commercial mortgages and loans	27,205	(6,559)	20,646
Commercial leases	1,370	(263)	1,107
Loans at FVTOCI [1]			
Residential mortgages	4,789	-	4,789
	35,096	(7,534)	27,562

[1] *For credit impaired loans measured at FVTOCI, no separate allowance for credit losses is recognized in the consolidated balance sheet as their carrying value will already reflect the expected credit losses. Thus for disclosure purposes, the gross balance presented above represents the instrument's amortized cost while the allowance for impairment represents the accumulated expected credit losses reclassified from OCI to net income over the life of the instrument.*

	2017 $		
	Gross impaired loans	Allowance for credit losses	Net
Residential mortgages	733	(460)	273
Consumer loans	60	(60)	-
Commercial mortgages	10,504	(3,500)	7,004
Commercial leases	2,193	(878)	1,315
	13,490	(4,898)	8,592

Commercial leases

The carrying value of leases of certain commercial property and equipment where SaskCentral is the lessor includes the following:

	2018 $	2017 $
Minimum lease payments receivable:		
Not later than one year	13,216	6,582
Between one and five years	213,461	173,758
Later than five years	27,234	15,110
	253,911	195,450
Unearned finance income on commercial leases	(21,600)	(13,655)
Gross commercial leases receivable	232,311	181,795

12. ALLOWANCE AND PROVISION FOR CREDIT LOSSES

The following table presents the changes to the allowance for credit losses for SaskCentral's loans:

	2018 $			
	Stage 1	Stage 2	Stage 3	Total
Residential mortgages				
Balance, beginning of the year [note 3]	847	456	710	2,013
Net provision for credit losses				
Re-measurement	219	(229)	(118)	(128)
Newly originated or purchased assets	803	-	-	803
Derecognized financial assets and maturities	(154)	(55)	(130)	(339)
Transfer to (from):				
Stage 1	(283)	158	125	-
Stage 2	14	(185)	171	-
Stage 3	-	2	(2)	-
Total net provision for credit losses (recoveries)	599	(309)	46	336
Write-offs	-	-	(426)	(426)
Recoveries	-	-	106	106
Balance, end of year	1,446	147	436	2,029
Consumer loans				
Balance, beginning of the year [note 3]	3,554	768	56	4,378
Net provision for credit losses				
Re-measurement	3,269	1,716	(967)	4,018
Newly originated or purchased assets	991	-	-	991
Derecognized financial assets and maturities	(441)	(281)	(64)	(786)
Transfer to (from):				
Stage 1	(3,726)	874	2,852	-
Stage 2	8	(2,241)	2,233	-
Stage 3	-	3	(3)	-
Total net provision for credit losses (recoveries)	101	71	4,051	4,223
Write-offs	-	-	(4,555)	(4,555)
Recoveries	-	-	724	724
Total allowance for credit losses	3,655	839	276	4,770
Less: allowance for undrawn commitments	(90)	(2)	-	(92)
Balance, end of year	3,565	837	276	4,678

Continued on the following page

12. ALLOWANCE AND PROVISION FOR CREDIT LOSSES (continued)

	2018 (continued) $			
	Stage 1	Stage 2	Stage 3	Total
Commercial mortgages and loans (including credit union loans)				
Balance, beginning of the year [note 3]	2,248	19,946	3,500	25,694
Net provision for credit losses				
Re-measurement	609	(9,764)	566	(8,589)
Newly originated or purchased assets	1,026	-	-	1,026
Derecognized financial assets and maturities	(742)	(2,319)	-	(3,061)
Transfer to (from):				
Stage 1	(959)	959	-	-
Stage 2	293	(3,352)	3,059	-
Total net provision for credit losses (recoveries)	227	(14,476)	3,625	(10,624)
Write-offs	-	-	(645)	(645)
Recoveries	-	-	79	79
Total allowance for credit losses	2,475	5,470	6,559	14,504
Less: allowance for undrawn commitments	(651)	(72)	-	(723)
Balance, end of year	1,824	5,398	6,559	13,781
Commercial leases				
Balance, beginning of the year [note 3]	386	669	878	1,933
Net provision for credit losses				
Re-measurement	128	(113)	(283)	(268)
Newly originated or purchased assets	204	-	-	204
Derecognized financial assets and maturities	(11)	(155)	-	(166)
Transfer to (from):				
Stage 1	(234)	145	89	-
Stage 2	-	(168)	168	-
Stage 3	-	15	(15)	-
Total net provision for credit losses (recoveries)	87	(276)	(41)	(230)
Write-offs	-	-	(818)	(818)
Recoveries	-	-	244	244
Balance, end of year	473	393	263	1,129
Total allowance for credit losses on loans				21,617

12. ALLOWANCE AND PROVISION FOR CREDIT LOSSES (continued)

The following table presents the changes to the allowance for credit losses for SaskCentral's securities:

	2018 $			
	Stage 1	Stage 2	Stage 3	Total
Securities at amortized cost				
Balance, beginning of the year [note 3]	7	-	-	7
Net provision for credit losses				
Re-measurement	-	-	-	-
Total net provision for credit losses (recoveries)	-	-	-	-
Balance, end of year	7	-	-	7
Securities at FVTOCI				
Balance, beginning of the year [note 3]	36	-	-	36
Net provision for credit losses				
Re-measurement	(15)	-	-	(15)
Total net provision for credit losses (recoveries)	(15)	-	-	(15)
Balance, end of year	21	-	-	21
Total allowance for credit losses on securities				28

	2017 $					
	Residential mortgages	Consumer loans	Commercial mortgages	Commercial and credit union loans	Commercial leases	Total
Specific allowance						
Balance, beginning of year	-	-	-	-	-	-
Additions from business combination	866	583	4,675	1,040	2,117	9,281
Increase in allowance	207	578	-	-	1,825	2,610
Reversal of allowance	(46)	(107)	(1,175)	(1,040)	(101)	(2,469)
Write-offs applied to allowance	(567)	(994)	-	-	(2,963)	(4,524)
Balance, end of year	460	60	3,500	-	878	4,898
Collective allowance						
Balance, beginning of year	-	-	-	-	-	-
Additions from business combination	2,514	2,297	11,166	845	2,668	19,490
Increase in allowance	-	-	-	-	-	-
Reversal of allowance	(611)	(332)	(422)	(53)	(909)	(2,327)
Balance, end of year	1,903	1,965	10,744	792	1,759	17,163
Total loan allowance	2,363	2,025	14,244	792	2,637	22,061

12. ALLOWANCE AND PROVISION FOR CREDIT LOSSES (continued)

The following table summarizes the net provision for credit losses included in the consolidated statement of profit or loss:

	2018 $	2017 $
Debt instruments at amortized cost		
Residential mortgages	336	(349)
Consumer loans	4,223	4,159
Commercial mortgage and loans (includes credit union loans)	(10,624)	(3,091)
Commercial leases	(230)	730
	(6,295)	1,449
Debt instruments at FVTOCI		
Residential mortgages	676	-
Securities	102	-
	778	-
Gross provision for credit (recoveries) losses	(5,517)	1,449
Impact of financial guarantees	(2,095)	(831)
Net provision for credit (recoveries) losses	(7,612)	618

For the purpose of impairment assessment, the securities and certain commercial loans to credit unions above are considered to have low credit risk as the counterparties to these investments have an investment grade credit rating. Accordingly, for the purpose of impairment assessment for these financial assets, the loss allowance is measured at an amount equal to a 12-month ECL.

The credit risk on certain loans to credit unions is mitigated because of the General Security Agreement between SaskCentral and the credit unions. SaskCentral has not recognized a loss allowance for the credit union loans that are collateralized by the General Security Agreement.

13. TRANSFER OF FINANCIAL ASSETS

Transferred financial assets not derecognized in their entirety

(a) Securities sale and repurchase agreements

SaskCentral enters into transactions where it sells a security and simultaneously enters into an agreement to repurchase the security at the original sales price plus a small lending premium. The repurchase agreement results in SaskCentral continuing to be exposed to the risks and rewards of the asset post-transfer and therefore it continues to be recognized within securities on the consolidated balance sheet (see note 9). A corresponding liability equal to the sales proceeds received is then recognized within loans and notes payable (see note 20).

(b) Asset securitizations

SaskCentral periodically securitizes groups of assets by selling them to independent structured entities. As part of these transactions, SaskCentral generally retains an interest in the securitized assets, such as servicing rights and various forms of recourse including rights to excess spreads and cash reserves. When substantially all of the risks and rewards of ownership of the assets have not been transferred during a securitization transaction, the transaction is not accounted for as a sale and the assets remain on the consolidated balance sheet of SaskCentral. At the time of the transaction, the securitized borrowings are recognized as securitization liabilities on the consolidated balance sheet. The following paragraphs provide an overview of SaskCentral's major on-balance sheet securitization programs.

13. TRANSFER OF FINANCIAL ASSETS (continued)

Transferred financial assets not derecognized in their entirety (continued)

(b) Asset securitizations (continued)

National Housing Act Mortgage-Backed Securities and Canada Mortgage Bond Programs

SaskCentral participates in the CMHC-sponsored NHA MBS program where SaskCentral assigns all legal rights, interest and title in certain insured residential mortgages to CMHC in exchange for NHA MBS certificates. As SaskCentral continues to be exposed to substantially all of the risks and rewards of ownership of the original mortgages, SaskCentral has determined that the assignment of the mortgages does not constitute a transfer. Therefore, SaskCentral continues to recognize the assets as loans within residential mortgages on the consolidated balance sheet.

Subsequently, SaskCentral may sell its NHA MBS certificates to third parties or under the CMB program to Canada Housing Trust (CHT), a CMHC sponsored trust. The securitized mortgages are subject to prepayment, in full or in part, and thus the future cash flows related to the transferred assets are uncertain including the amount of prepayment penalties paid by the borrower. SaskCentral remains exposed to this variability through the difference between the return on the insured residential mortgages and the interest and indemnities paid on the related NHA MBS certificates (retained interest). As a result, the sale of the NHA MBS certificates does not transfer substantially all of the risks and rewards of ownership and the underlying mortgages continue to be recognized in the consolidated balance sheet with matching securitization liabilities being established based on the proceeds received on the date of the transfer.

As part of a CMB transaction, SaskCentral may enter into a total return swap with highly rated counterparties, exchanging the cash flows of the CMB for those of the NHA MBS certificates transferred to CHT. Any excess or shortfall in these cash flows is absorbed by SaskCentral. The total return swaps are not recognized at fair value in SaskCentral's consolidated balance sheet as the risks and rewards of these derivatives are captured through the continued recognition of the mortgages and the associated securitization liabilities. Accordingly, the total return swaps are recognized on an accrual basis and are not fair valued through the consolidated statement of profit or loss.

Securitization obligations under the CMB program where SaskCentral has entered into a total return swap are non-amortizing liabilities with fixed maturity dates. Principal payments collected from the mortgages underlying the securitized NHA MBS certificates are transferred to CHT on a monthly basis where they are held and invested in eligible securities until the maturity of the CMB. To the extent that these eligible securities are not SaskCentral's own issued NHA MBS certificates, the investments are recognized on SaskCentral's consolidated balance sheet within securities.

In the case of NHA MBS certificates sold to third parties including sales to CHT under the CMB program where SaskCentral has not entered into a total return swap, as scheduled and unscheduled payments are received the cash flows are ultimately transferred to the holders of the NHA MBS certificates and the securitization liabilities are reduced accordingly.

Multi-seller conduit

SaskCentral sells non-insured residential mortgage loans to an intermediate multi-seller structured entity established for the limited purpose of securitization activities. The intermediate multi-seller structured entity funds such purchases through the issuance of interest bearing notes. Although SaskCentral has transferred all legal right, title and interest in the mortgages to the structured entity, SaskCentral also provides a limited financial guarantee in the form of a cash reserve. Through this credit enhancement, SaskCentral retains substantially all of the risks and rewards of the transferred assets and consequently the mortgage loans do not qualify for derecognition. The structured entity has no recourse to the other assets of SaskCentral in the event of failure of debtors to pay when due. The proceeds received from the sale of the mortgage loans are recorded as a securitization liability on the consolidated balance sheet.

13. TRANSFER OF FINANCIAL ASSETS (continued)

Transferred financial assets not derecognized in their entirety (continued)

(b) Asset securitizations (continued)

Securitized assets not qualifying for derecognition and associated securitization liabilities

The following table presents the carrying value and fair value of the financial assets transferred by SaskCentral under these programs that have not been derecognized and the related securitization obligations recognized on the consolidated balance sheet:

	2018 $		2017 $	
	Carrying value	Fair value	Carrying value	Fair value
Securitized assets				
Cash reserve related to Multi-Seller Conduit	5,463	5,463	6,660	6,660
Securities – securitized portfolio [note 9]	344,290	344,290	305,886	305,886
Residential mortgages – securitized [note 11]	3,904,797	3,870,042	4,537,025	4,472,170
	4,254,550	4,219,795	4,849,571	4,784,716
Securitization liabilities				
Securitization obligations under the CMB program [(1)]	1,879,694	1,850,947	2,157,199	2,109,659
Securitization obligations under the NHA MBS program [(2)]	1,983,286	1,969,863	2,039,699	2,009,835
Securitization obligations to multi-seller conduit [(3)]	108,910	107,271	132,849	131,131
	3,971,890	3,928,081	4,329,747	4,250,625
Net position	282,660	291,714	519,824	534,091

[(1)] *Securitization obligations under the CMB program have a weighted average interest rate of 1.51% (2017 - 1.58%) and include only those CMB securitizations subject to a total return swap.*
[(2)] *Securitization obligations under the NHA MBS program have a weighted average interest rate of 1.77% (2017 - 1.65%) and include CMB securitizations which are not subject to a total return swap.*
[(3)] *The interest rate related to the securitization obligations to multi-seller conduits corresponds to the rate of the asset-backed commercial paper issued by the conduit, plus related program fees.*

SaskCentral also retains certain amounts of its issued NHA MBS certificates as part of its liquidity management strategy. As at December 31, 2018, residential mortgages of $268,742 (2017 - $492,951) with a fair value of $268,203 (2017 - $492,690) were assigned to NHA MBS certificates and retained by SaskCentral. These unsold NHA MBS certificates are included in loans on the consolidated balance sheet.

Derecognized financial asset transfers

(a) Loan sales

SaskCentral syndicates and sells co-ownership interests in commercial loan commitments and on-balance sheet retail loans while retaining servicing rights. The investors have no recourse against SaskCentral for any credit or fair value losses on the transferred assets which results in substantially all of the risks and rewards being transferred. SaskCentral has therefore removed the transferred assets from its consolidated balance sheet.

Under the servicing arrangements, SaskCentral collects the cash flows of the transferred assets on behalf of the credit union investors in return for a fee that is expected to compensate SaskCentral adequately for servicing the related assets. Consequently, SaskCentral accounts for the servicing arrangements as executory contracts and has not recognized a servicing asset or liability in the consolidated balance sheet. The servicing fees are based on a fixed percentage of the remaining principal balance of the transferred assets and are included within fee for service on the consolidated statement of profit or loss net of direct servicing costs incurred.

13. TRANSFER OF FINANCIAL ASSETS (continued)

Derecognized financial asset transfers (continued)

(a) Loan sales (continued)

The following tables provide quantitative information about these derecognized loan sales/syndications and SaskCentral's continuing involvement during the year:

	2018 $		
	Consumer loans and residential mortgages	Commercial mortgages and loans	Total mortgages and loans
Sales activity			
Notional amount of undrawn commitments syndicated during the year	-	254,364	254,364
Carrying value of loans/mortgages derecognized during the year	145,477	39,000	184,477
Gain on sale of loans/mortgages during the year	750	-	750
Continuing involvement			
Outstanding principal balance of derecognized loans/mortgages at year end	208,962	1,022,431	1,231,393
Cumulative income earned on derecognized loans/mortgages during the year [1]	770	913	1,683

[1] *Consists of net servicing fees included in fee for service on the consolidated statement of profit or loss.*

	2017 $		
	Consumer loans and residential mortgages	Commercial mortgages and loans	Total mortgages and loans
Sales activity			
Notional amount of undrawn commitments syndicated during the year	-	361,096	361,096
Carrying value of loans/mortgages derecognized during the year	176,152	72,225	248,377
Gain on sale of loans/mortgages during the year	1,397	610	2,007
Continuing involvement			
Outstanding principal balance of derecognized loans/mortgages at year end	301,877	1,157,173	1,459,050
Cumulative income earned on derecognized loans/mortgages during the year [2]	939	764	1,703

[2] *Consists of net servicing fees included in fee for service on the consolidated statement of profit or loss.*

In 2017, SaskCentral also sold commercial mortgages of $30,217 to third parties without retaining servicing rights or any other form of continuing involvement. These sales transferred substantially all of the risks and rewards of ownership resulting in the loan assets being derecognized from the consolidated balance sheet and a total loss of $40 being recorded within gain on financial instruments on the consolidated statement of profit or loss. SaskCentral had no such sales in 2018.

13. TRANSFER OF FINANCIAL ASSETS (continued)

Derecognized financial asset transfers (continued)

(b) Asset securitizations

Certain NHA MBS/CMB securitization transactions undertaken SaskCentral qualify for derecognition when one of the following conditions are met:

- SaskCentral subsequently enters into an agreement to transfer its right to the excess spread to a third party;
- SaskCentral simultaneously enters into a derivative contract which transfers the residual prepayment risk of the mortgages to a third party; or
- The terms and conditions of the transferred assets are such that they are substantively risk free and SaskCentral has transferred control of these assets.

When SaskCentral has transferred its right to the excess spread, its continuing involvement is limited to servicing the transferred mortgages for which it receives a fixed monthly fee. The fixed fee provides adequate compensation for the cost of servicing and as such, no servicing asset or liability is recognized. When a portion of the transfer price is payable in installments, a long-term interest bearing receivable is recognized in other securitization assets in the consolidated balance sheet.

For all other derecognized securitizations, SaskCentral's continuing involvement consists of a retained interest asset representing its right to the excess spread and a servicing liability for the future cost of servicing the transferred assets.

The following tables provide quantitative information about these derecognized securitization activities and SaskCentral's continuing involvement during the year:

	2018 $	2017 $
Securitization activity		
Carrying value of underlying mortgages derecognized in year	771,914	184,961
Gain on sale of mortgages or retained interests during the year	4,342	1,145
Continuing involvement		
Carrying value of deferred installments receivable [1]	431	726
Carrying value of retained interests	60,444	35,773
Total other securitization assets	60,875	36,499
Carrying value of servicing liabilities [note 21]	10,022	6,652
Outstanding principal balance of derecognized mortgages at year end	1,692,503	969,400
Cumulative income earned on derecognized mortgages during the year	1,108	794

[1] *The effective rate of outstanding deferred installments is 1.25% (2017 - 1.25%).*

14. INVESTMENTS IN ASSOCIATES

Celero Solutions

At December 31, 2018, SaskCentral has a 33.3% (2017 – 33.3%) interest in Celero Solutions, an arrangement between SaskCentral, Alberta Central and Credit Union Central of Manitoba for the purpose of providing information technology (IT) services including developing new IT services and providing technology-based products. Celero Solutions' registered place of business is Calgary, Alberta.

CUC Wealth

As described in note 4, on April 1, 2018, SaskCentral transferred its shares and subordinated debt in NEI and Credential Financial Inc. in exchange for ownership of CUC Wealth. At December 31, 2018 SaskCentral has a 10.92% (2017 – nil) interest in CUC Wealth, which was created to hold SaskCentral, Atlantic Central, Central 1, Credit Union Central of Manitoba, Alberta Central and the Co-operators investment share in Aviso. CUC Wealth's principal place of business is Winnipeg, Manitoba.

The fair value of SaskCentral's investment in CUC Wealth on the date of acquisition April 1, 2018 was $29,418. A combination of approaches were used to determine fair value, with the following key model inputs:

- Discounted cash flow method (income approach). Cash flow projections for the entity were discounted using a discount rate, which account for the market cost of equity, as well as the risk and nature of cash flows. The key model inputs (Level 3) used in determining the fair value under this method were discount rates ranging from 10.5% to 13.2% and a long-term growth rate of 3.0%.
- Comparable company approach (market-based approach). The key model input (Level 3) used in determining the fair value under this method was Earnings multiples ranging from 7.0 to 14.0 based on various comparable entities.

SaskCentral transferred a value of shares and subordinated debt in NEI and Credential Financial Inc. equal to $30,629, which resulted in a loss on the transfer of shares of $1,211. This loss is recorded in (loss) gain on financial instruments in the separate statement of profit or loss.

SEF JV

At December 31, 2018, SaskCentral has a 45.45% (2017 – 45.45%) interest in SEF JV, which was created to undertake and carry out the investment and deployment of capital to small and mid-sized businesses in Saskatchewan requiring less than $1 million in capital. SEF JV's principal place of business is Regina, Saskatchewan.

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

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

	2018 $					
	Assets	Liabilities	Revenue	Profit	Other comprehensive income	Total comprehensive income
Celero Solutions	39,404	23,070	80,427	6,659	-	6,659
CUC Wealth	102,210	461	2,755	2,303	(281)	2,022
SEF JV	2,802	151	5	6	-	6
	144,416	23,682	83,187	8,968	(281)	8,687

14. INVESTMENTS IN ASSOCIATES (continued)

	2017 $					
	Assets	Liabilities	Revenue	Profit	Other comprehensive income	Total comprehensive income
Celero Solutions	33,943	20,459	76,099	3,485	-	3,485
SEF JV	2,805	163	15	14	-	14
	36,748	20,622	76,114	3,499	-	3,499

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

	2018 $		
	Celero Solutions	CUC Wealth	SEF JV
Net assets of the associate	16,334	101,749	2,651
Proportion of SaskCentral's ownership interest	33.3%	10.92%	45.45%
	5,445	11,111	1,205
Fair value differential upon acquisition	-	18,530	-
Other adjustments	12	(479)	(1,049)
Carrying amount of SaskCentral's interest in associates	5,457	29,162	156

	2017 $	
	Celero Solutions	SEF JV
Net assets of the associate	13,484	2,642
Proportion of SaskCentral's ownership interest	33.3%	45.45%
	4,495	1,201
Other adjustments	23	-
Carrying amount of SaskCentral's interest in associates	4,518	1,201

SaskCentral received the following distributions from its investments in associates:

	2018 $	2017 $
Celero Solutions	644	550
SEF JV	1,049	-
	1,693	550

15. PROPERTY, PLANT AND EQUIPMENT

	2018 $			
	Land	Building	Furniture and equipment	Total
Cost				
Balance as at January 1	1,376	33,208	5,006	39,590
Additions	-	1,144	226	1,370
Disposals	-	(9)	(388)	(397)
Ending balance as at December 31	1,376	34,343	4,844	40,563
Accumulated depreciation				
Balance as at January 1	-	9,249	3,609	12,858
Depreciation charges	-	1,139	525	1,664
Disposals	-	(9)	(386)	(395)
Ending balance as at December 31	-	10,379	3,748	14,127
Carrying value as at December 31	1,376	23,964	1,096	26,436

	2017 $			
	Land	Building	Furniture and equipment	Total
Cost				
Balance as at January 1	859	12,362	4,290	17,511
Additions	-	612	584	1,196
Additions from business combination [note 33]	517	17,395	255	18,167
Adjustment from business combination [note 33]	-	2,839	-	2,839
Disposals	-	-	(123)	(123)
Ending balance as at December 31	1,376	33,208	5,006	39,590
Accumulated depreciation				
Balance as at January 1	-	8,061	3,245	11,306
Depreciation charges	-	1,188	481	1,669
Disposals	-	-	(117)	(117)
Ending balance as at December 31	-	9,249	3,609	12,858
Carrying value as at December 31	1,376	23,959	1,397	26,732

16. INVESTMENT PROPERTY

Investment property consists of the portion of the Regina commercial office building not occupied by SaskCentral and the Ottawa commercial office building that SaskCentral holds as a consequence of enforcing its security interest over certain commercial mortgages. SaskCentral uses the cost model to account for its investment properties.

16. INVESTMENT PROPERTY (continued)

Details of SaskCentral's investment property are as follows:

	2018 $	2017 $
Cost		
Balance as at January 1	**23,770**	11,449
Additions	**1,564**	522
Transfer to held for sale [note 34]	**(16,964)**	-
Additions from business combination [note 33]	**-**	14,638
Adjustment from business combination [note 33]	**-**	(2,839)
Ending balance as at December 31	**8,370**	23,770
Accumulated depreciation		
Balance as at January 1	**2,183**	1,663
Depreciation charges	**564**	520
Reclassification of accumulated impairment to assets held for sale [note 34]	**(804)**	-
Ending balance as at December 31	**1,943**	2,183
Carrying value as at December 31	**6,427**	21,587

Regina commercial office building

The fair value of SaskCentral's Regina investment property at December 31, 2018 is $19,384 (2017 - $19,808). The fair value of the Regina investment property has been arrived at on the basis of a valuation completed by management.

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

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

Income approach	2018	2017
Rent per square foot (in actual Canadian dollars)	**$11 - $18**	$11 - $18
Parking rate per month (in actual Canadian dollars)	**$198.55**	$212.50
Vacancy rate	**9.49%**	10.34%
Capitalization rate	**7.5%**	7.5%

In 2018, the Regina investment property generated rental income of $2,453 (2017 - $2,503). Direct operating expenses recognized in the consolidated statement of profit or loss were $1,115 (2017 - $1,777).

Ottawa commercial office building

SaskCentral holds the Ottawa investment property as a consequence of enforcing its security interest over certain commercial mortgages. In November 2018, SaskCentral entered into an agreement with a third party to dispose of its investment property along with the associated assets and liabilities. Consequently the affected assets and liabilities have been reclassified and presented separately in the consolidated balance sheet as held for sale. Refer to note 34 for details on the current year investment property.

16. INVESTMENT PROPERTY (continued)

The fair value of SaskCentral's Ottawa investment property at December 31, 2017 was $16,980. The fair value of the Ottawa investment property was arrived at on the basis of a valuation completed by external real estate experts.

The fair value in 2017 was determined using unobservable inputs and the discounted cash flow method, which results in this asset being classified at Level 3 in the fair value hierarchy. A range of 7.5% to 8.0% was used for discount rates to determine the fair value.

In 2017, the Ottawa investment property generated rental income of $2,504. Direct operating expenses recognized in the consolidated statement of profit or loss were $2,070. See note 34 for current year rental income and direct operating expenses on the Ottawa investment property.

17. INTANGIBLE ASSETS

	2018 $		
	Computer software	Intangible assets under development	Total
Cost			
Balance as at January 1	4,831	1,668	6,499
Additions	1,469	1,784	3,253
Disposals	-	(2,234)	(2,234)
Ending balance as at December 31	6,300	1,218	7,518
Accumulated amortization			
Balance as at January 1	3,915	-	3,915
Amortization charges	731	-	731
Ending balance as at December 31	4,646	-	4,646
Carrying value as at December 31	1,654	1,218	2,872

	2017 $		
	Computer software	Intangible assets under development	Total
Cost			
Balance as at January 1	3,423	-	3,423
Additions	158	1,800	1,958
Additions from business combination [note 33]	1,250	875	2,125
Disposals	-	(1,007)	(1,007)
Ending balance as at December 31	4,831	1,668	6,499
Accumulated amortization			
Balance as at January 1	3,225	-	3,225
Amortization charges	690	-	690
Ending balance as at December 31	3,915	-	3,915
Carrying value as at December 31	916	1,668	2,584

18. INCOME TAXES

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

	2018 $	2017 $
Current income tax expense (recovery)		
Current tax on income for current year	15,047	13,733
Current tax from adjustments for prior years	297	(615)
	15,344	13,118
Deferred income tax expense (recovery)		
Origination and reversal of temporary differences	2,937	(21,545)
Deferred tax from adjustments for prior years	(296)	528
Impact of tax rate changes	1	(12)
	2,642	(21,029)
	17,986	(7,911)

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

	2018 $	2017 $
Current income tax expense (recovery)		
Net unrealized gains (losses) on FVTOCI (2017 – available-for-sale) securities	844	(1,276)
Reclassification of gains on FVTOCI (2017 – available-for-sale) securities to profit or loss	(253)	(183)
Reclassification of impairment losses on FVTOCI securities to profit or loss	32	-
Net unrealized gains on FVTOCI loans	267	-
Reclassification of gains on FVTOCI loans to profit or loss	(205)	-
Reclassification of impairment losses on FVTOCI loans to profit or loss	95	-
Net gains on derivatives designated as cash flow hedges	(61)	1,006
Reclassification of gains on derivatives designated as cash flow hedges to profit or loss	(266)	(191)
	453	(644)
Deferred income tax (recovery) expense		
Net unrealized gains (losses) on FVTOCI (2017 - available-for-sale) securities	(152)	1,191
Reclassification of losses on FVTOCI (2017 - available-for-sale) securities to profit or loss	31	31
Own credit risk reserve	(2,233)	-
	(2,354)	1,222
	(1,901)	578

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

	2018 $	2017 $
Reduction in income taxes due to payment of dividends		
Deferred income tax recovery	(8,262)	(2,879)
	(8,262)	(2,879)

18. INCOME TAXES (continued)

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

Total income tax reported in the consolidated financial statements:

	2018 $	2017 $
Income tax expense (recovery)	7,823	(10,212)

Reconciliation of income tax expense from continuing operations:

	2018 $	2017 $
Combined federal and provincial income tax rate applied to income from operations (2018 – 27%; 2017 – 26.75%)	17,148	28,148
Income tax expense adjusted for the effect of:		
Lower average tax rate applicable to subsidiaries	-	(5)
Impact of change in tax rates	166	(12)
Non-taxable dividend income	(144)	(157)
Expenses not deductible for tax purposes	194	89
Adjustments related to prior periods	963	(299)
Reversal of deferred tax liability on acquisition of control	-	(22,080)
Tax not recorded on gain on acquisition of control	-	(12,920)
Amounts taxed at other than general income tax rate	(27)	-
Other	(314)	(675)
	17,986	(7,911)

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 21% (2017 - 21%) for SaskCentral and 27% (2017 - 27%) for Concentra Bank. The movement in deferred income tax asset (liability) is as follows:

	2018 $	2017 $
Balance, beginning of year	1,521	(19,871)
Acquired in business combinations [note 33]	-	(448)
Impact of adopting IFRS 9 [note 3]	(1,539)	-
Recognized in profit or loss	(2,642)	21,029
Recognized in OCI:		
Available-for-sale securities:		
Fair value measurement	152	(1,191)
Transfer to profit or loss	(31)	(31)
Own credit risk reserve	2,233	-
Recognized in retained earnings	8,262	2,879
Other adjustments	2	(846)
Balance, end of year	7,958	1,521

18. INCOME TAXES (continued)

The components of deferred income taxes are as follows:

	2018 $	2017 $
Deferred income tax assets		
Non capital loss carryforward	11,956	7,197
Loans	12,808	11,516
Deposits	2,616	5,431
Accounts payable and deferred revenue	(284)	234
Losses not yet deductible for tax purposes	110	138
Other	930	831
	28,136	25,347
Deferred income tax liabilities		
Securities	(3,737)	(3,677)
Securitization liabilities	(13,888)	(17,762)
Property, plant and equipment	(2,532)	(2,387)
Other	(21)	-
	(20,178)	(23,826)
Net deferred income tax asset (liability)	7,958	1,521

	2018 $	2017 $
Deferred income tax assets		
Recoverable within 12 months	-	234
Recoverable after more than 12 months	13,931	5,990
	13,931	6,224
Deferred income tax liabilities		
Payable within 12 months	(1,536)	(519)
Payable after more than 12 months	(4,437)	(4,184)
	(5,973)	(4,703)
Net deferred income tax asset (liability)	7,958	1,521

Deferred income tax assets are recognized for tax losses carried forward only to the extent that realization of the related tax benefit is probable. SaskCentral has non-capital loss carryforwards of $44,281 (2017 - $26,654) which are available to offset future taxable income. The balance of these loss carryforwards will expire in the years 2030 ($7,583), 2032 ($1,447), 2037 ($17,958) and 2038 ($17,293). The benefit of the tax losses has been recognized in SaskCentral's financial statements as realization of the related tax benefit is probable.

19. DEPOSITS

Provincial Liquidity Program

The Provincial Liquidity Program requires Saskatchewan credit unions to maintain deposits with SaskCentral based on 10% of credit union deposits and loan liabilities (mandatory liquidity). Credit unions utilize Concentra Bank deposits for their excess liquidity.

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

	2018 $							
		Term to maturity						
	Effective rate [1]	On demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	No fixed maturity	Total
Amortized cost								
Capital market deposits	2.81%	-	-	-	149,733	-	-	149,733
Commercial deposits	1.24%	166,178	20,063	411	203	-	-	186,855
Consumer deposits	1.69%	511,537	288,037	324,596	102,196	-	-	1,226,366
Personal deposits	2.50%	96,494	242,571	993,523	2,074,353	5	-	3,406,946
		774,209	550,671	1,318,530	2,326,485	5	-	4,969,900
Designated at FVTPL								
Provincial liquidity program [2]	2.00%	-	142,316	296,621	927,856	-	652,251	2,019,044
		774,209	692,987	1,615,151	3,254,341	5	652,251	6,988,944
Accrued interest								50,490
								7,039,434

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

[2] *the amortized cost of deposits designated at FVTPL at December 31, 2018 is equal to $2,025,160, resulting in cumulative unrealized gains on these deposits of $6,116.*

	2017 $							
		Term to maturity						
	Effective rate [1]	On demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	No fixed maturity	Total
Commercial deposits	0.89%	164,317	62	427	147	-	-	164,953
Consumer deposits	1.06%	627,621	276,013	237,899	104,629	-	-	1,246,162
Personal deposits	2.09%	181,646	130,714	689,343	1,595,479	-	-	2,597,182
Provincial liquidity program	1.29%	-	120,204	340,075	867,620	-	629,876	1,957,775
		973,584	526,993	1,267,744	2,567,875	-	629,876	5,966,072
Accrued interest								32,243
								5,998,315

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

Interest rates on deposits are determined by market conditions.

20. LOANS AND NOTES PAYABLE

Repurchase payable

SaskCentral has available credit facilities related to securities repurchase agreements from National Bank Financial, Toronto Dominion Bank, Royal Bank of Canada and Bank of Nova Scotia. These repurchase agreements mature within twelve months (2017 – twelve months) and have a weighted average effective interest rate of 1.93% (2017 – 1.13%)

Lines of credit

SaskCentral has a credit facility with Central 1 for $100,000 (2017 - $100,000) for which SaskCentral has pledged securities with the Bank of Canada to support the group clearing agreement (note 30). The balance of the credit facility is unsecured, ranking equally with the deposit obligations of SaskCentral.

In addition, SaskCentral has a secured credit facility with Canadian Imperial Bank of Commerce for $50,000 (2017 - $50,000) where SaskCentral is required to maintain a borrowing base comprised of fixed income collateral. This line of credit bears interest at banker's acceptance rate plus 0.45% (2017 – banker's acceptance rate plus 0.45%).

SaskCentral also has a secured credit facility with a major Schedule 1 Canadian bank for $500,000 (2017 - $500,000). The facility bears interest at the banker's acceptance rate plus 0.50% (2017 - banker's acceptance rate plus 0.50%) and is secured by insured residential mortgages or other qualified securities.

Notes payable

SaskCentral is authorized to issue a maximum of $600,000 (2017 - $600,000) under a commercial paper and the Bearer Deposit Note (BDN) program. Outstanding notes payable matures within twelve months (2017 – twelve months).

	Loans and notes payable		Collateral			
			Securities pledged			
			Fair value		Carrying value	
	2018	2017	2018	2017	2018	2017
	$	$	$	$	$	$
Repurchase payable	181,717	270,943	181,190	270,272	181,024	269,990
Lines of credit	141	609	257,545	384,354		384,614
Notes payable	193,768	259,958	-	-	259,015	-
	375,626	531,510	438,735	654,626	440,039	654,604

21. OTHER LIABILITIES

	2018 $	2017 $
Servicing liabilities [note 13]	10,022	6,652
Deferred revenue	128	602
Allowance for undrawn commitments	815	-
	10,965	7,254

22. SHARE CAPITAL

Under the Act, SaskCentral is authorized to issue an unlimited number of membership shares. Also under the Act, SaskCentral may, by bylaw, establish one or more classes of membership. SaskCentral is authorized to issue the following classes of membership shares:

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

Each member of SaskCentral must own at least one Class A or Class B membership share.

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

Class A membership shares

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

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

At December 31, 2018, 16,283,238 Class A membership shares (2017 – membership shares of 16,160,746) were issued and outstanding. Membership shares issued during the year were exchanged for cash.

Class B membership shares

The Class B membership shares provide the right to vote, with similar voting privileges as Class A membership shares, and the right to receive dividends declared on the Class B membership shares. Class B membership shares may be redeemed only with the approval of the Board subject to the limits provided in the Act. In accordance with the bylaws of SaskCentral, Class B membership shares are to be issued and redeemed at $10 per share. Upon liquidation or dissolution of SaskCentral, the Class B membership shareholders will be entitled to receive $10 per share following the payment of $10 per share to the holders of the Class A membership shares. Following the distribution of the $10 per share to both Class A and B members, the Class B shareholders are entitled to share equally, on a share by share basis, with the Class A membership shares in the remaining assets of SaskCentral.

There are currently no series of Class B membership shares approved for issuance.

22. SHARE CAPITAL (continued)

Investment shares

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

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

23. DIVIDENDS

In 2018, dividends of $35,112 (2017 - $14,145) were declared, as approved by the Board. Of the amount recognized in 2018, on December 12, 2018, the Board approved payment of a dividend of $1,128 to be paid to credit unions on January 18, 2019.

24. NET INTEREST INCOME

	2018 $	2017 $
Interest income		
Financial assets measured at amortized cost	197,837	N/A
Financial assets measured at FVTOCI	72,395	N/A
Financial assets measured at FVTPL	947	N/A
Financial assets designated at FVTPL	35,847	N/A
	307,026	N/A
Interest expense		
Financial liabilities measured at amortized cost	172,033	N/A
Financial liabilities designated at FVTPL	34,084	N/A
	206,117	N/A
Net interest income	100,909	N/A

25. DUES AND FEE FOR SERVICE

Disaggregation of revenue

In the following table, revenue is disaggregated by timing of revenue recognition and major revenue sources.

	2018 $
Dues	
Services transferred over time	2,791

	2018 $
Fee for service revenue	
Services transferred at a point in time	
Deposit and lending education	344
Clearing and settlement	12,426
Estate fees	1,137
Banking fees	1,528
	15,435
Services transferred over time	
Liquidity management assessment	5,000
Consulting	4,963
Management oversight	1,772
Syndication and servicing fees	5,284
Professional fees	1,089
Trust fees	7,228
Other revenue	
Tenant revenue	4,200
Parking revenue	264
Foreign exchange revenue	130
Miscellaneous revenue	52
	29,982
	45,417

As described in note 2.1 (e), SaskCentral has applied IFRS 15 using the cumulative effect method. Under this method, the 2017 revenue has not been disclosed above.

26. SALARY AND EMPLOYEE BENEFITS

SaskCentral contributes annually to a defined contribution pension plan for employees. During the year, SaskCentral contributed $2,096 (2017 - $2,098) in defined contributions. These costs are included in salary and employee benefits. The contributions are held in trust by the Co-operative Superannuation Society. As a defined contribution pension plan, SaskCentral has no future obligation for future contributions to fund benefits to plan members.

27. PROFESSIONAL AND ADVISORY SERVICES

	2018 $	2017 $
Canadian Credit Union Association cost sharing	-	2,144
Professional fees	12,505	16,652
	12,505	18,796

28. GAIN ON FINANCIAL INSTRUMENTS

	2018 $	2017 $
Realized gains arising on financial assets measured as at FVTOCI (2017 - available-for-sale)	1,662	623
Unrealized and realized (losses) gains arising on financial assets measured at FVTPL (2017 – held for trading)	(1,546)	41
Unrealized and realized gains arising on financial assets designated as at FVTPL	263	-
Unrealized losses arising on financial liabilities designated as at FVTPL	(10,329)	-
Realized gains on loans at amortized cost	308	1,893
Gains on derecognized securitizations	4,536	1,110
Reclassification of net change in fair value on financial liabilities designated as at FVTPL from profit or loss to OCI (own credit risk reserve)	8,270	-
Recovery on loan provision	-	251
Unrealized and realized (losses) gains on derivatives	(52)	897
Ineffective portion of fair value hedges	(5)	(12)
	3,107	4,803

SaskCentral provided loans to Castor Holdings Ltd. (Castor), a real estate lending company, over a number of years in the late 1980s and early 1990s. Castor declared bankruptcy in 1992. As the credit was unsecured, SaskCentral recognized a full allowance in 1992. SaskCentral is a member of a group of financial institutions which sought legal proceedings against the auditors of Castor for negligence in the performance of their audit. A settlement proposal was accepted by the plaintiffs in the second quarter of 2015. In 2015, SaskCentral received a total of $1,719 in settlement proceeds, which were recorded as a recovery on loan provision. SaskCentral received a final settlement of $251 in 2017, which was recorded as a recovery on loan provision.

29. RELATED PARTY TRANSACTIONS

Related parties exist when one party has the ability to directly or indirectly exercise control, joint control or significant influence over the other or is a member of the key management personnel of SaskCentral. SaskCentral defines key management personnel as directors and the management positions.

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

29. RELATED PARTY TRANSACTIONS (continued)

SaskCentral provided a variety of services to Concentra Bank and Celero Solutions. Some of the services provided include facility services and financial services. SaskCentral also received financial services from Concentra Bank and CUPS and technology services from Celero Solutions. All related party transactions with Concentra Bank and CUPS are eliminated upon consolidation and therefore, related party information with Concentra Bank and CUPS is not disclosed below.

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

	2018 $	2017 $
Celero Solutions		
Loan receivable from (amount drawn on line of credit)	**2,711**	2,711
Due from included in trade and other receivables	**166**	75
Due to included in trade and other payables	**1,520**	625
Interest received from	**98**	87
Fee for service revenue received from	**1,123**	1,165
Technology services paid to	**14,737**	6,427
Sale of line of business to [1]	**200**	-
CUC Wealth		
No related party transactions, except for those disclosed in notes 4 and 14, occurred between SaskCentral and CUC Wealth for the year ended December 31, 2018.		

[1] *During the year, CUPS sold the Doxim line of business to Celero Solutions for proceeds and gain of $400. SaskCentral's portion of the gain was $200.*

Key management compensation

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

	2018 $	2017 $
Directors		
Salaries and other short-term employee benefits	**646**	626
Post-employment and other long term benefits	**6**	6
	652	632
Key management personnel		
Salaries and other short-term employee benefits	**8,113**	7,169
Post-employment and other long term benefits	**853**	736
Termination benefits	**760**	197
	9,726	8,102
	10,378	8,734

30. COMMITMENTS

Credit commitments

Loan commitments consist of authorized but undrawn lines of credit and loans as well as letters of credit. Loan commitments represent a maximum credit exposure to SaskCentral. If applicable, the maximum credit exposure to SaskCentral under certain letters of credit includes amounts for which SaskCentral has recourse to a third party lender.

Origination commitments consist of agreements committing SaskCentral to fund a specified amount of qualifying consumer loans originated by third party brokers. As the commitments are not tied to specific borrowings, they do not represent a credit risk exposure and consequently are not subject to impairment. The committed amount represents the maximum amount of loans to be funded by SaskCentral over the term of the underlying agreements and the actual amount funded may be lower than the disclosed commitment.

SaskCentral earns minimal fees on commitments. The following table summarizes the contractual maturities of the financial assets underlying SaskCentral's credit commitments:

	2018 $	2017 $
Lines of credit and loan commitments		
Loans at amortized cost		
Original term to maturity of one year or less	753,942	990,223
Original term to maturity of more than one year	187,635	120,753
Loans at FVTPL		
Original term to maturity of more than one year	20,500	N/A
	962,077	1,110,976
Letters of credit and guarantees		
Original term to maturity of one year or less	38,055	58,692
Original term to maturity of more than one year	10,500	5,937
	48,555	64,629
Origination commitments	8,500	43,332
	1,019,132	1,218,937

Contractual commitments

As of December 31, 2018, SaskCentral has significant contractual commitments made on behalf of credit unions for data, management, risk management, technology management support and telecommunication services. In addition, SaskCentral also has contractual commitments for its own operations. The contracts have varying terms over 5 years.

30. COMMITMENTS (continued)

Total expected cash outflows resulting from these contracts over their respective terms amount to approximately $12,537 (2017 – $9,192). Actual amounts incurred may differ from the estimates calculated.

	2018 $	2017 $
Open Solutions Canada – Data Services	-	45
CRI Canada – Data Services	1,382	548
Jack Henry & Associates – ProfitStars	46	46
Hyland Software - ECM Solution	300	236
SaskTel – Telecommunication Services	4,975	6,601
SaskTel – Technology Management	180	-
Celero Solutions – Support Services	3,596	1,528
Celero Solutions – Technology Management	1,042	-
Everlink – Card Issuance Services	401	188
Everlink – Risk Management Services	483	-
Central 1 – Risk Management Services	132	-
	12,537	9,192

Group Clearing Agreement

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

Litigation and other contingencies

SaskCentral is subject to various claims and litigation arising from time to time in the ordinary course of business. SaskCentral records a legal provision when it becomes probable that SaskCentral will incur a loss and the amount can be reliably estimated. SaskCentral believes its established legal provisions represent the best estimate of the expenditure required to settle current and pending litigation proceedings and the related legal costs, based on currently available information. However, given the uncertainties inherent in litigation proceedings, there is a possibility that the ultimate resolution may materially differ from current estimates.

31. SUBSIDIARIES

CUVentures LP

SaskCentral owns 100% (2017 – 100%) of the partnership units of CUVentures LP. Through its 100% ownership of CUVentures Inc., SaskCentral has control over CUVentures LP and CUVentures LP is consolidated into these financial statements. CUVentures LP's principal place of business is Regina, Saskatchewan. CUVentures LP previously owned an investment in APEX Investment LP (APEX) on behalf of the credit unions, which SaskCentral consolidated and classified as non-controlling interest in these consolidated financial statements. In 2017, the ownership of APEX was transferred directly to the credit unions.

31. SUBSIDIARIES (continued)

Concentra Bank

SaskCentral owns 84.0% (2017 – 84.0%) of the common shares of Concentra Bank. As described in note 4, SaskCentral has control over Concentra Bank as a result of SaskCentral's ability to call a special resolution vote on any matter or Board decision related to Concentra Bank and its voting interest in Concentra Bank. Concentra Bank is consolidated into these financial statements. Concentra Bank owns 100% of the common shares of Concentra Trust. Concentra Bank's principal place of business is Regina, Saskatchewan.

The portion of net assets and income attributable to third parties is reported as non-controlling interest and profit or loss attributable to non-controlling interest in the consolidated balance sheet and consolidated statement of profit or loss, respectively. The non-controlling interest of Concentra Bank were initially measured at fair value on the date of acquisition.

The following table summarizes the financial information relating to SaskCentral's subsidiaries, before any intra-group eliminations:

	2018 $	
	CUVentures LP	Concentra Bank
Assets	1,205	9,679,409
Liabilities	-	9,200,207
Revenue	3	296,821
Profit (loss)	3	40,555
Other comprehensive income	-	1,234
Total comprehensive income	3	41,789

	2017 $	
	CUVentures LP	Concentra Bank
Assets	1,201	9,126,672
Liabilities	-	8,669,729
Revenue	6	267,776
(Loss) Profit	(1,543)	33,647
Other comprehensive loss	-	(1,764)
Total comprehensive (loss) income	(1,543)	31,883

31. SUBSIDIARIES (continued)

The following table provides a continuity of non-controlling interest:

	2018 $	2017 $
Balance at beginning of year	170,675	489
Impact of adopting IFRS 9 [note 3]	(1,447)	-
Non-controlling interest arising on the acquisition of Concentra Bank [note 33]	-	166,817
Comprehensive income attributable to non-controlling interest for the year	11,142	9,607
Increase/decrease in share capital	-	(489)
Dividends	(5,963)	(5,749)
Balance at end of year	174,407	170,675

32. JOINT OPERATION

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

33. ACQUISITION OF SUBSIDIARY

On January 1, 2017, Concentra Financial ceased operations as an association governed by the CCAA and continued as a Schedule 1 chartered bank governed by the Bank Act (Canada). On this date, Concentra Financial's legal name changed to Concentra Bank. Prior to bank continuance, SaskCentral held 84.0% of the non-voting Class A shares and 47.1% of the voting membership shares of Concentra Financial and was limited to one vote out of 235 member votes on ordinary resolutions brought to members. SaskCentral accounted for Concentra Financial as an investment in associate prior to bank continuance. Effective January 1, 2017, SaskCentral held 84.0% of the voting common shares of Concentra Bank, providing SaskCentral control of Concentra Bank through virtue of shareholder voting rights. No consideration was transferred to Concentra Bank as a result of the transaction.

Fair value of previously held interest

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

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

33. ACQUISITION OF SUBSIDIARY (continued)

Gain on acquisition of control

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

Assets acquired and liabilities assumed at the date of acquisition

The following table summarizes the recognized amounts of assets acquired and liabilities assumed at the date of acquisition.

	2017 $
Assets	
Cash [note 8]	194,379
Securities [note 9]	1,434,144
Derivative assets [note 10]	21,053
Loans [note 11]	7,723,162
Other securitization assets [note 13]	33,180
Trades and other receivables	10,490
Other assets	768
Property, plant and equipment [note 15]	18,167
Investment property [note 16]	14,638
Intangible assets [note 17]	2,125
Current income tax asset [note 18]	4,486
Deferred income tax asset [note 18]	178
	9,456,770
Liabilities	
Deposits [note 19]	4,239,403
Derivative liabilities [note 10]	21,638
Loans and notes payable [note 20]	381,977
Securitization liabilities [note 13]	4,310,912
Subordinated debentures	26,117
Trade and other payables	44,288
Other liabilities [note 21]	6,212
Current income tax liabilities [note 18]	163
Deferred income tax liabilities [note 18]	626
	9,031,336
Total identifiable net assets acquired	425,434

The loans and trade and other receivables acquired had a fair value of $7,733,652 and gross contractual amounts of $8,728,731, including $976,991 of undrawn loans, letters of credit and origination commitments. The best estimate at acquisition date of the contractual cash flows not expected to be collected is $18,088.

33. ACQUISITION OF SUBSIDIARY (continued)

The valuation techniques used for measuring the fair value of material assets acquired were as follows.

Assets and liabilities acquired	Valuation technique
Loans and other securitization assets	*Discounted cash flow technique (income approach):* The valuation model discounts the future cash flows to determine market value. The discount rates were based on observable market returns generated for similar assets (Level 2). In the ordinary course of business, future cash flows have been adjusted for expected impairment.
Property, plant and equipment	*Income approach:* The estimated fair value was developed based on current and future income that could be generated by the investment property through rents based on estimated market rates (Level 3). The Level 3 inputs used to calculate the fair value include rent per square foot ranging from $16 to $22, parking rate per month ranging from $165 to $250, a vacancy rate of 5.7% and a capitalization rate of 6.5%.
Deposits, securitization liabilities, subordinated debentures and servicing liabilities	*Discounted cash flow technique (income approach):* The valuation model discounts the future cash flows to determine market value. The discount rates were based on observable market returns generated for similar liabilities (Level 2).

The remaining assets acquired were measured at the carrying value, which is equivalent to fair value.

Non-controlling interest

The following table summarizes the information relating to non-controlling interest recognized as part of the acquisition of control.

	2017 $
Proportionate share of interest in Concentra Bank's common shares (16.0%)	57,022
Class A preferred shares	109,795
	166,817

SaskCentral measured the non-controlling interest components at fair value. The techniques used for measuring the fair value of non-controlling interest were as follows:

- The non-controlling interest recognized at the acquisition date was measured as the proportionate share of its interest in the fair value of Concentra Bank's identifiable net assets. This fair value was estimated by applying a discounted cash flow technique (income approach). The key model inputs used in determining the fair value of non-controlling interest is similar to inputs used in estimating fair value of previously held interest as described above.

- The non-controlling interest related to the Class A preferred shares not held by SaskCentral recognized at the acquisition date was estimated by applying a discounted cash flow technique (income approach). Future cash flows were determined based on coupon rates ranging from 4.6% to 5.2%. A discount rate used of 5.59% was based on observable market returns generated for similar assets (Level 2).

33. ACQUISITION OF SUBSIDIARY (continued)

Goodwill arising on acquisition

	2017 $
Consideration transferred	-
Fair value of pre-existing interest in Concentra	299,785
Plus non-controlling interest (16.0% of common shares – Concentra Bank)	57,022
Plus non-controlling interest (Class A preferred shares – Concentra Bank)	109,795
Less fair value of identifiable net assets acquired	(425,434)
Add deferred tax on fair value differentials	811
Goodwill arising on acquisition	**41,979**

The goodwill arising from the acquisition of control of Concentra is mainly attributed to the stability in earnings and liquidity, compliance with the regulator and Concentra's ability to operate as a bank nationally. None of the goodwill arising on acquisition is expected to be deductible for tax purposes. No impairment has been recorded in the current year relating to the goodwill.

Impact of acquisition on the results of SaskCentral

For the year-ended December 31, 2018, Concentra Bank contributed revenue of $296,821 (2017-$267,776) and profit of $40,555 (2017-$33,647) to SaskCentral's results.

34. ASSETS AND LIABILITIES HELD FOR SALE

	2018 $
Assets held for sale	
Cash	536
Accounts receivable	40
Investment property	16,160
Total assets held for sale	**16,736**
Liabilities held for sale	
Accounts payable	218
Total liabilities held for sale	**218**

In November 2018, SaskCentral entered into an agreement with a third party to dispose of its investment property along with the associated assets and liabilities. Consequently the affected assets and liabilities have been reclassified and presented separately in the consolidated balance sheet as held for sale and are measured at the lesser of fair value less costs to sell and their previous carrying value. The reclassification resulted in no gain or loss being recognized in the consolidated statement of income.

In 2018, the Ottawa investment property generated rental income of $2,555. Direct operating expenses recognized in the consolidated statement of profit or loss were $2,146.

Completion of the sale is subject to the third party finalizing arrangements for financing which is expected to occur in the first quarter of 2019.