SaskCentral Annual Report

2018

SASKCENTRAL®

CONTENTS

Vision, Purpose, Values

Our Vision

The ultimate destination of our company:

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

Our Purpose

How we plan to get there:

We lead and support Tier II services and transformation necessary for vibrant and sustainable credit unions.

Our Values

The standards and principles by which our brand lives:

- Honest
- Trustworthy
- Co-operative
- Enterprising

Letter from the President and the CEO

In 2018, SaskCentral remained clearly focussed on fostering a wholesale services business environment to help ensure vibrant and sustainable credit unions. We continued work to achieve our vision of a "*nationally unified, internationally capable, co-operative financial network*", and made progress on the two main goals laid out in our Business Plan - *National Collaboration and Credit Union Experience*.

We saw credit unions grow to close to $23.8 billion in assets, serving more than 481,000 members, and driving new innovations such as Canada's first authenticated voice banking service using Amazon Alexa and continued expansion of digital strategies such as mobile pay.

We saw success with the closing of Aviso Wealth, a merger of Credential Financial Inc., Northwest & Ethical Investments LP, and Qtrade Canada Inc. on April 1, 2018, allowing credit unions across Canada to offer a complete financial management solution to members. Aviso Wealth is jointly owned by the five provincial Centrals and CUMIS, on behalf of credit unions, as well as Desjardins Financial.

In August, we were pleased with an announcement by Central 1 to transition services in government relations, provincial research and awareness & marketing activities to the Canadian Credit Union Association (CCUA), aligning with CCUA's mandate as the trade association for Canadian credit unions. SaskCentral was the first Central to transition services in 2017 and continues to advocate for other Centrals to do the same.

In our efforts to prepare for Payments Canada Modernization and participate in a national payments strategy, a key highlight was renewing the Group Clearing Joint Venture (GCJV) agreement for another three years. The GCJV includes the three prairie Centrals and Central 1 and is taking a lead role in Payments Canada Modernization readiness.

Throughout 2018, we continued our work to ensure Concentra Bank, our largest investee, is aligned with our national mandate. As a start, SaskCentral and Concentra agreed to a set of collaborative information sharing principles, which we will use as a template to ensure collaboration with all of our strategic investees.

Work to accommodate a federal credit union within the provincial system also continued in 2018, with significant progress made on the development of a legal and financial framework. As well, we completed draft contractual agreements to continue to provide services to Innovation Credit Union after it becomes a federal credit union.

In the area of Government Relations, CCUA saw success in its advocacy efforts to redefine political contributions in Saskatchewan's *Election Act* to exclude loans from financial institutions, including credit unions. In the past, the inclusion of loans had created public misconceptions for credit unions and seeing the change made to the Act was a great win.

CCUA also made substantial progress on the development of a national voluntary Market Conduct Code (MCC), which is based on Saskatchewan's current Code. After incorporating feedback from credit unions, CCUA expects to roll out a finalized version to credit unions by June, 2019. The goal of the MCC is to demonstrate how credit unions

Letter from the President and the CEO

commit to the best interests of their members, and reduce potential regulatory burden in the future.

Again, SaskCentral's people and strong culture were key factors in our success. We achieved 89% for employee engagement in the Organizational Effectiveness Inventory (OEI) survey, exceeding our target for 2018. In an environment of ongoing change, we also continued to equip our workforce with tools to remain agile and resilient, implementing a set of six Cultural Practices. These were developed by and for employees, and integrated into recognition, recruitment and performance management programs.

As we continue to navigate a rapidly evolving credit union landscape, driven by developments in technology, changes in consumer behaviour, and intense competitive pressures, the need to achieve our national vision will continue to grow. We know that achievement of the vision will require transformation of the provincial Centrals as well as the broader wholesale service providers to better serve credit unions.

We made good progress in 2018. The work will continue in 2019 and supporting credit union success will continue to guide all we do and all decisions we make.

Russ Siemens,
President

Keith Nixon,
CEO

Corporate Profile

SaskCentral is the liquidity manager and key consulting service supplier 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, Credit Union Payment Services (CUPS), CU CUMIS Wealth Holdings LP (CUC Wealth) and Celero Solutions.

Corporate Profile

Liquidity Management

SaskCentral manages liquidity on behalf of Saskatchewan credit unions directly and through investees. Through aggregating statutory liquidity deposits, SaskCentral facilitates clearing and settlement, supports daily cash flow management and coordinates emergency liquidity support.

Statutory Liquidity Deposits

By regulation, credit unions hold 10% of their deposits with SaskCentral. These are known as statutory liquidity deposits. For investments backing deposits, SaskCentral invests in liquid assets which support clearing and settlement, daily cash flow management and emergency liquidity.

Credit unions select from a variety of term options and interest options for their statutory liquidity deposits. In March, 2018, SaskCentral restructured statutory liquidity deposits to provide credit quality options that align with Credit Union Deposit Guarantee (CUDGC) Liquidity Adequacy Requirements.

Clearing and Settlement

The movement of funds between financial institutions is known as clearing and settlement. This process occurs daily at three levels – the credit union level, the provincial level and the national level.

CUPS manages the daily clearing and settlement operations for credit unions. Settlement operations include processing of paper-based deposits and clearings, cheque and document imaging, and electronic services such as automated funds transfers and wire transfers. Daily balances are cleared through SaskCentral; the net Saskatchewan cash flow is aggregated with other provinces and the Canadian net amount is settled with the Bank of Canada.

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

Daily Cash Flow Management

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

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

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

Emergency Liquidity Support

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

Emergency funding is both sufficient and available. Sufficiency is demonstrated through liquidity coverage stress testing whereby potential credit union outflows are

Corporate Profile

evaluated against funding sources. In normal times, funding sources include repurchase agreements, the commercial paper program and a secured line of credit. In an emergency, these sources are augmented by SaskCentral's stock of High Quality Liquid Assets (HQLA).

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

Concentra Bank
Concentra Bank offers additional products to aid liquidity management, including a line of credit, an overnight account and the ability to sell commercial loans to other credit unions through Concentra Bank's syndication program. Concentra Bank also provides guidance and administrative support for mortgage securitization.

Credit unions may place excess funds above their statutory liquidity deposits with Concentra Bank. These are referred to as excess deposits.

National Consulting Services

SaskCentral's highly specialized consultants offer a wide range of back office support services so credit unions can focus on their members. The SaskCentral National Consulting team supports credit unions in creating, designing, implementing and sustaining solutions that work. Consulting services include:

- **Anti-Money Laundering Compliance Support:**
  Helps credit unions navigate the changing landscape of Anti-Money Laundering and Terrorist Financing Compliance in a customizable and cost effective way.

- **Banking and Related Services:**
  Assists credit unions with contract negotiations, legal reviews, invoicing and monitoring service levels for the eroWORKS® Retail Banking Solutions.

- **Card Issuance Services:**
  Provides support and management services to credit unions using Everlink Card Issuance for Member Card® debit card production; includes assistance with billing, card inventory, debit card carrier letters and PIN station compliance.

- **Deposit & Lending Compliance:**
  Provides credit unions with reliable and comprehensive legislative and compliance support of deposit and lending products.

- **Digital Banking Services:**
  Positions credit unions to offer the latest digital banking solutions by providing business management services, support and oversight.

- **Fraud Management:**
  Provides leadership in coordinating, developing and delivering fraud awareness information, enhancing the credit union's ability to effectively manage fraud.

- **Internal Audit:**
  Supports credit unions with effective internal audit services customized specifically for credit unions.

- **Operational Training:**
  Provides educational sessions designed to equip front-line staff with the skills to be successful in today's competitive environment.

- **Procurement Services:**
  Supports credit unions by finding scalable and customizable software solutions, using a consistent methodology to determine the best solution to meet the needs of members, while reducing duplication.

- **Strategic Planning & Risk Management:**
  Helps credit unions with effective planning and risk management using an integrated framework that is customized and scalable to the credit union's needs.

Corporate Profile

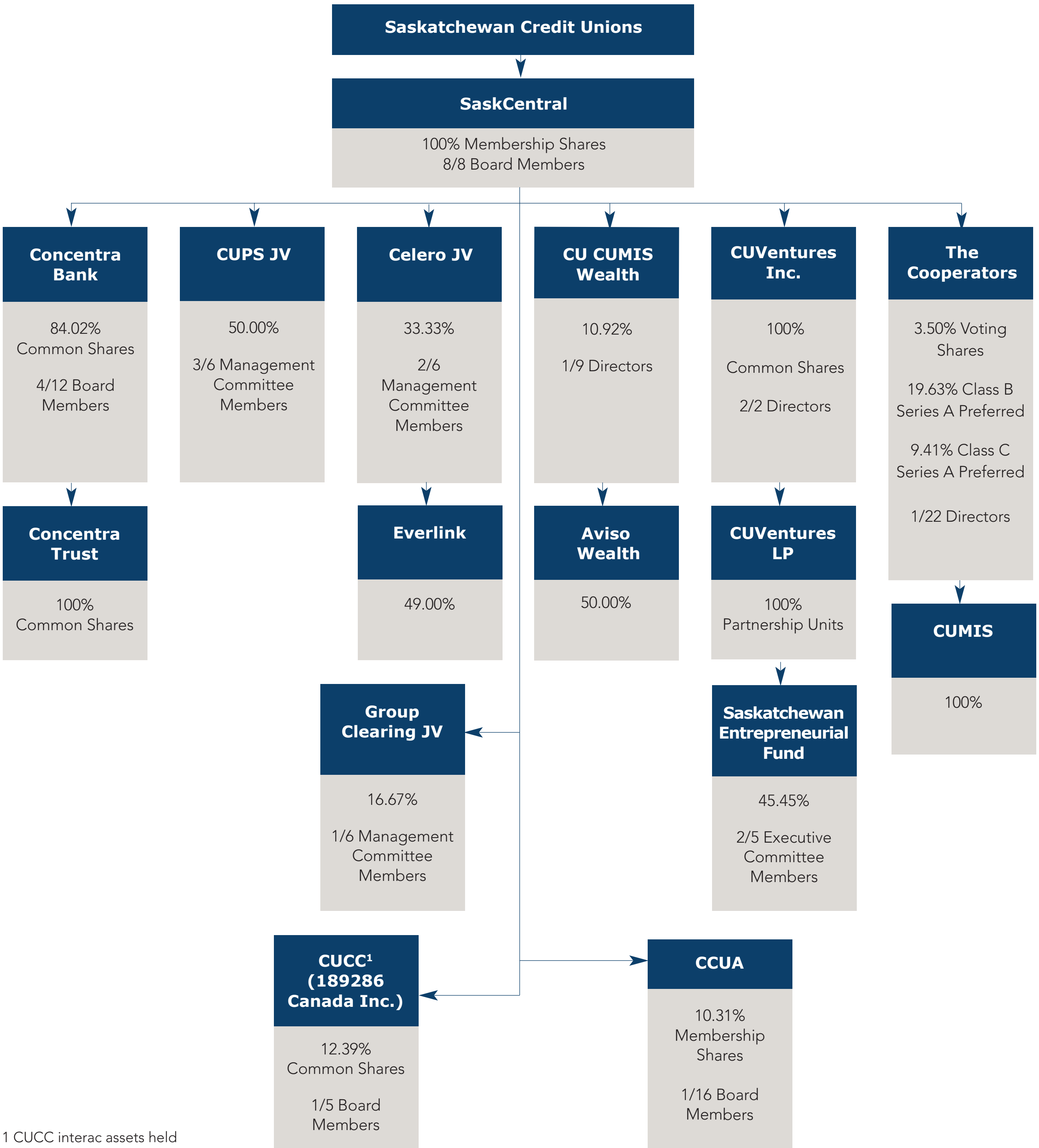
Member Relations

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

Corporate Profile

Strategic Partners

SaskCentral holds an ownership position in strategic partners as a means of ensuring access to the products and services Saskatchewan credit unions need to provide full service to their members. SaskCentral's ability to influence investee strategies is tied to its ownership interest in the investee.



1 CUCC interac assets held by numbered company.

Corporate Profile

Concentra Bank
Share ownership by SaskCentral: 84.0%

Concentra Bank is Canada's only Schedule 1 chartered bank focused on providing financial services to Canada's credit union system.

Concentra partners with credit unions to deliver wholesale and trust financial services focused on enhancing credit unions' competitive advantage and success. Concentra provides a comprehensive suite of financial and commercial banking services nationwide to credit unions, corporate clients, and deposit agents.

Concentra is owned exclusively by its credit union partners. With deep roots in the cooperative system, Concentra is built on shared values and its commitment to the success of credit unions from coast to coast.

Credit Union Payment Services (CUPS)
Joint venture participation by SaskCentral: 50.0%

CUPS is a joint venture of SaskCentral and Alberta Central and provides aggregated payment processing, clearing and settlement functions to credit unions, enabling them to provide their members with innovative, flexible and cost competitive services.

Celero Solutions
Share ownership by SaskCentral: 33.3%

Celero Solutions is a joint venture between Alberta Central, Manitoba Central and SaskCentral. Celero provides reliable, innovative and cost effective information technology solutions to its owner organizations, prairie credit unions and third party clients, resulting in aggregated lower technology costs to Saskatchewan credit unions. Celero owns 49% of Everlink Payment Services Inc.

CU CUMIS Wealth Holdings LP (CUC Wealth)
Share ownership by SaskCentral: 10.9%

Aviso Wealth, which is owned by CUC Wealth (50%) and Desjardins (50%), supports credit unions in meeting the wealth needs of their members by integrating wealth management services across Canada. The broadly based wealth management business is positioned to compete, provide wealth management products and services for members, enable and enhance member experience, and allow credit unions to take advantage of growth opportunities.

Group Clearing Joint Venture (GCJV)
Joint venture participation by SaskCentral: 16.7%

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

Canadian Credit Union Association (CCUA)
Share ownership by Saskatchewan Credit Unions (Class A): 17.0%
Share ownership by SaskCentral (Class B): 10.3%

CCUA is the national trade association for the Canadian credit union system, representing Canada's credit unions, caisses populaires outside Quebec and provincial credit union central organizations. CCUA is the first national credit union governed organization in Canada and works on behalf of its members in three key areas: advocating for legislation that supports credit unions; raising awareness for credit unions with government, media and the public; and delivering expert insights to credit unions to inform their strategies.

CUCC (legal name 189286 Canada Inc)
Share ownership by SaskCentral: 12.4%

CUCC provides payments support and specific activities in Interac to the national credit union system.

The Co-operators Group Limited
Share ownership by SaskCentral: 3.5%

The Co-operators is a 100% Canadian-owned and operated company insuring over 2 million people Canada-wide. Its member owners are co-operatives, credit unions and like-minded organizations, representing a variety of sectors and regions across the country. The Co-operators supports and funds the development of community-oriented cooperatives and social enterprises, and works to contribute to communities across Canada.

Corporate Profile

The Co-operators owns CUMIS, which partners with credit unions to deliver a wide range of insurance, wealth management and investment services. CUMIS' principal companies are CUMIS Life Insurance Company and CUMIS General Insurance.

CUVentures Inc.
Share ownership by SaskCentral: 45.5%

Investment in CUVentures enables credit unions to make an aggregate investment in the Saskatchewan Entrepreneurial Fund (SEF) and APEX Investment Fund, supporting and enhancing economic development and job creation across Saskatchewan, while providing a commercial rate of return on investment.

Business Models

Business models of SaskCentral and investees fall on a spectrum from low profit (service utility) to profit maximization.

Service utility models recognize that profits come from credit unions in the form of lower deposit rates, higher assessments or higher fees. As long as capital and liquidity are adequate, the organization strives to maximize rates paid to credit unions and minimize assessments and fees charged to credit unions. Pricing of products and services is just sufficient to cover operating costs. SaskCentral has adopted a service utility business model.

Governance

Governance processes balance investee needs to operate within their own environment with credit union needs as users and owners. SaskCentral's ability to influence investee strategies is tied to its ownership interest in the investee.

Saskatchewan credit unions are represented on Concentra's board and on management committees for CUPS and Celero. In addition, SaskCentral's CEO sits on CUPS and Celero management committees as a representative for SaskCentral, and SaskCentral's executive are engaged with Concentra through regular meetings and participation in joint working groups. SaskCentral's CFO also sits on the CUC Wealth Board. This representation provides opportunities to engage strategic investees where credit union concerns are identified (e.g. service, profitability).

SaskCentral provides updates to the board on investee's financial and non-financial measures through the quarterly Strategic Investment Management (SIM) Portfolio Report. Occasionally, investees present to the SaskCentral board at quarterly board meetings.

How Investee Earnings Are Distributed to Credit Unions

CUPS – Net earnings are settled with SaskCentral in February following year-end. CUPS earnings are included in income available for distribution in SaskCentral's dividend.

Co-operators Group Limited – Patronage dividends based on credit union usage are paid to SaskCentral and are included in income available for distribution in SaskCentral's dividend. Preferred Class B Series A shares pay 5.0% and are received annually. Preferred Class C Series A shares pay 3.0% and are received semi-annually. The member loyalty payment is received annually and can fluctuate significantly, based on the earnings of Co-operators.

CUVentures LP – CUVentures LP cash earnings are included in income available for distribution in SaskCentral's dividend.

Concentra Bank – Net earnings or losses are retained by SaskCentral through an equity positon and are not distributed to credit unions. Concentra's cash dividend is flowed through to credit unions when received.

Celero Solutions – Net earnings or losses, excluding Everlink, are settled with SaskCentral following year-end. Celero's earnings or losses are flowed through to credit unions through a distribution model based on usage, and are not included in SaskCentral's dividend.

CUC Wealth – Agreements with Aviso Wealth require that at least 90% of the earnings must be flowed through to credit unions. CUC Wealth has, at its discretion, the ability to flow through the remaining earnings to its owners. Any earnings received from CUC Wealth are included in income available for distribution in SaskCentral's dividend.

Central 1 – SaskCentral has invested $7 million in subordinated debt with Central 1 for the purpose of capitalizing the Group Clearing Joint Venture to support clearing and settlement activities. Subordinated debt interest is included in income from core operations.

Executive Team

Keith Nixon, CEO

- Joined SaskCentral: 1987
- Time in the credit union system: 38 years
- Fellows designation for the Credit Union Institute of Canada
- Certificate in Administration, University of Regina
- Board member: Canadian Credit Union Association

Debbie Lane, EVP and Chief People Officer

- Joined SaskCentral: 1992
- Chartered Professional in Human Resources (CPHR) designation
- Member: Saskatchewan Association of Human Resource Professionals (SAHRP)
- Member: Credit Union National Benefits Board (chair); Children's Wish Foundation of Saskatchewan Advisory Board (chair)

Sheri Lucas, EVP Finance, CFO, CRO

- Joined SaskCentral: 2007
- CPA, CA: Office of the Provincial Auditor, Saskatchewan
- Past employers: Saskatchewan Wheat Pool; Crown Investments Corporation of Saskatchewan
- Award: 100 Most Powerful Women in Canada for 2012
- Board member: CUC Wealth

Saskatchewan Credit Union Performance

SaskCentral is owned by Saskatchewan's credit unions. As their liquidity manager and key consulting service provider, SaskCentral helps Saskatchewan credit unions meet their own targets for success.

Through their work to help meet the financial services needs of Saskatchewan businesses, consumers and agriculture producers, credit unions have a significant impact on the provincial economy. They also help advance the well-being of their members by returning profits with patronage, and contribute to the community through donations, scholarships and other initiatives.

Saskatchewan Credit Union Performance

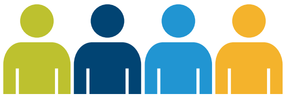
Facts

- As of December 31, 2018, there were 44 credit unions in Saskatchewan serving 218 communities through 247 service outlets.
- Out of 1.166 million people in Saskatchewan (Statistics Canada estimate at October 1, 2018), more than 481,000 are members of a credit union, and an additional 84,000 non-members do business with a credit union, which combined is more than 48%.
- In 2018, Saskatchewan credit unions had assets of close to $23.8 billion with revenue of more than $1.07 billion. For every $1 million gross output, credit unions create a total of 14.5 jobs compared with 8.4 jobs created by banks.
- Credit unions contribute $600 million in economic impact to Saskatchewan annually and in 2018, employed more than 3,300 people providing salaries and benefits of more than $298 million.
- In 2018, provincial credit union lending amounts were close to $19.2 billion. Saskatchewan credit unions maintain approximately 50% of the SME market and are a critical source of loans and mortgages for small and medium sized business.
- In 2018, Saskatchewan credit unions returned over $10.3 million to their members in the form of patronage equity contribution and dividends.
- On average, credit unions in Saskatchewan donate more than 4% of pre-tax income ($8.95 million in 2017)[1] in charitable contributions to local community organizations, well above the recognized banking industry standard of 1%.
- In the annual 2018 Ipsos® Financial Service Excellence Awards, credit unions were ranked 1st among all financial institutions in providing Customer Service Excellence for the 14th year in a row.

[1] Most recent year for which figures are available.

Out of 1.166 million people in Saskatchewan more than 481,000 are members of a credit union

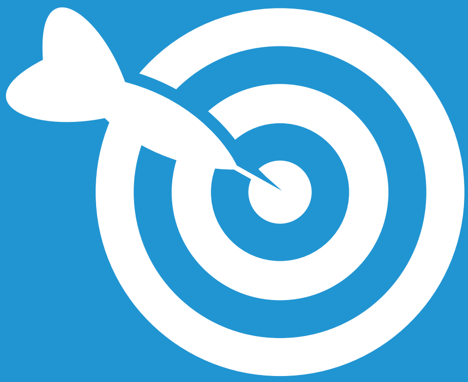
In 2018, Credit Union lending amounts were $19.2 billion



Each year, Credit Unions donate approximately 4% of pre-tax income to local community organizations

Strategy

Working toward clear, verifiable objectives is a key part of SaskCentral's planning and evaluation process, as we strive to achieve our vision of a nationally unified, internationally capable, cooperative financial network. SaskCentral's business plan identifies strategic objectives, measures and targets, and, where applicable, specific initiatives for each of four focus areas: Strategic, Credit Union, Financial and People.



Strategic

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

Objective: National Tier II Transformation

Achievement of our vision will require transformation of the provincial/regional Centrals and broader wholesale environment to more effectively and efficiently serve credit unions across Canada. Our desired future state would see a shift from Centrals serving credit unions to organizations providing specific business functions directly to a national cooperative credit union network, with the ultimate goal to ensure vibrant and sustainable credit unions.

In 2018, we focused on achieving progress on Tier II business line integration in:

- trade services
- wholesale financial
- wealth management
- payments, clearing and settlement

In 2017, SaskCentral was the first Central to transition trade services to the Canadian Credit Union Association (CCUA), aligning with CCUA's mandate as the trade association for Canadian credit unions. In 2018, SaskCentral supported CCUA's strategy to work with other Centrals and was pleased with Central 1's decision announced in August to transition services related to government relations, research, and awareness and marketing activities. SaskCentral will continue to advocate for integration efforts from other Centrals.

SaskCentral also made progress in direct credit union participation in CCUA with the addition of Saskatchewan credit union representation on the CCUA Board.

In the area of Wholesale Financial, as a federal bank, Concentra is well positioned to provide national wholesale financial services to credit unions across the country. In 2018, SaskCentral worked with Concentra to share perspectives on national strategy, specifically working to develop collaborative information sharing principles. This work will continue going forward.

Aviso Wealth was created with the merger of Credential Financial Inc., Qtrade Canada Inc. and Northwest & Ethical Investments LP which closed on April 1, 2018 to become the national wealth management services provider for credit unions across Canada. The merger has proceeded smoothly with regulatory approval received in July. A Credit Union Experience Advisory Committee was also established to help ensure credit union input and influence in the governance of Aviso Wealth.

Tier II Transformation includes the ability of SaskCentral to accommodate a federal credit union within the provincial system. In 2018, significant work was completed on the development of a legal and financial framework to support and serve federal credit unions.

For national business line integration in clearing and settlement, and payments, work was done in 2018 on analysis and strategy development, with a focus on incorporation of Payments Canada Modernization. In that context, SaskCentral will continue to work with industry and partners to determine national payment alternatives.

Objective: Support strategic investees' alignment to the national mandate

Strategic alignment of SaskCentral's portfolio of investees, held on behalf of member credit unions, is important to SaskCentral's vision and ongoing work on Tier II transformation.

SaskCentral is working to develop explicit governance and accountability mechanisms with its investees to communicate strategic initiatives and ensure alignment of goals and objectives. A first step is developing and implementing collaborative information sharing protocols and governance policies.

In 2018, this process began with the approval of joint information sharing principles with Concentra, SaskCentral's largest investee. This agreement will ensure a constructive and mutually beneficial framework for dialogue and communication at the board and senior management levels, and will serve as a template for similar agreements with other investees.

Strategy

Objective: Address evolving developments to payments, clearing and settlement

In 2018, SaskCentral aimed to demonstrate leadership and commitment to a Payments Canada Modernization Implementation readiness project, as well as lead government and regulatory engagement and understanding of Emergency Lending Assistance (ELA).

With Payments Canada Modernization, the Group Clearing Joint Venture Management Committee determined it will play a leading role in this effort. In addition to the Group Clearer forming a Communication and Engagement Committee to educate, engage and guide credit unions, SaskCentral established an internal working group to support the work.

Through Credit Union Payment Services (CUPS), an early milestone in Payments Canada Modernization was achieved in the fall of 2018 with the implementation of Automated Funds Transfer Phase 1 enhancements. This increased daily exchange deadlines from two to three and ensured the availability of funds to payees within two hours of those deadlines.

On the development of ELA, SaskCentral is participating on a national committee led by CCUA, with an initial focus on clarifying roles and responsibilities.

Credit Union

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

Objective: CU Solutions National Service Delivery

In 2018, SaskCentral's National Consulting business achieved out-of-province gross revenue targets, growing its client base with:

- new business from Manitoba credit unions in a number of service areas;
- the sale of a lite loan loss model in Ontario, Manitoba and British Columbia; and
- the finalization of a management services contract with a group of 11 credit unions from Ontario to British Columbia.

Financial

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

Objective: Financial strength

Financial strength is achieved through maintaining interest margin, stable core earnings and efficiency in a rapidly evolving regulatory environment.

Core Earnings
Core earnings target was $3.8-$4.8 million.
Actual for 2018 was $5.7 million.

Interest Margin on average equity-funded portfolio investments
Interest margin target was 1.5%-2.00%.
Actual for 2018 was 1.91%.

Operating Expenses
Operating expenses target was $19-$18.2 million.
Actual for 2018 was $18.0 million.

People

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

Objective: Engaged employees and a constructive culture

In 2018, SaskCentral focused on building employee resiliency by further equipping staff with tools to adapt and excel through change with the delivery of resiliency workshops and the development of cultural practices. The practices were integrated into recognition, recruitment and performance management programs.

The annual Organizational Effectiveness Inventory (OEI) survey measuring employee engagement was completed by 86% of employees and resulted in an overall score of 89%, exceeding our target.

Great Place To Work® Best Workplaces™ CANADA 2018

In 2018, SaskCentral was again named as one of the Best Workplaces in Canada by the Great Place to Work® Institute Canada, coming in #7 for organizations with less than 100 employees, up from #13 in 2017 and making the list for the 11th consecutive year.

SaskCentral was also recognized as one of The Best Places to Work in Canada for Women, as well as one of The Best Workplaces for Inclusion and in Financial Services and Insurance.

Corporate Governance

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

Board of Directors

(left to right) Kevin Lukey, Annette Revet, Mitchell Anderson, Mark Lane, Russ Siemens, Tim Goddard, Gilles Colbert, Neil Cooper

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

Mitchell Anderson

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

Gilles Colbert

Elected to SaskCentral Board of Directors in 2009
Retired Manager, Unity Credit Union Limited
Director, The Co-operators
Term expires: 2020

Neil Cooper

Elected to SaskCentral Board of Directors in 2018
Chief Financial Officer, Conexus Credit Union
Term expires: 2021

Tim Goddard

Elected to SaskCentral Board of Directors in 2014
Past CEO, Rockglen-Killdeer Credit Union
Term expires: 2021

Mark Lane

Elected to SaskCentral Board of Directors in 2013
CEO, Affinity Credit Union
Term expires: 2020

Kevin Lukey

Elected to SaskCentral Board of Directors in 2014
Retired CEO, Cornerstone Credit Union
Term expires: 2020

Annette Revet

Elected to SaskCentral Board of Directors in 2018
Chief Transformation Officer, Conexus Credit Union
Term expires: 2019

Russ Siemens, President

Elected to SaskCentral Board of Directors in 2014
Director, Innovation Credit Union
Director, Concentra Bank
Term expires: 2021

Board Charter and Director Profile

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

Compensation

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

Corporate Governance

Director	Per Diem[1]	Per Diem Paid to Organization	Honorarium	Honorarium Paid to Organization	Total
Mitchell Anderson	9,700	–	8,100	–	17,800
Gilles Colbert	10,063	–	8,100	–	18,163
Neil Cooper	–	4,750	–	5,400	10,150
Eric Dillon	–	250	–	2,700	2,950
Tim Goddard	10,656	–	8,100	–	18,756
Wayne Kabatoff	4,500	–	2,636	–	7,136
Mark Lane	–	–	–	8,100	8,100
Kevin Lukey	10,250	–	8,100	–	18,350
Annette Revet	–	5,375	–	5,400	10,775
Russell Siemens[2]	26,063	–	33,000	–	59,063
Total:	**$ 71,232**	**$ 10,375**	**$ 68,036**	**$ 21,600**	**$ 171,243**

[1] As a consequence of being on the SaskCentral board, SaskCentral directors may be nominated to serve as directors for a number of other co-operative organizations. To the extent that those other organizations do not provide compensation for board service, SaskCentral policy provides remuneration to its directors for time spent in these alternate duties.

[2] Chairman of the Board.

Board Attendance	Meetings Attended
Mitchell Anderson	5/7
Gilles Colbert	6/7
Neil Cooper	5/5
Eric Dillon	1/2
Tim Goddard	7/7
Wayne Kabatoff	2/2
Mark Lane	5/7
Kevin Lukey	7/7
Annette Revet	5/5
Russ Siemens	7/7

Board Evaluation

Evaluations are periodically conducted to ensure board operations are efficient and adhere to the highest standards of integrity. In late 2016 the board performed a comprehensive peer evaluation. This evaluation was compiled in February 2017 and the results were shared with individual directors and the chair of the board and used to inform individual director development plans. This process was refreshed in 2018. The board maintains a director development policy aimed at providing resources to support ongoing personal development.

Code of Conduct

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

Whistle Blower Policy

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

Corporate Governance

CEO Position Description

The SaskCentral board maintains a written description of the position of the CEO, outlining the role, accountabilities and challenges of the position and providing a reference point for the development of the CEO's annual performance plan. The CEO position profile was reviewed and updated in 2018. A CEO performance plan is developed and evaluated based on the position description, business plan and balanced scorecard.

Committees

Audit and Risk Committee

Role:

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

	Meetings Attended
Mitchell Anderson — Chair	5/5
Gilles Colbert	5/5
Neil Cooper	2/3
Mark Lane	2/3
Kevin Lukey	5/5
Russ Siemens	4/5

Governance and Conduct Review Committee

Role:

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

	Meetings Attended
Eric Dillon	2/2
Tim Goddard	6/6
Kevin Lukey — Chair	6/6
Annette Revet	4/4
Russ Siemens	6/6

Public Policy Committee

Role:

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

	Meetings Attended
Mark Lane — Chair	4/4
Wayne Kabatoff	2/2
Russ Siemens	2/4

Co-operative Social Responsibility

Co-operative social responsibility (CSR) is of ongoing importance to SaskCentral and to credit unions. With its emphasis on organizational behavior that benefits society, the economy and the environment, CSR is a natural fit with SaskCentral as a financial co-operative. SaskCentral conducts CSR activities under its own *It All Adds Up* program. Our CSR strategy links to our corporate values and business plan, and more importantly, aligns with the plans and priorities of our key stakeholders – credit unions, employees and the community.

It all adds up.

Co-operative Social Responsibility

Credit Unions

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

In 2018, we continued to provide value to credit unions by managing our operating expenses to ensure the ongoing stability of operations. This included encouraging employees to recycle and reuse office supplies, print double-sided and carpool to corporate meetings.

Employees

SaskCentral encourages and supports volunteerism among our employees. In 2018, 55% of employees took advantage of a company policy which allows up to three paid days per year served in volunteer activities. In total, employees donated 415 hours of their time.

Creating a safe, comfortable and environmentally friendly workplace is also a priority. In 2018, SaskCentral was awarded the BOMA BEST silver certification and will hold the credential until 2020. BOMA BEST® is a national green building certification program which assesses ten key areas of environmental performance and management:

- ✓ Energy
- ✓ Water
- ✓ Air
- ✓ Comfort
- ✓ Health and Wellness
- ✓ Custodial
- ✓ Purchasing
- ✓ Waste
- ✓ Site
- ✓ Stakeholder Engagement

Community

As a co-operative, SaskCentral upholds the principle of giving back to the community. In 2018, the organization donated $152,000 to local charities and non-profit organizations through financial contributions, volunteer hours and in-kind donations.

Employees were also encouraged to take advantage of SaskCentral's Building Communities Grant program, which allows each employee to name a charity or non-profit of their choice to receive a donation of $200. In 2018, $15,000 was donated to 38 Saskatchewan community organizations.

Understanding SaskCentral's Financial Statements

In 2018, SaskCentral has again prepared two sets of financial statements, separate and consolidated, to offer two different views of SaskCentral's operations and results.

Understanding SaskCentral's Financial Statements

Changes to SaskCentral's Financial Statements

Prior to 2017, SaskCentral prepared only consolidated financial statements, which accounted for Concentra Bank using the equity method of accounting. Due to Concentra Bank's continuance under the *Bank Act (Canada)* and its new bylaws, SaskCentral had the ability to control Concentra Bank for accounting purposes and was required to consolidate Concentra Bank as a subsidiary in its financial statements effective January 1, 2017.

SaskCentral's Separate Financial Statements

In order to enhance transparency of its operations and to support accountability, SaskCentral has again prepared separate financial statements. The purpose of the separate statements is to isolate SaskCentral's earnings, assets, liabilities and cash flows from those of its subsidiaries. The separate financial statements do not consolidate its subsidiaries, Concentra Bank and CUVentures LP. Instead, these statements account for all SaskCentral's downstream investees using the equity method of accounting.

SaskCentral's Consolidated Financial Statements

These statements illustrate SaskCentral's results consolidated with results of its subsidiary corporations. The financial statements are prepared in accordance with International Financial Reporting Standards and include:

- Financial results of subsidiaries (Concentra Bank and CUVentures LP)
- Financial results of SaskCentral's investments in associates using the equity method of accounting (Celero Solutions, CU CUMIS Wealth Holdings LP, Saskatchewan Entrepreneurial Fund Joint Venture)
- The proportionate financial results of SaskCentral's joint operation Credit Union Payment Services

Consolidated earnings represent the total earnings of SaskCentral, taking into consideration the elimination of all inter-entity transactions (i.e. revenues and expenses between SaskCentral and its subsidiaries and dividends paid by SaskCentral's investees to SaskCentral).

Separate Management Discussion and Analysis

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

This section of the annual report provides the separate results of SaskCentral and should be read in conjunction with the audited separate financial statements and notes as at and for the year ended December 31, 2018. SaskCentral's separate financial statements do not consolidate the activities of its subsidiaries.

Separate Management Discussion and Analysis

The separate financial statements are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards (IFRS). This MD&A is dated March 6, 2019 and provides comments regarding SaskCentral's financial and operating results, risk management, capital management and business outlook.

Effective January 1, 2018, SaskCentral adopted IFRS 9, *Financial Instruments* (IFRS 9) and IFRS 15, *Revenue from Contracts with Customers* (IFRS 15). SaskCentral has adopted these standards retrospectively using the cumulative effects method, and therefore, comparative information has not been restated.

Caution Regarding Forward-Looking Statements

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

By their very nature, forward-looking statements involve numerous assumptions. A variety of factors, many of which are beyond SaskCentral's control, may cause actual results to differ materially from the expectations expressed in the forward-looking statements. These factors include, but are not limited to, changes in economic and political conditions, legislative and regulatory developments, alignment of strategies of potential partners, legal developments, the accuracy of and completeness of information SaskCentral receives from counterparties, the ability to attract and retain key personnel and management's ability to anticipate and manage the risks associated with these factors. The preceding list is not exhaustive of possible factors. These and other factors should be considered carefully and readers are cautioned not to place undue reliance on these forward-looking statements. SaskCentral does not undertake to update any forward-looking statements, whether written or verbal, that may be made from time to time by it or on its behalf.

Company Profile

SaskCentral is the liquidity manager and key consulting service supplier for Saskatchewan credit unions. Through strategic leadership, liquidity management and a wide range of products and services, SaskCentral helps Saskatchewan credit unions meet their own targets for success. SaskCentral maintains business relationships with, and investment in, a number of co-operative entities, including Concentra Bank, Credit Union Payment Services (CUPS), CU CUMIS Wealth Holdings LP (CUC Wealth), Celero Solutions, the Canadian Credit Union Association (CCUA) and CUVentures LP.

Economic Overview

Saskatchewan's economy has faced a number of challenges due to a downturn in the resource sector, reduced mining activity, and weaknesses in the agricultural sector. In 2018, Real Gross Domestic Product (GDP) increased 1.7%, employment growth was minimal at 0.3%, and the unemployment rate held steady at 6.3%.

The 2019 outlook remains cautious with production cuts in the uranium sector expected to be partially offset by increased demand for potash. The agricultural sector is expected to see a return to normal growth. In 2019, provincial GDP is forecasted to increase 1.6%, slightly below the national rate of 1.7%. Employment is expected to increase modestly to 0.6%, while the unemployment rate is expected to improve to 6.0%.

Separate Management Discussion and Analysis

Saskatchewan Credit Union System Performance

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

Credit Union Deposit Guarantee Corporation (CUDGC) is the deposit guarantor for Saskatchewan credit unions and the primary regulator for credit unions and SaskCentral (together, Provincially Regulated Financial Institutions). The information provided in the following sections is compiled by CUDGC and is taken from their report 'Saskatchewan Credit Unions Quarterly Highlights'.

CUDGC is charged through provincial legislation, *The Credit Union Act, 1998*, with the main purpose of guaranteeing the full repayment of deposits held in Saskatchewan credit unions. CUDGC was the first deposit guarantor in Canada and has successfully guaranteed deposits since it was established in 1953. By guaranteeing deposits and promoting responsible governance, CUDGC contributes to confidence in Saskatchewan credit unions. For more information, please visit their website: http://www.cudgc.sk.ca.

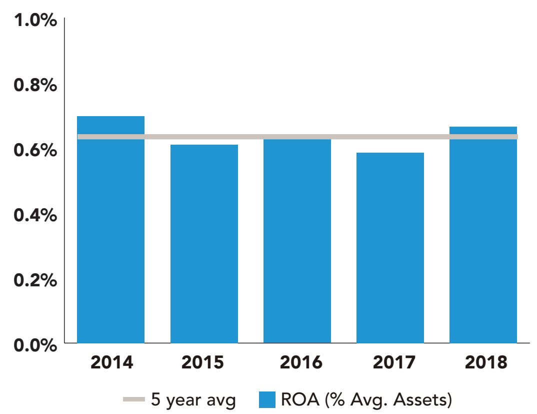
Results Overview

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

Profitability

In 2018, credit unions reported earnings of $162 million (2017 - $130 million) for a return on average assets of 0.70% (2017 – 0.59%). Profitability has increased primarily due to improved efficiency and a special dividend paid to credit unions by SaskCentral. The special dividend was the result of tax recovery realized from the consolidation of Concentra Bank in 2017.

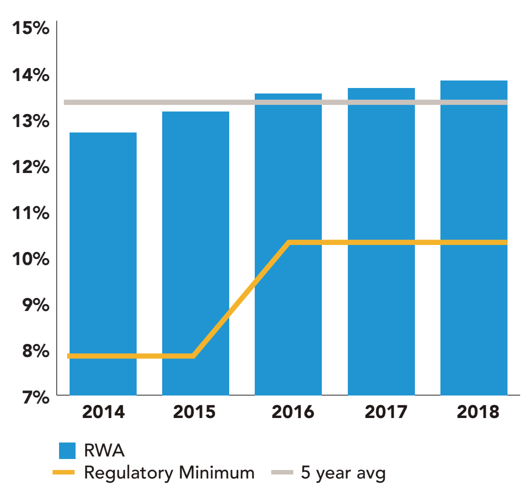
Return on Average Assets



Capital

Capital levels continued to improve in 2018, with credit unions experiencing record earnings and moderate growth. As a percentage of risk-weighted assets (RWA), eligible capital increased to 13.9% from 13.7% in 2017. Credit union capital is well above the current regulatory minimum of 10.5%.

Total Eligible Capital (%RWA)

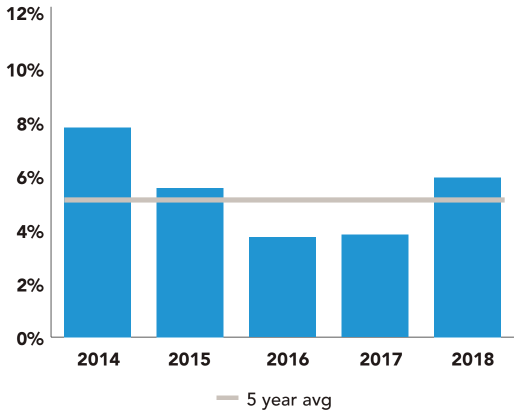


Separate Management Discussion and Analysis

Growth

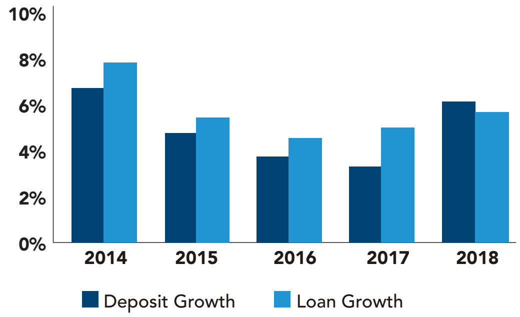
In 2018, asset, loan and deposit growth surpassed levels achieved in 2017. Assets grew by 6.0% to $23.8 billion (2017 - $22.4 billion), exceeding the five-year average of 5.5%.

Asset Growth



Loans grew 5.7% to $19.2 billion (2017 – $18.2 billion). Deposit growth has outpaced loan growth in 2018, which contributed to an increase in liquidity. Deposit growth increased from 2017 to 6.3%, which exceeds the last five years average of 4.9%.

Deposit/Loan Growth



Liquidity Risk

Credit unions were required to meet a new higher minimum liquidity standard in 2018. Credit unions and SaskCentral made efforts to increase liquidity to a record level in 2018. Efforts included strengthening the quality of securities underlying the liquidity pool and collecting more member data to improve the accuracy of reporting net cash flows. High Quality Liquid Assets (HQLA) as a percentage of cash and securities increased in 2018, which indicates the portfolio is more liquid.

Credit Risk

Delinquencies increased slightly in 2018 to 1.2% (2017 – 1.0%). While delinquencies remained above the five year average, credit unions are well capitalized to manage the exposure. The increase in delinquencies was primarily concentrated in commercial loans and mortgages.

Interest Rate Risk

Interest rate risk increased slightly in 2018, exceeding the five-year average. For a 1% increase in interest rates, the net market value change to assets increased to -0.65% (-0.60% in 2017) and continues to remain within an acceptable range. Credit unions are well capitalized to manage the exposure.

Separate Management Discussion and Analysis

Statistical Review of Credit Unions

	2014	2015	2016	2017	**2018**
Credit Unions	51	49	46	46	**44**
Employees	3,469	3,477	3,472	3,306	**3,355**
Members	475,201	472,702	474,126	476,628	**481,124**

2018 SaskCentral Separate Financial Performance

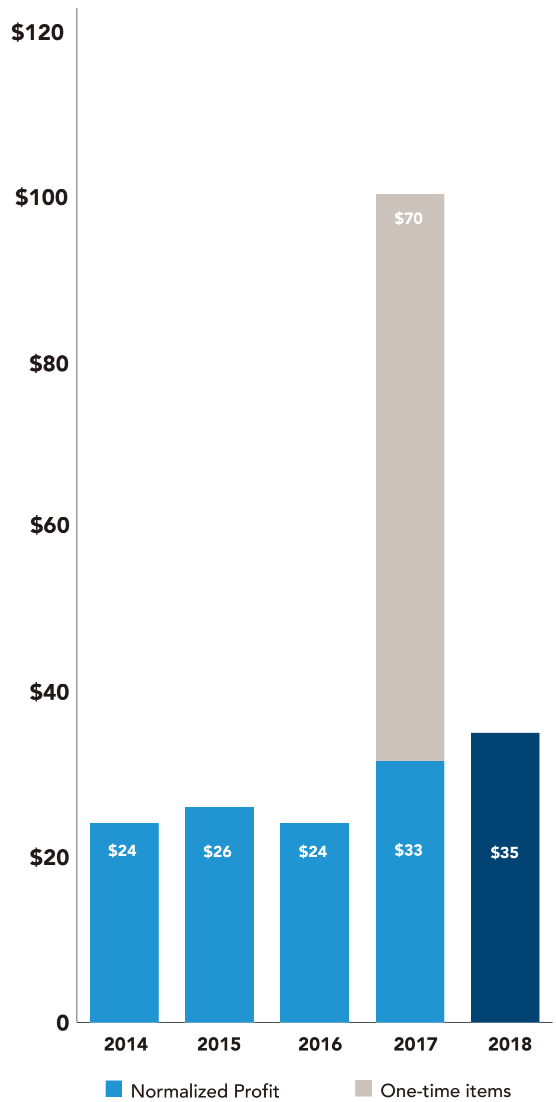
Results Overview

SaskCentral's separate financial performance includes results from SaskCentral and downstream investees, which are reported separately. The financial performance and stability of SaskCentral is summarized according to the following categories: profitability, growth, liquidity, and return on equity (ROE).

Profitability

SaskCentral's profit was $34.6 million (2017 – $103.2 million). The decrease was due to the one-time gain on acquisition of control of Concentra Bank of $48.3 million and the one-time income tax recovery of $21.6 million in 2017.

SaskCentral Profit (in millions)



Separate Management Discussion and Analysis

Net interest income decreased to $7.8 million (2017 - $11.7 million) primarily due to elimination of margin on statutory liquidity deposits during the year. The elimination of interest margin was replaced by a liquidity management assessment fee which was introduced in April 2018. The liquidity management assessment fee is reported in fee for service revenue.

Income from dues decreased to $2.8 million (2017 – $5.4 million) primarily as a result of the dues paid to CCUA being netted against the dues collected on behalf of CCUA.

Fee for service revenue increased to $17.5 million (2017 – $11.2 million) primarily due to the introduction of the liquidity management assessment fee in 2018 which replaces the margin on statutory liquidity deposits after April 2018.

The share of profits of associates represents SaskCentral's share of net income from downstream investees, including Concentra Bank, Celero Solutions, CUPS, CUC Wealth, CUVentures LP and Saskatchewan Entrepreneurial Fund Joint Venture. The share of profits in associates was $33.4 million (2017 - $27.4 million). The increase is mainly due to strong earnings from Concentra Bank.

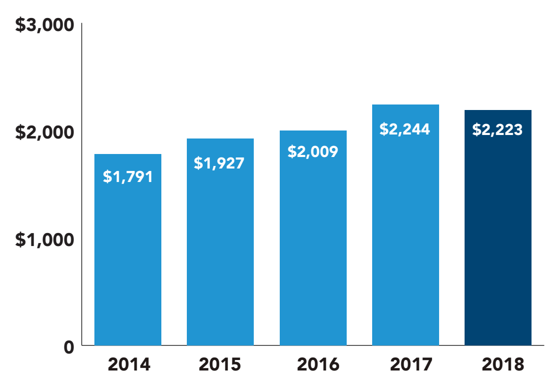
Non-interest expenses represent expenditures incurred to manage liquidity and provide consulting services to Saskatchewan credit unions, as well as general operating expenses such as salary and employee benefits and occupancy costs. Non-interest expenses decreased to $21.8 million (2017 – $22.6 million) due to cost savings in SaskCentral operations.

SaskCentral paid a dividend to credit unions in April 2018 of $30.6 million (2017 – $5.1 million) based on SaskCentral's 2017 earnings, representing an 18.9% (2017 – 3.7%) return on investment. This included a distribution of $23.4 million due to the income tax recovery on the acquisition of control of Concentra Bank in 2017. SaskCentral also distributed to credit unions the dividends received from Concentra Bank of $4.5 million (2017 – $9.0 million). Of this, $1.1 million was declared in December 2018 with payment in January 2019. Concentra Bank's dividends represented a 3.8% return on SaskCentral's investment in Concentra Bank (2017 – 7.6%).

Growth

SaskCentral's deposits decreased by 0.9% over prior year (2017 – 11.7% increase). Deposits are comprised of statutory liquidity deposits and credit union cash balances. Statutory liquidity deposits increased 3.1% and credit union cash balances decreased 29.8%. Credit union cash balances can fluctuate substantially year over year. Statutory liquidity deposits comprise 90.8% (2017 – 87.2%) of total deposits.

SaskCentral Deposits (in millions)



Liquidity

SaskCentral continued to hold a strong liquidity position in 2018. Cash and securities totalled $2.4 billion, or 85.4% of assets (2017 – $2.5 billion or 86.6%).

Return on Equity

Equity increased by $11.6 million over 2017 primarily due to another year of strong earnings from Concentra Bank and other downstream investees. Credit unions voluntarily subscribed to $1.2 million (2017 - $0.4 million) in membership share capital during the year. For 2018, SaskCentral's ROE was 6.4% (2017 – 21.7%). Excluding the one-time gain on acquisition of control of Concentra Bank and one-time income tax recovery in 2017, SaskCentral's normalized ROE in 2017 was 7.0%.

Separate Management Discussion and Analysis

Significant Event
On April 1, 2018, the provincial credit union centrals, The CUMIS Group, and Desjardins completed the merger of Credential Financial Inc., Northwest and Ethical Investments and Qtrade Canada Inc. to form Aviso Wealth Inc. (Aviso). Aviso is jointly owned by Desjardins and CUC Wealth, a limited partnership comprised of the provincial centrals and The CUMIS Group, each holding a 50% interest. Aviso is one of Canada's largest independent financial services providers with over $55 billion in assets under administration and management and more than 500,000 clients across the country. Aviso provides comprehensive wealth management services for credit unions and their members. For more information on this transaction, refer to Notes 4 and 13 of the separate financial statements.

Liquidity Management

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

SaskCentral uses three metrics to monitor liquidity risk: the SaskCentral stand-alone Liquidity Coverage Ratio (LCR), CUDGC's LCR and a liquidity score. The stand-alone LCR is modeled after the 2017 Liquidity Adequacy Requirements (LAR) Guidelines published by the Office of the Superintendent of Financial Institutions (OSFI). This guideline does not apply to SaskCentral; however, SaskCentral has incorporated the LAR principles in the LCR. CUDGC's LCR is based on the balance sheet of all Saskatchewan credit unions and includes their statutory liquidity deposit investments. The liquidity score is an internal rating system calculated on SaskCentral's investment portfolio. All measures are used to assess SaskCentral's liquidity position and all policy requirements have been met in 2018. Refer to Note 5 of the separate financial statements for further information.

SaskCentral is supporting CUDGC and credit unions in the implementation of credit union liquidity standards. CUDGC has aligned its liquidity requirements for credit unions with those set by the OSFI for federally regulated financial institutions. The *Standards of Sound Business Practice – Liquidity Adequacy Requirements* were implemented on January 1, 2017 with a three year phase-in period. Key to the framework is the introduction of the LCR where the stock of HQLA is compared to expected net cash outflows over 30 calendar days. A credit union's stock of HQLA includes securities held directly as well as those held indirectly in the form of statutory liquidity deposits with SaskCentral. A credit union may allocate the amount of its statutory liquidity deposits to each level of HQLA and other liquid assets on a 'look-through' basis and in accordance with the investment allocation of the liquidity pool at each level.

Capital Management

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

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

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

Regulatory Capital and Capital Ratios

Capital levels are regulated pursuant to guidelines issued by CUDGC. Regulatory capital is allocated to two tiers. Tier 1 capital comprises the highest quality capital and is a core measure of SaskCentral's financial strength. It consists of more permanent components of capital, is free of mandatory fixed charges against earnings and has a subordinate legal position to the rights of depositors and other creditors. SaskCentral's Tier 1 capital is comprised of credit union membership shares and retained earnings. Tier 2 capital includes supplementary capital instruments that contribute to the overall strength of SaskCentral as a going concern but fall short of meeting the Tier 1 requirements. Total capital is defined as the sum of Tier 1 and Tier 2 capital. For further details on the terms and conditions of the various capital components, refer to Note 7 in the separate financial statements.

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

Borrowing Multiple

Regulatory capital adequacy is measured by CUDGC through the borrowing multiple. The borrowing multiple is calculated by dividing total borrowings by Tier 1 and Tier 2 regulatory capital. Total borrowings consist of deposits, loans payable, notes payable, and other adjustments. CUDGC sets a limit of 20.0:1 that the borrowing multiple must not exceed. SaskCentral has set its own maximums that are below that of CUDGC. The *Financial Management Policy* sets a limit of 17.0:1, at which point SaskCentral's Board of Directors must take immediate mitigating action to make certain the borrowing multiple does not exceed CUDGC's limit. The *Financial Management Policy* also describes a management limit of 16.0:1, at which point management will outline actions to assuage the situation. As of December 31, 2018, the borrowing multiple was 13.5:1 (2017 – 12.2:1).

Separate Management Discussion and Analysis

Regulatory Capital and Ratios

	2018	2017
Tier 1 Capital	**546,499**	519,223
Total Borrowing Multiple Capital	**169,749**	190,158
Total Borrowings	**2,288,421**	2,322,003
Actual Borrowing Multiple	**13:5:1**	12:2:1
SaskCentral Policy Limit	**17.0:1**	17.0:1
Tier 1 Regulatory Capital		
Membership shares	**162,832**	161,607
Retained earnings	**390,294**	361,487
Own credit risk[1]	**(2,756)**	-
IFRS related reclassification[2]	**(3,871)**	(3,871)
Total Tier 1 Captial	**546,499**	519,223
Tier 2 Regulatory Capital		
Subordinated debt	**-**	-
IFRS related reclassification[2]	**3,871**	3,871
Total Tier 2 Capital	**3,871**	3,871
Total Tier 1 and Tier 2 Capital	**550,370**	523,094
Deduct:		
Investments in unconsolidated subsidiaries	**372,550**	324,774
Assets of little or no realizable value	**8,071**	8,162
Total Tier 1 and Tier 2 Capital	**169,749**	190,158

[1] Represents the cumulative impact of SaskCentral's own credit risk on financial liabilities measured at fair value through profit or loss.

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

Capital Management

SaskCentral's capital plan evaluates projected capital adequacy and considers capital options, including membership share true-up and organic growth of retained earnings.

SaskCentral's bylaws require member credit unions to maintain membership share capital in SaskCentral at 1% of the previous year's assets. The bylaw gives SaskCentral the discretion to make this annual true-up in whole or in part. It does not prohibit or prevent either a request from SaskCentral for a voluntary share subscription or a credit union from voluntarily subscribing to additional membership share capital. In 2018, credit unions voluntarily subscribed to $1.2 million in additional membership share capital.

At December 31, 2018 credit union membership share capital represented 0.75% of 2018 credit union assets (2017 – 0.72%).

SaskCentral remains well capitalized and able to support Saskatchewan credit unions. Based on the borrowing multiple at the end of 2018, SaskCentral would be able to withstand additional capital shocks of $35.1 million before reaching the Board policy limit of 17.0:1.

Capital Requirements

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

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

Excess capital that is not required to manage risk and comply with regulatory requirements is returned to the credit unions as a dividend.

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

Enterprise Risk Management

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

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

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

In 2018, SaskCentral's strategy map outlined the following objectives:

- National Tier II transformation;
- Support strategic investee alignment to the national mandate;
- Address evolving developments to payments, clearing and settlement;
- CU Solutions national service delivery;
- Financial strength; and
- Engaged employees and a constructive culture.

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

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

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

Separate Management Discussion and Analysis

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

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

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

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

Concentra Bank manages its ERM process independent of SaskCentral. For further information, please refer to Concentra Bank's 2018 annual report.

2019 Outlook

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

The financial services sector is evolving at a rapid pace, driven by technology, consumer behavior and competitive pressures. Change promises to continue as technological disruption, more complex regulatory requirements, heightened consumer expectations and intensified competition from traditional financial institutions, big business and start-ups reshape the global financial ecosystem.

SaskCentral aspires to a vision of "a nationally unified and internationally capable co-operative financial network". In pursuit of this, SaskCentral will be guided by its purpose: "we lead and support Tier II services and transformation necessary for vibrant and sustainable credit unions". Supporting credit union success will guide SaskCentral decisions and actions.

Achieving the vision will require transformation of the provincial / regional Centrals and broader Tier II – or wholesale – environment to more effectively and efficiently serve credit unions across Canada. SaskCentral's desired future state would see a shift from Centrals serving credit unions to organizations providing specific business functions directly to credit unions.

SaskCentral remains committed to transformation, with the ultimate goal to ensure vibrant and sustainable credit unions.

SaskCentral has identified six goals that support one or more of its four focus areas – strategic, credit union, financial and people.

Modernized statutory liquidity function with improved efficiency and effectiveness for credit unions

SaskCentral will evaluate the statutory liquidity pool and work toward building understanding of liquidity requirements under a modernized framework.

Effective and efficient clearing and settlement for credit unions

SaskCentral will participate in developing the Payments Canada Modernization policy framework, and share with credit unions the changes and impacts to clearing and settlement functions.

Strategic alignment of downstream investees to optimize capital and value of services

SaskCentral will manage the capital in current investees using a framework to execute plans that ensure direct strategic benefit to credit unions.

National Tier II transformation

Advocating SaskCentral's vision, SaskCentral will continue to champion Tier II transformation that ultimately supports credit union competitiveness and growth.

Member engagement

SaskCentral will engage with credit unions on SaskCentral's services, and those provided by partners and investees, to ensure the needs of credit unions are being met.

Value for member credit unions

SaskCentral will evolve business operations and equip its workforce with the tools needed in order to provide demonstrable value to credit unions.

Accounting Matters

Critical Accounting Policies and Estimates

The accompanying separate financial statements have been prepared in accordance with IFRS. The significant accounting policies used in the preparation of the separate financial statements are described in Note 2. The preparation of the separate financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses at year end. Critical accounting estimates and judgments are described in Note 4 in the separate financial statements.

Changes in Accounting Policies

Effective January 1, 2018, SaskCentral adopted IFRS 9, *Financial Instruments* (IFRS 9) and IFRS 15, *Revenue from Contracts with Customers* (IFRS 15). SaskCentral has adopted these standards retrospectively using the cumulative effects method, and therefore, comparative information has not been restated.

The adoption of IFRS 9 resulted in an increase of $21 million to opening retained earnings and a decrease of $13.4 million to opening accumulated other comprehensive income, after-tax. 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. For further details on the impact of the adoption of IFRS 9 and IFRS 15 refer to Notes 2.1(e) and 3 of SaskCentral's separate financial statements.

Future Changes in Accounting Policies

Refer to Note 2.19 of the separate financial statements for details on new standards and interpretations that SaskCentral has not yet adopted as at December 31, 2018. The extent of the impact of adopting new standards and interpretations has not yet been determined.

Management's Responsibility For Financial Reporting

To the Members of Credit Union Central of Saskatchewan

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

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

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

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

Keith Nixon,
Chief Executive Officer

Sheri Lucas,
Executive Vice-President of Finance / Chief Financial Officer / Chief Risk Officer
March 6, 2019

Separate Audit and Risk Committee Report to the Members

To the Members of Credit Union Central of Saskatchewan

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

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

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

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

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

Mitchell Anderson
Chair, Audit and Risk Committee
March 6, 2019

Independent Auditor's Report

Deloitte.

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

Tel: 306-565-5200
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Independent Auditor's Report

To the Members of
Credit Union Central of Saskatchewan

Opinion

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

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Company as at December 31, 2018, and its separate financial performance and its separate 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 Separate 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 separate 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.

Other Matter

We issued a separate auditor's report dated March 6, 2019 on the Company's consolidated financial statements for the year ended December 31, 2018 in accordance with IFRS.

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

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

In preparing the separate 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 Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate 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 separate financial statements.

Independent Auditor's Report

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 separate 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 separate 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 separate financial statements, including the disclosures, and whether the separate 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 separate 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

Credit Union Central of Saskatchewan

SEPARATE BALANCE SHEET

[in thousands of Canadian dollars]

As at December 31

	2018 $	2017 $
Assets		
Cash and cash equivalents [note 8]	266,875	256,352
Securities [note 9]	2,168,410	2,237,325
Derivative assets [note 10]	5,594	9,399
Loans [note 11]	12,505	31,169
Trade and other receivables	803	365
Other assets	323	543
Investments in subsidiaries, associates and joint operations [note 13]	375,796	326,492
Property, plant and equipment [note 14]	5,547	5,785
Investment property [note 15]	9,385	9,586
Intangible assets [note 16]	15	27
Deferred income tax assets [note 17]	7,372	3,402
	2,852,625	2,880,445
Liabilities		
Deposits [note 18]	2,223,343	2,244,264
Derivative liabilities [note 10]	5,594	9,399
Loans and notes payable [note 19]	65,078	77,739
Trade and other payables	6,532	8,056
Other liabilities	128	602
	2,300,675	2,340,060
Equity		
Share capital [note 20]	162,832	161,607
Retained earnings	390,294	361,487
Accumulated other comprehensive (loss) income	(1,176)	17,291
	551,950	540,385
	2,852,625	2,880,445

See accompanying notes

On behalf of the Board:

Director

Director

SEPARATE STATEMENT OF PROFIT OR LOSS

[in thousands of Canadian dollars]

Year ended December 31

	2018 $	2017 $
Interest income		
Securities	42,389	34,559
Loans	1,114	657
	43,503	35,216
Interest expense		
Deposits	34,349	22,624
Loans and notes	1,389	880
	35,738	23,504
Net interest income [note 22]	7,765	11,712
Provision for credit recoveries [note 12]	(14)	-
Net interest income after provision for credit losses	7,779	11,712
Non-interest income		
Dues [note 23]	2,791	5,375
Fee for service [note 23]	17,498	11,197
(Loss) gain on financial instruments [note 26]	(3,344)	198
Share of profits of subsidiaries, associates and joint operations [note 13]	33,392	27,424
Gain on acquisition of control [note 29]	-	48,297
	50,337	92,491
Net interest and non-interest income	58,116	104,203
Non-interest expense		
Salary and employee benefits [note 24]	10,607	10,072
Professional and advisory services [note 25]	5,893	6,590
Computer and office equipment	1,160	1,406
Occupancy	2,393	2,461
General business	1,720	2,042
	21,773	22,571
Profit for the year before income taxes	36,343	81,632
Income tax expense (recovery) [note 17]	1,762	(21,616)
Profit for the year	34,581	103,248

See accompanying notes

SEPARATE STATEMENT OF COMPREHENSIVE INCOME OR LOSS

[in thousands of Canadian dollars]

Year ended December 31

	2018 $	2017 $
Profit for the year	34,581	103,248
Other comprehensive income (loss)		
Items that may be reclassified subsequently to profit or loss:		
Net unrealized (losses) gains on FVTOCI securities during the year	(75)	13,662
Reclassification of losses on FVTOCI securities disposed of in the year	2	115
Reclassification of impairment losses on FVTOCI securities [note 12]	(15)	-
Share of other comprehensive income (loss) of subsidiaries, associates and joint operations	1,006	(1,436)
Income tax relating to items that may be reclassified subsequently [note 17]	121	(1,222)
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 26]	(8,270)	-
Income tax related to items that will not be reclassified subsequently [note 17]	2,233	-
Other comprehensive (loss) income for the year, net of tax	(4,998)	11,119
Total comprehensive income for the year	29,583	114,367

See accompanying notes

SEPARATE 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
Balance as at December 31, 2016	161,161	269,505	6,172	-	436,838
Profit for the year	-	103,248	-	-	103,248
Other comprehensive income for the year, net of tax	-	-	11,119	-	11,119
Increase in share capital	446	-	-	-	446
Dividends [note 21]	-	(14,145)	-	-	(14,145)
Reduction in income taxes [note 17]	-	2,879	-	-	2,879
Balance as at December 31, 2017	**161,607**	**361,487**	**17,291**	-	**540,385**
Impact of adopting IFRS 9 at January 1, 2018 [note 3]	-	**21,023**	**(16,750)**	**3,334**	**7,607**
Adjusted balance as at January 1, 2018	**161,607**	**382,510**	**541**	**3,334**	**547,992**
Profit for the year	-	**34,581**	-	-	**34,581**
Other comprehensive income for the year, net of tax	-	-	**1,039**	**(6,037)**	**(4,998)**
Increase in share capital	**1,225**	-	-	-	**1,225**
Dividends [note 21]	-	**(35,112)**	-	-	**(35,112)**
Reclassification of own credit risk on derecognition of related financial liabilities, net of tax	-	**53**	-	**(53)**	-
Reduction in income taxes [note 17]	-	**8,262**	-	-	**8,262**
Balance as at December 31, 2018	**162,832**	**390,294**	**1,580**	**(2,756)**	**551,950**

See accompanying notes

Credit Union Central of Saskatchewan

SEPARATE 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	**34,581**	103,248
Adjustments to determine net cash used in operating activities:		
Depreciation of property, plant and equipment and investment property [note 14/15]	749	831
Other amortization	**5,367**	10,673
Provision for credit recoveries [note 12]	**(14)**	-
Loss (gain) on financial instruments [note 26]	**3,344**	(198)
Net interest income	**(7,765)**	(11,712)
Share of profits in subsidiaries, associates and joint operations, net of losses	**(33,392)**	(27,424)
Gain on acquisition of control	-	(48,297)
Income tax expense (recovery)	1,762	(21,616)
Changes in operating assets and liabilities:		
Loans, net of repayments	**18,647**	13,861
Trade and other receivables (payables)	294	(260)
Other assets	218	(218)
Deposits, net of withdrawals	**(16,684)**	235,278
Loans and notes payable, net of repayments	**(12,687)**	(5,840)
Other liabilities	**(474)**	491
Interest received	**43,330**	34,327
Dividends received	533	587
Interest paid	**(33,833)**	(23,562)
Cash flows from operating activities	**3,976**	260,169
Cash flows from (used in) financing activities		
Proceeds from issuance of share capital	**1,225**	446
Dividends paid to members [note 21]	**(37,368)**	(10,761)
Cash flows used in financing activities	**(36,143)**	(10,315)
Cash flows from (used in) investing activities		
Purchase of securities	**(7,957,360)**	(5,594,108)
Proceeds from sales of securities	**7,993,470**	5,491,485
Distributions from investments in subsidiaries, associates and joint operations [note 13]	**6,905**	4,936
Property, plant and equipment [note 14]	(310)	(482)
Intangible assets [note 16]	**(15)**	-
Cash flows from (used in) investing activities	**42,690**	(98,169)
Net increase in cash and cash equivalents	**10,523**	151,685
Cash and cash equivalents, beginning of year	**256,352**	104,667
Cash and cash equivalents, end of year	**266,875**	256,352

See accompanying notes

Notes to the Separate Financial Statements

December 31, 2018
in thousands of Canadian dollars

1. REPORTING ENTITY

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

SaskCentral functions as a liquidity manager and key service supplier on behalf of and for Saskatchewan credit unions. SaskCentral also maintains business relationships with, and investments in, a number of co-operative entities on behalf of Saskatchewan credit unions, including Concentra Bank, CUPS Payment Services (CUPS), Celero Solutions, CU CUMIS Wealth Holdings LP (CUC Wealth) and CUVentures LP as described in note 13.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these separate 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). SaskCentral's separate financial statements do not consolidate the activities of its subsidiaries or joint operations. Other than this exception, the accounting policies have been consistently applied by SaskCentral's subsidiaries and joint operations. SaskCentral prepares separate financial statements to enhance accountability and the transparency of its operations.

2.1 Basis of presentation

(a) Statement of compliance

These separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

SaskCentral prepares audited consolidated financial statements in accordance with IFRS 10, *Consolidated Financial Statements*. The audited consolidated financial statements were authorized for issue by the Board on March 6, 2019. SaskCentral's audited consolidated financial statements should be referenced for further information.

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 separate financial statements have been prepared on the historical cost basis except for 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.

December 31, 2018
in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of presentation (continued)

(b) Basis of measurement (continued)

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

In estimating the fair value of an asset or liability, SaskCentral takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these separate financial statements is determined on such a basis, and measurements that have some similarities to fair value, but are not fair value, such as value in use on impairment.

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

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

December 31, 2018
in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of presentation (continued)

(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.

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, January 1, 2018. SaskCentral's accounting policies on the revenue recognition under IFRS 15 are provided in note 2.8.

December 31, 2018
in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Investments in subsidiaries

A subsidiary is an entity over which SaskCentral has control. Control is achieved when SaskCentral (a) has power over the investee; (b) is exposed, or has rights, to variable returns from its involvement with the investee; and (c) has the ability to use its power to affect its returns.

For the purposes of these separate financial statements, all subsidiaries have been accounted for using the equity method. Under the equity method, an entity is initially recognized in the separate balance sheet at cost and adjusted thereafter to recognize SaskCentral's share of the profit or loss and other comprehensive income (OCI) of the entity.

When SaskCentral's share of losses of an entity exceeds SaskCentral's interest in that entity, SaskCentral discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that SaskCentral has incurred legal or constructive obligations or made payments on behalf of the entity.

2.3 Investments in associates

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

The results of associates are incorporated in these separate financial statements using the equity method. Under the equity method, an investment in an associate is initially recognized in the separate balance sheet at cost and adjusted thereafter to recognize SaskCentral's share of the profit or loss and 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.

2.4 Interests in joint operations

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

For the purposes of these separate financial statements, all joint operations have been accounted for using the equity method.

December 31, 2018
in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Sale and repurchase agreements

Securities sold subject to repurchase agreements are treated as collateralized borrowing transactions when the transferee has the right by contract or custom to sell or repledge the collateral and are classified as 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 19). Interest incurred on repurchase agreements is included in loans and notes interest expense.

2.6 Financial instruments

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

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

(a) Financial assets

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.

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. '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.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

(a) Financial assets (continued)

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.

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. Premiums, discounts and related transaction costs are amortized over the expected life of the instrument to interest income in the separate statement of 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 separate 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 initial recognition.

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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 are stated at fair value, with any gains or losses arising on re-measurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is reporting as gains on financial instruments in the separate statement of profit or loss. Gains and losses arising from SaskCentral's foreign exchange contracts are classified as held-for-trading and are included in the separate statement of profit or loss and are reported as fee for service. Fair value is determined in the manner described in note 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 separate statement of comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognized. Fair value is determined in the manner described in note 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 separate statement of profit or loss in securities interest income when SaskCentral's right to receive payment is established. Gains and losses realized on disposal of available-for-sale securities are included in gains on financial instruments.

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

Loans and receivables

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

December 31, 2018
in thousands of Canadian dollars

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.

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 designated at FVTPL, all changes in fair value are recognized in the separate 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

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

Financial liabilities at FVTPL

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

Other financial liabilities

Other financial liabilities are 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.

(d) Impairment of financial assets

Policy applicable from January 1, 2018

SaskCentral establishes an allowance for credit losses for financial assets at amortized cost and financial assets at FVTOCI.

The allowance for credit losses is calculated using the ECL approach. ECL reflects the present value of all cash shortfalls related to default events which may occur over a specified period of time. No impairment is recognized on equity investments in the scope of IFRS 9 because they are recorded at FVTPL. The impairment on financial assets is presented in the separate balance sheet as a deduction in the gross carrying amount of securities and loans.

December 31, 2018
in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

(d) Impairment of financial assets (continued)

Expected credit loss impairment model

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.
- 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.

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.

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.

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.

Notes to the Separate Financial Statements

December 31, 2018
in thousands of Canadian dollars

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 is past due more than 90 days on any credit obligation to SaskCentral; or
- The borrower has sought or been placed in bankruptcy resulting in the delay or avoidance of repayment of the amount owing.

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 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.

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 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.

December 31, 2018
in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

(d) Impairment of financial assets (continued)

Presentation of allowance for credit losses in the statement of financial position

For financial assets measured at amortized cost, the allowance for credit losses is presented in the separate 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 separate 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 in the separate statement profit or loss.

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. In subsequent periods, any recoveries of amounts previously written off are credited to the net provision for credit losses in the statement of operations. No financial assets were written off during the year.

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 had 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;
- breach of contract, such as a default or delinquency in interest or principal payments;
- 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.

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 is considered uncollectible, it is written off against the allowance account. Changes in the carrying amount of the allowance are recognized in profit or loss. When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in OCI are reclassified to profit or loss in the period.

Notes to the Separate Financial Statements

December 31, 2018
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

(e) Derecognition of financial assets or liabilities

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

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

2.7 Interest income and expense

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

Total interest income and total interest expense for specific categories of financial assets and financial liabilities is presented in note 22.

2.8 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.

Nature of goods and services

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. SaskCentral's principal activities, from which SaskCentral generates the majority of its revenue, are described below.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Revenue recognition (continued)

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.

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 obligations related to training are 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.

Notes to the Separate Financial Statements

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in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Revenue recognition (continued)

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.

Policy applicable before January 1, 2018

Prior to the adoption of IFRS 15, SaskCentral's fee for service revenues were recognized over the period in which the related service was rendered.

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).

2.9 Cash and cash equivalents

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

2.10 Derivative financial instruments

SaskCentral enters into derivative transactions on an intermediary basis on behalf of credit unions. These derivatives are carried at fair value on a gross basis as derivative assets and liabilities. Further details of derivative financial instruments are disclosed in note 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 profit or loss immediately.

2.11 Property, plant and equipment

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

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

The applicable depreciation periods are as follows:

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

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

Notes to the Separate Financial Statements

December 31, 2018
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Property, plant and equipment (continued)

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

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

2.12 Investment property

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

2.12 Investment property (continued)

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

2.13 Intangible assets

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

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

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

2.14 Impairment of non-financial assets

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

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

Notes to the Separate Financial Statements

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in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Impairment of non-financial assets (continued)

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.

2.15 Taxation

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

(a) Current tax

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

(b) Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the separate financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the date of the separate balance sheet and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. The principal temporary differences arise from depreciation of property, plant and equipment, effective interest method and carry-forward losses.

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 separate financial statements.

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

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Deferred tax (continued)

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

2.16 Employee benefits

(a) Pension benefits

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

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

(b) Short-term employee benefits

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

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

2.17 Provisions

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

2.18 Dividends

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

2.19 New standards and interpretations not yet adopted

At December 31, 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 separate financial statements. Those which could have an impact on SaskCentral's separate financial statements are discussed below.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 New standards and interpretations not yet adopted (continued)

(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* and related Interpretations and is effective for periods beginning on or after January 1, 2019. SaskCentral is currently evaluating the impact of the new standard on its financial statements.

SaskCentral did not early adopt any new or amended standards in 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; and
- 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.

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 has 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.

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

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.

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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 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	256,352	256,352
Certain debt and equity securities	9	Available-for-sale	FVTOCI	222,782	222,782
			Designated FVTPL	1,962,867	1,962,867
			Amortized cost	1,838	1,836
			FVTPL	42,064	42,064
			Designated FVTOCI	307	3,986
Certain debt securities		Loans and receivables	Amortized cost	7,000	6,993
MAV		FVTPL	FVTPL	467	467
Derivative assets	10	FVTPL	FVTPL	9,399	9,399
Loans	11	Loans and receivables	Amortized cost	31,169	31,153
Trade and other receivables		Loans and receivables	Amortized cost	365	365
Total financial assets				2,534,610	2,538,264
Financial liabilities					
Deposits	18	Other financial liabilities	Amortized cost	282,018	282,018
			Designated FVTPL	1,962,246	1,945,801
Derivative liabilities	10	FVTPL	FVTPL	9,399	9,399
Loans and notes payable	19	Other financial liabilities	Amortized cost	77,739	77,739
Trade and other payables		Other financial liabilities	Amortized cost	8,056	8,056
Total financial liabilities				2,339,458	2,323,013

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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 balance 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 December 31, 2017 $	Adjustment for reclassific-ation $	Adjustment for remeasur-ment $	Adjustment for own credit risk (1) $	Adjustment for impairment $	Adjustment for tax $	IFRS 9 carrying amount January 1, 2018 $
Assets							
Cash and cash equivalents	256,352	-	-	-	-	-	256,352
Securities at FVTOCI	2,229,858	(2,007,076)	-	-	-	-	222,782
Securities designated at FVTPL	-	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	9,399	-	-	-	-	-	9,399
Loans	31,169	-	-	-	(16)	-	31,153
Trade and other receivables	365	-	-	-	-	-	365
Other assets (2)	345,835	-	(7,608)	-	-	(4,884)	333,343
Total assets	2,880,445	-	(3,931)	-	(23)	(4,884)	2,871,607
Liabilities							
Deposits at amortized cost	2,244,264	(1,962,246)	-	-	-	-	282,018
Deposits designated at FVTPL	-	1,962,246	(16,445)	-	-	-	1,945,801
Derivative liabilities	9,399	-	-	-	-	-	9,399
Loans and notes payable	77,739	-	-	-	-	-	77,739
Trade and other payable	8,056	-	-	-	-	-	8,056
Other liabilities	602	-	-	-	-	-	602
Total liabilities	2,340,060	-	(16,445)	-	-	-	2,323,615
Equity							
Share capital	161,607	-	-	-	-	-	161,607
Retained earnings	361,487	22,532	8,547	(4,552)	(59)	(5,445)	382,510
Accumulated other comprehensive income	17,291	(22,532)	3,967	4,552	36	561	3,875
Total equity	540,385	-	12,514	-	(23)	(4,884)	547,992

(1) Reclassification of cumulative changes in SaskCentral's own credit risk on deposits classified as FVTPL.
(2) The adjustment for remeasurement of other assets relates to the IFRS 9 opening adjustment for Concentra Bank, which SaskCentral has recorded as an adjustment to investment in associates on January 1, 2018.

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3. TRANSITION IMPACT OF IFRS 9 ADOPTION (continued)

(b) Recognition of impairment on financial assets

The following table reconciles the closing allowance for credit losses in accordance with IAS 39 to the opening allowance for credit losses determined in accordance with IFRS 9 as at January 1, 2018.

	December 31, 2017 (IAS 39) $	Remeasurement $	January 1, 2018 (IFRS 9) $
Loans and receivables under IAS 39 / financial assets at amortized cost under IFRS 9 (includes cash and cash equivalents)	-	23	23
Available-for-sale debt instruments under IAS 39 / financial assets at FVTOCI under IFRS 9	-	36	36
Total	-	59	59

(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 and AOCI reserves. 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	8,547
Own credit risk adjustments under IFRS 9	(4,552)
Recognition of expected credit losses under IFRS 9	(59)
Income tax adjustments under IFRS 9 (January 1, 2018)	(5,445)
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	
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 investment securities from available-for-sale to FVTPL	(22,532)
Remeasurement under IFRS 9	3,967
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVTOCI	36
Income tax adjustments under IFRS 9 (January 1, 2018)	1,779
Impact of adopting IFRS 9 at January 1, 2018	(16,750)
Opening balance under IFRS 9 (January 1, 2018)	541

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Critical judgments in applying accounting policies

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

Business model assessment

Classification and measurement of financial assets under IFRS 9 depends on the results of the SPPI 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 PD since origination, and certain other criteria such as 30-day past due and DBRS ratings. The assessment of significant increase in credit risk requires judgment.

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 judgment regarding matters for which the ultimate outcome is unknown. These judgments 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 its asset portfolio to assess impairment on an annual basis. In determining whether an impairment loss should be recorded in the separate statement of profit or loss, SaskCentral made judgments as to whether there was any observable evidence to suggest impairment may exist before the decrease could be identified in the asset portfolio. This evidence may have included observable data indicating that there was 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.

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Critical judgments in applying accounting policies (continued)

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%) 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 over Concentra Bank due to SaskCentral's ability to call a special resolution on any matter and its power to appoint and remove directors of Concentra Bank. For the purposes of these separate financial statements, SaskCentral accounts for Concentra Bank using the equity method.

Significant influence over Celero Solutions

SaskCentral has significant influence over Celero Solutions by virtue of its 33.3% (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.

Significant influence over Saskatchewan Entrepreneurial Fund Joint Venture

CUVentures LP has 100% ownership of Saskatchewan Entrepreneurial Fund Limited Partnership (SEF LP), which has a 45.45% share in Saskatchewan Entrepreneurial Fund Joint Venture (SEF JV). SaskCentral has significant influence over SEF JV by virtue of SEF LP's 45.45% (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 Northwest and Ethical Investments (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 Wealth Inc. (Aviso). Aviso was formed on April 1, 2018 as a result of a merger between Credential Financial Inc., 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.

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 of 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.

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Critical judgments in applying accounting policies (continued)

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 judgment. In making the judgment, management considered the detailed criteria for recognition of revenue set out in IFRS 15.

Classification of CUPS Payment Services as a joint operation

SaskCentral owns 50% interest in CUPS Payment Services (CUPS) in which unanimous consent is required for decision making. The remaining 50% interest in CUPS is owned by Alberta Central. CUPS is an unincorporated joint operation structured through a separate vehicle with a contractual arrangement. This separate vehicle is an unincorporated joint venture and is not seen as a separate entity under law. An unincorporated joint venture does not offer limited liability and the assets and liabilities held in the separate vehicle are regarded legally as the assets and liabilities of SaskCentral and Alberta Central based on their proportionate share in the joint operation. The legal form of the contractual arrangement gives SaskCentral and Alberta Central rights to the assets and obligations for the liabilities, in proportion to their proportionate share in the joint operation. The contractual agreement between SaskCentral and Alberta Central states that the gross revenues, expenses, income and losses of the joint operation shall belong to, be owned by and borne exclusively by SaskCentral and Alberta Central in proportion to their proportionate share in the joint operation. For the purposes of these separate financial statements, SaskCentral accounts for CUPS using the equity method.

Business combination

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

Key sources of estimation uncertainty

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

Fair value measurements and valuation processes

Some of SaskCentral's financial assets and 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 by SaskCentral's valuation subcommittee. Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities is disclosed in notes 6, 13 and 15.

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 judgment 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.

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Key sources of estimation uncertainty (continued)

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.

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 29.

Income taxes

The deferred income tax liability recognized 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. The following is a description of these risks and how they are managed.

Credit risk

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

SaskCentral manages credit risk by:

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

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

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5. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

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 and loan portfolios 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 and methodologies have not changed materially from December 31, 2017.

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.

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

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

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

	2018 $		
	Amount outstanding	Undrawn commitments	Total
Cash and cash equivalents	266,875	-	266,875
Securities	2,168,417	-	2,168,417
Derivative assets	7,279	-	7,279
Loans	12,522	526,605	539,127
Investments in subsidiaries, associates and joint operations	375,796	-	375,796
Total exposure	2,830,889	526,605	3,357,494

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5. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

	2017 $		
	Amount outstanding	Undrawn commitments	Total
Cash and cash equivalents	256,352	-	256,352
Securities	2,237,325	-	2,237,325
Derivative assets	8,364	-	8,364
Loans	31,169	512,031	543,200
Investments in subsidiaries, associates and joint operations	326,492	-	326,492
Total exposure	2,859,702	512,031	3,371,733

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

	2018 $	2017 $
Low risk		
Risk rating 1	529,583	534,279
Risk rating 2	-	1,000
Standard monitoring		
Risk rating 3	-	-
Risk rating 4	7,711	7,711
Special monitoring		
Risk rating 5	-	-
Default		
Risk rating 6	-	-
Risk rating 7	-	-
Total exposure	537,294	542,990

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

	2018 $	2017 $
AAA/R1H	764,594	-
AA/R1M	435,989	-
A/R1L	696,020	-
BBB/R2H	87,118	-
Co-operatives	1,932	-
Unrated	350	467
Total exposure	1,986,003	467

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5. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

The following table summarizes the risk rating based on recognized rating agency data for FVTOCI (2017 - available-for-sale) securities at carrying value.

	2018 $	2017 $
AAA/R1H	42,856	824,329
AA/R1M	46,878	305,242
A/R1L	65,808	1,014,052
BBB/R2H	7,503	44,377
Co-operatives	4,331	33,460
Total exposure	167,376	2,221,460

Refer to note 9 for information on the credit quality performance of the security portfolio and note 11 for information on the credit quality performance of the loan portfolio.

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

Credit risk exposure by industry:

	2018 $	2017 $
Automobile financing	57,300	50,584
Banking (Schedule 1)	592,564	771,344
Credit card issuing/financing	17,393	32,287
Diversified holdings	-	1,000
Information	44,020	15,139
Insurance carriers and related activities	1,797	1,797
Local credit union	538,684	443,963
Manufacturing	83,124	59,435
MAV	350	467
Mining & oil and gas extraction	18,471	1,358
Other non-depository (co-operatives)	518,870	677,335
Public administration (federal, provincial, and municipal government)	1,350,783	1,190,800
Real estate	55,187	39,150
Residential mortgages (conventional)	1,095	1,184
Retail trade	7,026	11,886
Securities, commodity contracts and other financial institutions	3,034	-
Transportation and warehousing	36,616	60,083
Utilities	30,174	12,904
Wholesale trade	1,006	1,017
Total exposure	3,357,494	3,371,733

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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 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.

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

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.

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5. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

(a) Interest rate risk

The following represents the SaskCentral market risk position:

	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%

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 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 200 bp 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% 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%.

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5. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

(a) Interest rate risk (continued)

SaskCentral's interest rate sensitivity to a 200 bp fluctuation (2017 – 100 bp fluctuation) in the yield curve over the next twelve months would be as 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

(b) Other price risk

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

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.

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5. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

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.

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

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

	2018 $				
	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Loans payable	23,150	-	-	-	23,150
Notes payable	41,928	-	-	-	41,928
Total Exposure	65,078	-	-	-	65,078

	2017 $				
	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Loans payable	45,755	-	-	-	45,755
Notes payable	31,984	-	-	-	31,984
Total Exposure	77,739	-	-	-	77,739

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%

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5. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

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.

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	FVTOCI	**34,077**	-	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]	-	1,174,666	Level 2		N/A
Corporate						
Corporate debt						
	FVTOCI	**31,661**	-	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]	-	285,029	Level 2		N/A
Credential Financial subordinated debentures	Available-for-sale [1]	-	574	Level 2	Discounted cash flow. Future cash flows were determined based on a fixed coupon rate of 5.13%. Discount rate of 5.06%, estimated using market comparable rates from Bloomberg.	N/A

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

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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 Securities subordinated debentures	Available-for-sale (1)	-	658	Level 2	Discounted cash flow. Future cash flows were 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.	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.	Earnings multipliers ranging from 8.0 to 10.0 and assets under administration multipliers ranging from 2.5% to 3.5%.
Chartered banks	FVTOCI	**97,307**	-	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)	-	728,305	Level 2		N/A
Co-operatives (2)	FVTOCI	**4,331**	-	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**	-	Level 2	Market comparable prices using quoted bid prices obtained from Bloomberg, or dealer quoted prices where applicable.	N/A

(1) Presented for comparative purposes. Applicable before January 1, 2018.

(2) Certain co-operative securities with a carrying value at December 31, 2018 of $1,915 (2017 - $3,563) are not included in this note as these securities are carried at cost because cost is the appropriate estimate of fair value.

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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)						
MAVIII	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
Financial liabilities						
Deposits (1)	Designated at FVPTL	**2,025,394**	-	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

(1) *Prior to adoption of IFRS 9, all deposits were recorded at amortized cost. Therefore, comparative figures have not been provided.*

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.

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

Reconciliation of Level 3 fair value measurements

	2018 $	2017 $
Level 3, beginning of year	**28,665**	15,270
Realized (losses) gains in profit or loss	**(1,211)**	21
Unrealized gains in OCI	-	28,019
Principal payments	-	(14,844)
Transfer (out) in of Level 3	**(27,454)**	199
Level 3, end of year	-	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

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

	Carrying value as at		Fair value as at			
	2018 $	2017 $	2018 $	2017 $	Fair value hierarchy	Valuation technique(s)
Financial assets						
Credit union loans – fixed interest rate (1)	-	11,982	-	12,004	Level 2	Discounted cash flows based on current market rates of interest for similar lending.
Commercial loans	**2,711**	2,719	**2,710**	3,169	Level 2	
Central 1 subordinated debt	**7,000**	7,000	**6,834**	6,537	Level 2	
Financial liabilities						
Deposits (2)	**197,949**	2,244,264	**197,949**	2,234,813	Level 2	Discounted cash flows based on current market rates of interest for similar maturities.
Loans payable	**23,150**	45,755	**23,136**	45,743	Level 2	
Notes payable	**41,928**	31,984	**41,928**	31,984	Level 2	

(1) The fair value of variable interest rate credit union loans approximates the carrying value of $9,802 (2017 - $16,468).
(2) 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 of those deposits have been disclosed in the preceding charts.

7. CAPITAL MANAGEMENT

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

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

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7. CAPITAL MANAGEMENT (continued)

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. 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

8. CASH AND CASH EQUIVALENTS

	2018 $	2017 $
Cash and balances with Central 1	118,187	200,396
Cash and balances with banks	4,259	5,962
Cash equivalents	144,429	49,994
	266,875	256,352

9. SECURITIES

SaskCentral's securities portfolio is comprised of a large number of securities carrying a variety of terms and conditions. Approximately 72.8% (2017 – 73.2%) 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.

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9. SECURITIES (continued)

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

	2018 $					
	Term to maturity					
	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	No fixed maturity	Total
FVTOCI						
Government						
Fair value	7,493	-	26,584	-	-	34,077
Amortized cost	7,492	-	26,446	-	-	33,938
Yield (1)	1.85%		2.38%			2.26%
Corporate debt (2)						
Fair value	-	2,986	28,675	-	-	31,661
Amortized cost	-	2,996	28,838	-	-	31,834
Yield (1)		1.86%	2.37%			2.32%
Chartered banks						
Fair value	13,415	23,394	60,498	-	-	97,307
Amortized cost	13,408	23,447	60,724	-	-	97,579
Yield (1)	2.23%	2.06%	2.53%			2.37%
Co-operatives						
Fair value	-	-	-	-	4,331	4,331
Amortized cost	-	-	-	-	307	307
Total FVTOCI fair value	20,908	26,380	115,757	-	4,331	167,376
Total FVTOCI amortized cost	20,900	26,443	116,008	-	307	163,658
Designated FVTPL						
Government						
Fair value	224,012	194,296	799,421	48,137	-	1,265,866
Amortized cost	224,045	194,353	799,733	47,591	-	1,265,722
Yield (1)	1.93%	1.88%	2.10%	2.68%		2.06%
Corporate debt (2)						
Fair value	24,141	116,871	181,500	-	-	322,512
Amortized cost	24,148	117,042	182,865	-	-	324,055
Yield (1)	1.88%	2.27%	2.50%			2.37%
Chartered banks						
Fair value	38,912	98,341	247,781	-	-	385,034
Amortized cost	38,936	98,515	251,389	-	-	388,840
Yield (1)	1.67%	1.95%	1.91%			1.90%
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*

Continued on the following page.

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9. SECURITIES (continued)

	2018 (continued) $					
	Term to maturity					
	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	No fixed maturity	Total
FVTPL						
Chartered banks						
Fair value	-	-	-	-	10,309	10,309
Amortized Cost	-	-	-	-	10,501	10,501
Yield (1)					3.20%	3.20%
Co-operatives						
Fair value	-	-	-	-	1,932	1,932
Amortized Cost	-	-	-	-	1,937	1,937
MAV						
Fair value	-	-	-	350	-	350
Total FVPTL fair value	-	-	-	350	12,241	12,591
Total amortized cost	-	-	-	-	12,438	12,438
Amortized cost						
Central 1 subordinated debentures						
Amortized cost	-	-	-	7,000	-	7,000
Yield(1)				2.41%		2.41%
Total amortized cost	-	-	-	7,000	-	7,000
Total carrying value of securities						2,160,379
Accrued interest						8,038
Allowance for credit losses [note 12]						(7)
						2,168,410

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

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9. SECURITIES (continued)

	2017 $					
	Term to maturity					
	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	No fixed maturity	Total
Available-for-sale						
Government						
Federal						
Fair value	2,140	233,615	471,842	-	-	707,597
Amortized cost	2,140	233,616	473,325	-	-	709,081
Yield (1)	1.01%	1.27%	1.45%			1.39%
Provincial						
Fair value	61,630	244,150	156,937	-	-	462,717
Amortized cost	61,651	244,035	156,507	-	-	462,193
Yield (1)	1.03%	1.37%	1.52%			1.42%
Municipal						
Fair value	-	-	4,352	-	-	4,352
Amortized cost	-	-	4,376	-	-	4,376
Yield (1)			1.80%			1.80%
Corporate						
Corporate debt (2)						
Fair value	13,519	100,818	170,692	-	-	285,029
Amortized cost	13,520	100,829	172,065	-	-	286,414
Yield (1)	1.56%	1.64%	1.93%			1.81%
Chartered banks						
Fair value	34,304	248,680	434,572	-	10,749	728,305
Amortized cost	34,305	248,283	438,015	-	10,707	731,310
Yield (1)	1.74%	1.93%	1.91%		3.20%	1.93%
Co-operatives						
Fair value	-	658	574	-	32,228	33,460
Amortized cost	-	656	573	-	4,211	5,440
Total fair value	111,593	827,921	1,238,969	-	42,977	2,221,460
Total amortized cost	111,616	827,419	1,244,861	-	14,918	2,198,814
FVTPL						
MAV						
Fair value	-	-	-	467	-	467
Loans and receivables						
Central 1 subordinated debentures						
Amortized cost	-	-	-	7,000	-	7,000
Yield (1)				1.55%		1.55%
Total carrying value						2,228,927
Accrued interest						8,398
						2,237,325

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

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9. SECURITIES (continued)

Unrealized gains and losses on securities

	2018 $			
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
FVTOCI securities				
Government	33,938	159	(20)	34,077
Corporate	129,720	4,187	(608)	133,299
	163,658	4,346	(628)	167,376
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	12,788	-	(197)	12,591
	12,788	-	(197)	12,591
	2,155,063	7,227	(8,911)	2,153,379

	2017 $			
Available-for-sale securities	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Government	1,175,650	2,132	(3,116)	1,174,666
Corporate	1,023,164	29,353	(5,723)	1,046,794
	2,198,814	31,485	(8,839)	2,221,460

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.

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

Derivatives currently held or issued are for non-trading purposes.

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10. DERIVATIVE ASSETS AND LIABILITIES (continued)

Notional amounts and term to maturity

	2018 $				
	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Index-linked term deposits	**9,038**	**12,169**	**75,088**	-	**96,295**

	2017 $				
	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Index-linked term deposits	10,532	8,260	90,461	-	109,253

Fair value of derivative instruments

	2018 $		2017 $	
	Positive	Negative	Positive	Negative
Index-linked term deposits	**5,594**	**5,594**	9,399	9,399

Amounts expected to be recovered or settled

	2018 $		2017 $	
	Positive	Negative	Positive	Negative
Within 12 months	**1,502**	**1,502**	1,839	1,839
After 12 months	**4,092**	**4,092**	7,560	7,560
	5,594	**5,594**	9,399	9,399

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

11. LOANS

	2018 $	2017 $
Credit union	**9,802**	28,449
Commercial loans	**2,711**	2,711
	12,513	31,160
Accrued interest	**9**	9
Allowance for credit losses [note 12]	**(17)**	-
	12,505	31,169

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11. LOANS (continued)

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

2018	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Credit union					
Amortized cost ($)	9,802	-	-	-	9,802
Rate (%)	5.38%				5.38%
Commercial loans					
Amortized cost ($)	-	-	2,711	-	2,711
Rate (%)			3.95%		3.95%
Amortized cost	9,802	-	2,711	-	12,513

2017	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Credit union					
Amortized cost ($)	28,449	-	-	-	28,449
Rate (%)	2.33%				2.33%
Commercial loans					
Amortized cost ($)	-	-	2,711	-	2,711
Rate (%)			3.20%		3.20%
Amortized cost	28,449	-	2,711	-	31,160

12. ALLOWANCE AND NET PROVISION FOR CREDIT LOSSES

The following table presents the changes to the allowance for credit losses on financial assets under IFRS 9.

	2018 $	2017 $
Allowance on financial assets at amortized cost		
Impact of adopting IFRS 9 at January 1, 2018 [note 3]	23	-
Provision for credit losses on financial assets	1	-
Balance at December 31	24	-
Allowance on financial assets at FVTOCI		
Impact of adopting IFRS 9 at January 1, 2018 [note 3]	36	-
Provision for credit recoveries on financial assets	(15)	-
Balance at December 31	21	-
Total allowance for credit losses		
Impact of adopting IFRS 9 at January 1, 2018 [note 3]	59	-
Provision for credit recoveries on financial assets	(14)	-
Balance at December 31	45	-

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12. ALLOWANCE AND NET PROVISION FOR CREDIT LOSSES (continued)

For the purpose of impairment assessment, the investments in financial assets 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 allowance for credit losses is measured at an amount equal to a 12-month ECL. There is no lifetime allowance at December 31, 2018.

SaskCentral is exposed to credit risk in relation to securities and loans. SaskCentral doesn't hold any collateral on loans or publicly traded securities. The credit risk on loans to credit unions is mitigated because of the *General Security Agreement* between SaskCentral and the credit unions. SaskCentral has not recognized an allowance for credit losses for the credit union loans that are collateralized by the *General Security Agreement*.

The increase in the allowance for credit losses arose from the recognition of a 12-month ECL allowance on January 1, 2018. Previously, no provision for impairment had been recognized on the financial assets as no loss event had occurred up to the respective reporting dates. There is no significant change in the gross carrying amount of financial instruments during the period that contributed to changes in the allowance for credit losses.

The allowance for credit losses on financial assets at FVTOCI is not recognized in the separate balance sheet because the carrying amount of securities at FVTOCI (2017 - available-for-sale) is fair value. The cumulative amount of the provision for credit losses recognized in profit or loss is presented in AOCI. The provision for credit losses on financial assets measured at FVTOCI is recognized in OCI.

13. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT OPERATIONS

Concentra Bank

At December 31, 2018, SaskCentral holds 84.0% of the voting common shares of Concentra Bank. Concentra Bank provides financial intermediation and trust services to Canadian credit unions and associated commercial and retail customers. Concentra Bank's registered place of business is Saskatoon, Saskatchewan.

On January 1, 2017, Concentra Financial ceased operations as an association governed by the CCAA and continued as a Schedule 1 chartered bank governed by the *Bank Act (Canada).* On this date, Concentra Financial's legal name changed to Concentra Bank. Prior to the bank continuance, SaskCentral held 84.0% of the non-voting Class A shares and 47.1% of the voting membership shares of Concentra Financial and was limited to one vote out of 235 member votes on ordinary resolutions brought to members. As a result of bank continuance, Concentra Bank became a subsidiary of SaskCentral on January 1, 2017.

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.

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.

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13. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT OPERATIONS (continued)

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.

SaskCentral owns SEF JV through its 100% (2017– 100%) ownership of the partnership units of CUVentures LP. Through its 100% ownership of CUVentures Inc., SaskCentral has control over CUVentures LP. CUVentures LP's principal place of business is Regina, Saskatchewan.

For the purposes of these separate financial statements, SaskCentral accounts for the above as investments using the equity method. Related party transactions for these investees, if any, are disclosed in note 27.

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

	2018 $					
	Assets	Liabilities	Revenue	Profit (loss)	Other comprehensive income (loss)	Total comprehensive income
Concentra Bank	9,679,409	9,200,207	296,821	40,555	1,234	41,789
Celero Solutions	39,404	23,070	80,427	6,659	-	6,659
CUPS	5,512	3,034	24,664	2,478	-	2,478
CUC Wealth	102,210	461	2,755	2,303	(281)	2,022
SEF JV	2,802	151	5	6	-	6
	9,829,337	9,226,923	404,672	52,001	953	52,954

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13. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT OPERATIONS (continued)

2017 $	Assets	Liabilities	Revenue	Profit (loss)	Other comprehensive (loss) income	Total comprehensive income
Concentra Bank	9,126,672	8,669,729	267,776	33,647	(1,764)	31,883
Celero Solutions	33,943	20,459	76,099	3,485	-	3,485
CUPS	5,213	3,924	23,476	1,289	-	1,289
SEF JV	2,805	163	15	14	-	14
	9,168,633	8,694,275	367,366	38,435	(1,764)	36,671

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

2018	Concentra Bank equity components $	%	SaskCentral's carrying amount $
Ending share capital	245,239		
Concentra shares held by other common shareholders	(16,192)		
Concentra shares held by Class A preferred shareholders	(110,987)		
SaskCentral's portion of share capital	118,060		118,060
Ending retained earnings	233,807		
Accumulated other comprehensive income	156		
Retained earnings at date of asset transfer (January 1, 2005) [1]	(22,628)	55.76%	12,617
Dividend on 2005 earnings [1]	2,579	55.76%	(1,438)
Retained earnings prior to continuance	(168,905)	84.30%	142,387
Retained earnings attributable to common shareholders	45,009	84.02%	37,817
			309,443
Goodwill			(19,248)
Fair value increase as result of change in control [note 29]			48,343
Other adjustments			1,160
Carrying amount of SaskCentral's investment in Concentra Bank			339,698

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

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13. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT OPERATIONS (continued)

2017	Concentra Bank equity components	%	SaskCentral's carrying amount
	$	%	$
Ending share capital	245,239		
Concentra shares held by other common shareholders	(16,192)		
Concentra shares held by Class A preferred shareholders	(110,987)		
SaskCentral's portion of share capital	118,060		118,060
Ending retained earnings	213,127		
Accumulated other comprehensive income	(1,423)		
Retained earnings at date of asset transfer (January 1, 2005) [(1)]	(22,628)	55.76%	12,617
Dividend on 2005 earnings [(1)]	2,579	55.76%	(1,438)
Retained earnings prior to continuance	(168,905)	84.30%	142,387
Retained earnings attributable to common shareholders	22,750	84.02%	19,115
			290,741
Goodwill			(19,248)
Fair value increase as result of change in control [note 29]			48,343
Other adjustments			237
Carrying amount of SaskCentral's investment in Concentra Bank			320,073

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

A reconciliation of Celero Solutions, CUPS, CUC Wealth and SEF JV's financial information to the carrying amount of SaskCentral's interest in these investments recognized in the separate financial statements is provided below.

	2018 $			
	Celero Solutions	**CUPS**	**CUC Wealth**	**SEF JV**
Net assets of the associates and joint operations	16,334	2,478	101,749	2,651
Proportion of SaskCentral's ownership interest	33.3%	50.0%	10.92%	45.45%
	5,445	1,239	11,111	1,205
Fair value differential upon acquisition	-	-	18,530	-
Other adjustments	11	85	(479)	(1,049)
Carrying amount of SaskCentral's interest in associates and joint operations	5,456	1,324	29,162	156

	2017 $		
	Celero Solutions	**CUPS**	**SEF JV**
Net assets of the associates and joint operations	13,484	1,289	2,642
Proportion of SaskCentral's ownership interest	33.3%	50.0%	45.45%
	4,495	645	1,201
Other adjustments	23	55	-
Carrying amount of SaskCentral's interest in associates and joint operations	4,518	700	1,201

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13. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT OPERATIONS (continued)

During the period, SaskCentral received the following distributions from its investments in subsidiaries, associates and joint operations:

	2018 $	2017 $
Concentra Bank	4,512	3,383
Celero Solutions	644	550
CUPS	700	1,003
SEF JV	1,049	-
	6,905	4,936

14. PROPERTY, PLANT AND EQUIPMENT

2018
$

	Land	Building	Furniture and equipment	Total
Cost				
Balance as at January 1	859	12,769	3,010	16,638
Additions	-	217	93	310
Disposals	-	(9)	(386)	(395)
Ending balance as at December 31	859	12,977	2,717	16,553
Accumulated depreciation				
Balance as at January 1	-	8,476	2,377	10,853
Depreciation charges	-	349	199	548
Disposals	-	(9)	(386)	(395)
Ending balance as at December 31	-	8,816	2,190	11,006
Carrying value as at December 31	859	4,161	527	5,547

2017
$

	Land	Building	Furniture and equipment	Total
Cost				
Balance as at January 1	859	12,362	3,044	16,265
Additions	-	407	75	482
Disposals	-	-	(109)	(109)
Ending balance as at December 31	859	12,769	3,010	16,638
Accumulated depreciation				
Balance as at January 1	-	8,061	2,270	10,331
Depreciation charges	-	415	216	631
Disposals	-	-	(109)	(109)
Ending balance as at December 31	-	8,476	2,377	10,853
Carrying value as at December 31	859	4,293	633	5,785

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15. INVESTMENT PROPERTY

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

	2018 $	2017 $
Cost		
Balance as at January 1	11,449	11,449
Ending Balance as at December 31	11.449	11,449
Accumulated Depreciation		
Balance as at January 1	1,863	1,663
Depreciation charges	201	200
Ending Balance as at December 31	2,064	1,863
Carrying Value as at December 31	9,385	9,586

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

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

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

Income approach	**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, investment property generated rental income of $3,581 (2017 - $3,585). Direct operating expenses recognized in the separate income statement were $1,890 (2017 - $1,944).

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16. INTANGIBLE ASSETS

	2018 $ Computer software	2017 $ Computer software
Cost		
Balance as at January 1	**2,119**	2,119
Additions	15	-
Ending balance as at December 31	**2,134**	2,119
Accumulated amortization		
Balance as at January 1	**2,092**	1,981
Amortization charges	27	111
Ending balance as at December 31	**2,119**	2,092
Carrying value as at December 31	15	27

17. INCOME TAXES

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

	2018 $	2017 $
Deferred income tax expense (recovery)		
Origination and reversal of temporary differences	**1,762**	(21,616)
	1,762	(21,616)

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

	2018 $	2017 $
Net unrealized gains on financial instruments		
Deferred income tax (recovery) expense	**(152)**	1,191
	(152)	1,191
Reclassification of gains on financial instruments		
Deferred income tax expense	31	31
	31	31
Own credit risk reserve		
Deferred income tax recovery	**(2,233)**	-
	(2,233)	-
	(2,354)	1,222

Income taxes are included in the separate 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)

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17. 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 separate financial statements:

	2018 $	2017 $
	(8,854)	23,273

Reconciliation of income tax expense from continuing operations:

	2018 $	2017 $
Combined federal and provincial income tax rate applied to income from		
Continuing operations (2018 – 27%; 2017 – 26.75%)	9,813	21,837
Income tax expense adjusted for the effect of:		
Non-taxable dividend income	(144)	(157)
Impact of tax rate changes	165	-
Expenses not deductible for tax purposes	39	43
Adjustments related to prior periods	207	(1,610)
Tax not recorded on equity pick-up of subsidiary	(8,291)	(6,729)
Tax not recorded on gain on acquisition of control	-	(12,920)
Reversal of deferred tax liability on acquisition of control	-	(22,080)
Amounts taxed at other than general income tax rate	(27)	-
	1,762	(21,616)

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

	2018 $	2017 $
Balance, beginning of year	3,402	(19,871)
Impact of adopting IFRS 9	(4,884)	-
Recognized in profit or loss	(1,762)	21,616
FVTOCI (available for sale):		
Fair value measurement	2,385	(1,191)
Transfer to profit or loss	(31)	(31)
Recognized in retained earnings	8,262	2,879
Balance, end of year	7,372	3,402

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17. 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
Accounts payable and deferred revenue	-	234
Losses not yet deductible for tax purposes	110	138
Other	27	17
	12,093	7,586
Deferred income tax liabilities		
Securities	(3,737)	(3,677)
Property, plant and equipment	(700)	(507)
Accounts payable and deferred revenue	(284)	-
	(4,721)	(4,184)
Net deferred income tax asset (liability)	7,372	3,402

	2018 $	2017 $
Deferred income tax assets		
Recoverable after more than 12 months	12,093	7,352
Recoverable within 12 months	-	234
	12,093	7,586
Deferred income tax liabilities		
Payable after more than 12 months	(4,721)	(4,184)
	(4,721)	(4,184)
Net deferred income tax asset (liability)	7,372	3,402

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.

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18. DEPOSITS

Provincial Liquidity Program

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

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

2018
$

	Term to maturity						
	On Demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	No fixed maturity	Total
Member							
Amortized cost	197,949	-	-	-	-	-	197,949
Yield (1)	0.12%						0.12%
Provincial liquidity program							
Designated FVTPL (2)	-	142,316	296,621	927,856	-	652,251	2,019,044
Yield (1)		1.69%	1.91%	1.97%		2.15%	2.00%
	197,949	142,316	296,621	927,856	-	652,251	2,216,993
Accrued interest							6,350
							2,223,343

(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						
	On Demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	No fixed maturity	Total
Member							
Amortized Cost	282,018	-	-	-	-	-	282,018
Yield (1)	0.01%						0.01%
Provincial liquidity program							
Amortized Cost	-	120,204	340,075	867,620	-	629,876	1,957,775
Yield (1)		1.49%	1.42%	1.35%		1.10%	1.29%
	282,018	120,204	340,075	867,620	-	629,876	2,239,793
Accrued interest							4,471
							2,244,264

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

Interest rates on deposits are determined by market conditions.

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19. LOANS AND NOTES PAYABLE

SaskCentral has available credit facilities related to securities repurchase agreements from National Bank Financial, Toronto Dominion Bank, Royal Bank of Canada and Bank of Nova Scotia. These repurchase agreements mature within one month (2017 – one month).

In addition, 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 28). The balance of the credit facility is unsecured, ranking equally with the deposit obligations of SaskCentral. SaskCentral also has a secured credit facility with Canadian Imperial Bank of Commerce for $50,000 (2017 - $50,000) where SaskCentral is required to maintain a borrowing base comprised of fixed income collateral.

SaskCentral is authorized to issue a maximum of $300,000 (2017 - $300,000) under a commercial paper program. Outstanding commercial paper matures within one to three months (2017 – one month).

	Loans and notes payable		Collateral			
			Securities pledged			
			Fair value		Carrying value	
	2018	2017	2018	2017	2018	2017
	$	$	$	$	$	$
Repurchase payable (1)	**23,150**	45,755	**23,136**	45,743	**22,970**	45,461
Central 1 line of credit	-	-	**198,174**	305,801	**197,139**	305,038
Commercial paper (2)	**41,928**	31,984	-	-	-	-
	65,078	77,739	**221,310**	351,544	**220,109**	350,499

(1) *Weighted average effective interest rate based on year-end carrying values is 1.90% (2017 - 1.15%).*

(2) *Weighted average effective interest rate based on year-end carrying values of 2.25% (2017 – 1.37%).*

20. 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.

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20. SHARE CAPITAL (continued)

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.

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.

21. 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.

Notes to the Separate Financial Statements

December 31, 2018
in thousands of Canadian dollars

22. NET INTEREST INCOME

	2018 $	2017 $
Interest income		
Financial assets measured at amortized cost	1,746	N/A
Financial assets measured at FVTOCI	4,963	N/A
Financial assets measured at FVTPL	947	N/A
Financial assets designated at FVTPL	35,847	N/A
	43,503	N/A
Interest expense		
Financial liabilities measured at amortized cost	1,654	N/A
Financial liabilities designated at FVTPL	34,084	N/A
	35,738	N/A
Net interest income	7,765	N/A

23. DUES AND FEE FOR SERVICE REVENUE

Disaggregation of revenue

In the following tables, 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	425
	769
Services transferred over time	
Liquidity management assessment	5,000
Consulting	4,963
Management oversight	1,772
Other revenue	
Tenant revenue	4,460
Parking revenue	352
Foreign exchange revenue	130
Miscellaneous revenue	52
	16,729
	17,498

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

December 31, 2018
in thousands of Canadian dollars

23. DUES AND FEE FOR SERVICE REVENUE (continued)

	2017
	$
Fee for service revenue	
Fee for service revenue	5,985
Foreign exchange revenue	16
Miscellaneous revenue	119
Parking revenue	349
Tenant revenue	4,728
	11,197
Dues	5,375
	16,572

24. SALARY AND EMPLOYEE BENEFITS

	2018	2017
	$	$
Contributions to defined contribution plans	442	430
Employee training and development	164	135
Other employee benefits	595	525
Salaries and incentive compensation	9,406	8,982
	10,607	10,072

SaskCentral contributes annually to a defined contribution pension plan for employees. The contributions are held in trust by the Co-operative Superannuation Society and are not recorded in these separate financial statements. As a defined contribution pension plan, SaskCentral has no future obligation for future contributions to fund benefits to plan members.

25. PROFESSIONAL AND ADVISORY SERVICES

	2018	2017
	$	$
Concentra Bank consulting fees	605	586
Canadian Credit Union Association cost sharing	-	2,144
Professional fees	5,288	3,860
	5,893	6,590

Notes to the Separate Financial Statements

December 31, 2018
in thousands of Canadian dollars

26. (LOSS) GAIN ON FINANCIAL INSTRUMENTS

	2018	2017
	$	$
Realized losses arising on financial assets measured as at FVTOCI (2017 – available-for-sale)	(2)	(94)
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)	-
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
	(3,344)	198

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.

27. RELATED PARTY TRANSACTIONS

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

Related party transactions are in the normal course of operations and are measured at the consideration established and agreed to by the parties. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. Related party loan balances are included with groups of loans with similar credit risk characteristics when assessing impairment.

SaskCentral provides a variety of services to Concentra Bank, Celero Solutions, CUPS and CUC Wealth. Some of the services provided include facility services and financial services. SaskCentral also receives financial services from Concentra Bank and technology services from Celero Solutions and CUPS.

December 31, 2018
in thousands of Canadian dollars

27. RELATED PARTY TRANSACTIONS (continued)

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

	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	75	61
Due to included in trade and other payables	987	186
Interest received from	98	87
Fee for service revenue received from	762	753
Technology services paid to	9,730	1,189
Concentra Bank		
Lines of credit authorized to	100,000	100,000
Loans receivables from (amount drawn on line of credit)	3,907	40
Collateral received from	21,914	18,532
Due from included in trade and other receivables	22	17
Deposits payable to	20,762	18,844
Due to included in trade and other payables	51	49
Interest received from	155	71
Fee for service revenue received from	1,548	1,371
Financial services fees paid to	724	640
CUPS		
Fee for service revenue received from	6	-
Services charges paid to	6	6
CUC Wealth		
No related party transactions, except for those disclosed in notes 4 and 13, occurred between SaskCentral and CUC Wealth for the year ended December 31, 2018.		

Key management compensation

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

	2018 $	2017 $
Directors		
Salaries and other short-term employee benefits	131	159
Post-employment benefits	6	6
	137	165
Key management personnel		
Salaries and other short-term employee benefits	4,010	4,131
Post-employment and other long-term benefits	151	176
	4,161	4,307
	4,298	4,472

Notes to the Separate Financial Statements

December 31, 2018
in thousands of Canadian dollars

28. COMMITMENTS

The amounts reported as lines of credit and loan commitments, and letters of credit represent a maximum credit exposure to SaskCentral. Many of these contracts will expire without being drawn upon, thereby reducing SaskCentral's credit risk from the maximum commitment. SaskCentral earns minimal fees on commitments. SaskCentral has not issued any financial guarantee contracts.

	2018 $	2017 $
Lines of credit and loan commitments		
Original term to maturity of one year or less	526,605	512,030
	526,605	512,030

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.

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.

December 31, 2018
in thousands of Canadian dollars

29. GAIN ON ACQUISITION ON CONTROL

As described in note 13, effective January 1, 2017, SaskCentral holds 84.0% of the voting common shares of Concentra Bank, providing SaskCentral control of Concentra Bank through virtue of shareholder voting rights. For the purposes of these separate financial statements, Concentra Bank has been recorded using the equity method.

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

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

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

Consolidated Management Discussion and Analysis

This section of the annual report, providing management's discussion and analysis (MD&A) of the consolidated results of SaskCentral, should be read in conjunction with the audited consolidated financial statements and notes as at and for the year ended December 31, 2018. For purposes of SaskCentral's consolidated MD&A, SaskCentral refers to the consolidated entity, including its downstream investees, Concentra Bank, Credit Union Payment Services (CUPS), Celero Solutions, CU CUMIS Wealth Holdings LP (CUC Wealth) and CUVentures LP.

Consolidated Management Discussion and Analysis

The consolidated financial statements are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards (IFRS). This MD&A is dated March 6, 2019 and provides comments regarding SaskCentral's financial and operating results, risk management, capital management and business outlook.

Effective January 1, 2018, SaskCentral adopted IFRS 9, Financial Instruments (IFRS 9) and IFRS 15, *Revenue from Contracts with Customers* (IFRS 15). SaskCentral has adopted these standards retrospectively using the cumulative effects method, and therefore, comparative information has not been restated.

Caution Regarding Forward-Looking Statements

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

By their very nature, forward-looking statements involve numerous assumptions. A variety of factors, many of which are beyond SaskCentral's control, may cause actual results to differ materially from the expectations expressed in the forward-looking statements. These factors include, but are not limited to, changes in economic and political conditions, legislative and regulatory developments, alignment of strategies of potential partners, legal developments, the accuracy of and completeness of information SaskCentral receives from counterparties, the ability to attract and retain key personnel and management's ability to anticipate and manage the risks associated with these factors. The preceding list is not exhaustive of possible factors. These and other factors should be considered carefully and readers are cautioned not to place undue reliance on these forward-looking statements. SaskCentral does not undertake to update any forward-looking statements, whether written or verbal, that may be made from time to time by it or on its behalf.

SaskCentral's Strategic Partners

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

A summary of SaskCentral's strategic partners and their classification for accounting purposes is as follows:

Strategic Partner	Accounting Classification
Concentra Bank	Subsidiary
CUPS	Investment in joint operation
Celero Solutions	Investment in associate
CUC Wealth	Investment in associate
CUVentures LP	Subsidiary
Saskatchewan Entrepreneurial Fund Joint Venture	Investment in associate

Of these strategic partners, Concentra Bank is the most significant in terms of assets, liabilities, and profit generated. Specific details on Concentra Bank's financial performance consolidated in the results below have not been identified in this report. For further information on Concentra Bank's 2018 financial results, please visit their website at www.concentra.ca.

Consolidated Management Discussion and Analysis

Significant Event

On April 1, 2018, the provincial credit union centrals, The CUMIS Group, and Desjardins completed the merger of Credential Financial Inc., Northwest and Ethical Investments and Qtrade Canada Inc. to form Aviso Wealth Inc. (Aviso). Aviso is jointly owned by Desjardins and CUC Wealth, a limited partnership comprised of the provincial centrals and The CUMIS Group, each holding a 50% interest. Aviso is one of Canada's largest independent financial services providers with over $55 billion in assets under administration and management and more than 500,000 clients across the country. Aviso provides comprehensive wealth management services for credit unions and their members. For more information on this transaction, refer to Notes 4 and 14 of the consolidated financial statements.

2018 SaskCentral Consolidated Financial Performance

Results Overview

SaskCentral's consolidated financial performance includes results from subsidiaries, associates and joint operations. The following table provides a summary of the key consolidated financial highlights.

Consolidated Financial Highlights

December 31 (in thousands)	**2018** **$**	2017 $	2016 $	2015 $	2014 $
Income from continuing operations					
Net interest income after provision for credit losses	**108,521**	99,941	10,999	11,074	10,892
Non-interest income	**52,876**	97,495	53,256	55,373	52,832
Non-interest expense	**97,885**	92,210	33,307	33,770	34,651
Income tax expense (recovery)	**17,986**	(7,911)	7,139	6,374	5,425
Net income	**45,526**	113,137	23,809	26,303	23,648
Distribution of income					
Dividends (includes non-controlling interests)	**41,075**	19,894	13,715	9,900	6,669
Distribution as a % of average share capital	**25.3%**	12.3%	9.1%	7.2%	4.9%
Financial Position					
Securities	**2,995,653**	3,077,842	2,131,450	2,054,862	1,906,201
Loans	**8,311,602**	7,721,935	45,057	37,800	40,636
Deposits	**7,039,434**	5,998,315	2,009,060	1,926,524	1,790,716
Equity	**726,357**	711,060	437,327	405,841	383,382

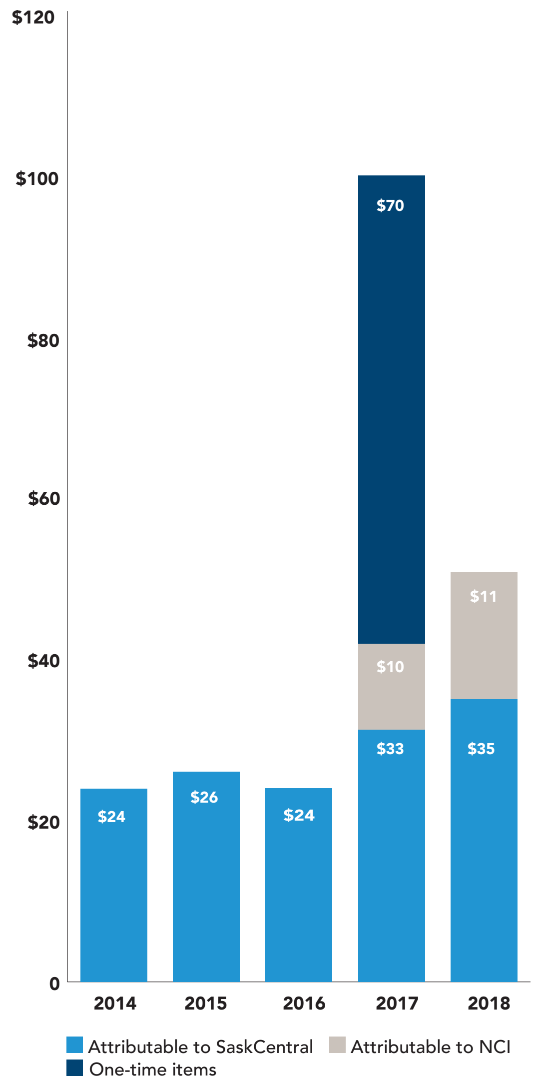
Further to the financial highlights above, SaskCentral's consolidated performance is summarized according to the following categories: profitability; growth; and return on equity (ROE).

Consolidated Management Discussion and Analysis

Profitability

SaskCentral's profit was $45.5 million (2017 – $113.1 million), of which $11.0 million (2017 - $10 million) is attributable to non-controlling interests (NCI). The decrease in 2018 was related to the one-time gain on acquisition of control of Concentra Bank of $48.3 million and the one-time income tax recovery of $21.6 million in 2017. Concentra Bank contributed $40.6 million to SaskCentral's consolidated profit in 2018 (2017 – $33.6 million).

Consolidated Profit (in millions)

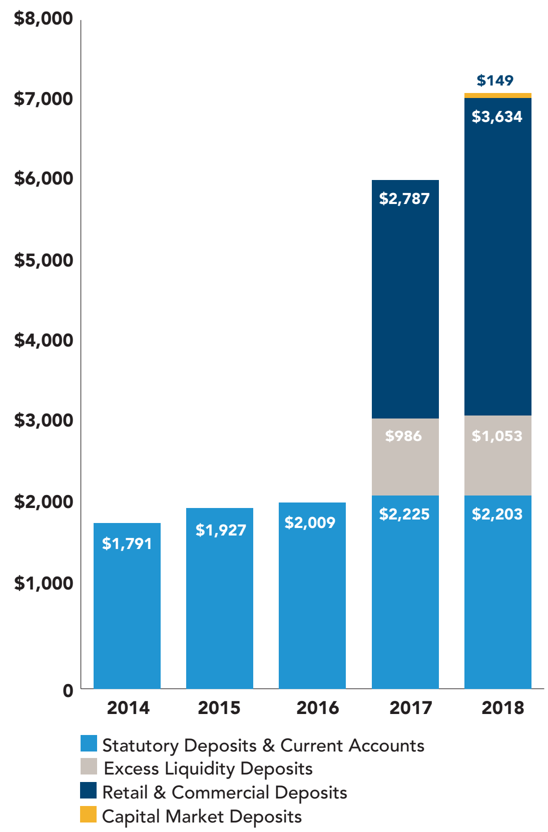


Growth

Deposits are comprised of credit union deposits, retail deposits, commercial deposits and capital market deposits. The credit union deposits are made up of statutory liquidity deposits and current accounts (credit union cash balances) offered by SaskCentral.

The retail deposits consist of guaranteed investment certificates and registered plan deposits which are primarily sourced from the nominee market by third party brokerage firms. Commercial deposits relate to clients of Concentra Bank retained from its legacy direct banking operations, credit union cash balances and excess liquidity deposits. Capital market deposits relate to the issuance of floating rate deposit notes in the debt capital markets to a broad group of investors.

Consolidated Deposits (in millions)



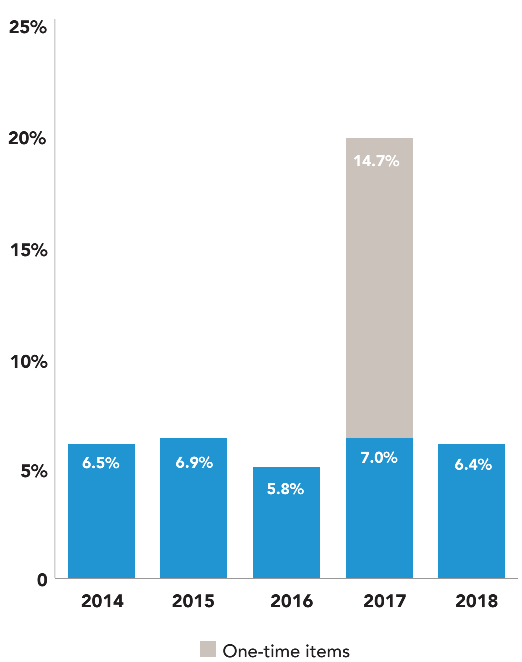
Consolidated Management Discussion and Analysis

SaskCentral's deposits, excluding excess liquidity, retail, commercial and capital market deposits decreased by 1.0% over prior year (2017 – 10.8% increase). Statutory liquidity deposits increased 3.2% and credit union cash balances decreased by 32.7%. Credit union cash balances can fluctuate substantially year over year.

Return on Equity

Equity attributable to SaskCentral increased by $11.6 million over 2017. The adoption of IFRS 9 caused a $21.0 million increase to opening retained earnings. The IFRS 9 adoption impact, along with another year of strong earnings offset by dividends paid to credit unions resulted in a net increase to retained earnings of $28.8 million. Credit unions subscribed to $1.2 million (2017 - $0.4 million) in membership share capital during the year. For 2018, SaskCentral's ROE was 6.4% (2017 – 21.7%). The decrease of ROE from prior year is attributable to the one-time gain on acquisition of control of Concentra Bank in 2017.

Consolidated Return on Equity



2019 Outlook

Please refer to the Separate MD&A for discussion on SaskCentral's 2019 outlook.

Accounting Matters

Critical Accounting Policies and Estimates

The accompanying consolidated financial statements have been prepared in accordance with IFRS. The significant accounting policies used in the preparation of the consolidated financial statements are described in Note 2. The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses at year end. Critical accounting estimates and judgments are described in Note 4 of the consolidated financial statements.

Changes in Accounting Policies

Effective January 1, 2018, SaskCentral adopted IFRS 9, *Financial Instruments* (IFRS 9) and IFRS 15, *Revenue from Contracts with Customers* (IFRS 15). SaskCentral has adopted these standards retrospectively using the cumulative effects method, and therefore, comparative information has not been restated.

The adoption of IFRS 9 has resulted in an increase of $21 million to opening retained earnings and a decrease of $13.4 million to opening accumulated other comprehensive income, after-tax. The adjustment for IFRS 9 attributable to opening NCI was a decrease of $1.4 million, after-tax.

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. For further details on the impact of the adoption of IFRS 9 and IFRS 15 refer to Notes 2.1(e) and 3 of SaskCentral's consolidated financial statements.

Future Changes in Accounting Policies

Refer to Note 2.25 of the consolidated financial statements for details on new standards and interpretations that have not yet been adopted as at December 31, 2018. The extent of the impact of adopting new standards and interpretations has not yet been determined.

Management's Responsibility For Financial Reporting

To the Members of Credit Union Central of Saskatchewan

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

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

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

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

Keith Nixon,
Chief Executive Officer

Sheri Lucas,
Executive Vice-President of Finance / Chief Financial Officer / Chief Risk Officer
March 6, 2019

Consolidated Audit and Risk Committee Report to the Members

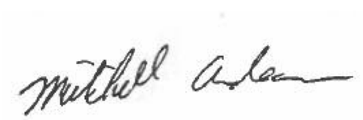
To the Members of Credit Union Central of Saskatchewan

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

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

The Audit and Risk Committee requires management to implement and maintain appropriate internal control procedures, and reviews, evaluates and approves those procedures. Annually, management prepares amendments to the *Financial Management Policy*, which are reviewed by the Audit and Risk Committee. As part of its mandate, the Audit and Risk Committee monitors management's adherence to the *Financial Management Policy*. In addition, any significant transactions that could affect the well-being of SaskCentral are reviewed by the Audit and Risk Committee. The Audit and Risk Committee recommends the appointment of the external auditor and reviews the terms of the external audit engagement, annual fees, audit plans and scope, and the audit summary report. The Audit and Risk Committee meets with the Chief Audit Officer to review and approve audit plans and also reviews reports from Audit Services on the effectiveness of the internal control environment. Both the external auditor and Audit Services have free access to, and meet periodically with, the Audit and Risk Committee to discuss their findings.

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



Mitchell Anderson
Chair, Audit and Risk Committee
March 6, 2019

Independent Auditor's Report

Deloitte.

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

Tel: 306-565-5200
Fax: 306-757-4753
www.deloitte.ca

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.

Independent Auditor's Report

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

	Share capital	Retained earnings	Accumulated other comprehensive income: Fair value reserves	Accumulated other comprehensive income: 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

Credit Union Central of Saskatchewan

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

Notes to the Consolidated Financial Statements

December 31, 2018
in thousands of Canadian dollars

1. REPORTING ENTITY

Credit Union Central of Saskatchewan and its subsidiaries (collectively "SaskCentral") is a company domiciled in Canada. The address of SaskCentral's registered office is 2055 Albert Street, Regina, Saskatchewan, S4P 3G8. SaskCentral is incorporated under *The Credit Union Central of Saskatchewan Act, 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.

December 31, 2018
in thousands of Canadian dollars

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.

December 31, 2018
in thousands of Canadian dollars

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.

December 31, 2018
in thousands of Canadian dollars

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.

Notes to the Consolidated Financial Statements

December 31, 2018
in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Investments in associates

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

The results 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.

December 31, 2018
in thousands of Canadian dollars

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.

December 31, 2018
in thousands of Canadian dollars

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.

December 31, 2018
in thousands of Canadian dollars

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.

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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.

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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.

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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.

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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.

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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.

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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.

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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).

December 31, 2018
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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.

Notes to the Consolidated Financial Statements

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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.

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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.

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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.

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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.

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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.

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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.

Notes to the Consolidated Financial Statements

December 31, 2018
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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.

December 31, 2018
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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.

December 31, 2018
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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.

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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.

Notes to the Consolidated Financial Statements

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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

Notes to the Consolidated Financial Statements

December 31, 2018
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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 reclassific-ation $	Adjustment for remeasur-ment $	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

Notes to the Consolidated Financial Statements

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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 reclassific-ation $	Adjustment for remeasur-ment $	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

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.*

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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.*

Notes to the Consolidated Financial Statements

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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.

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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

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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.

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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%

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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%.

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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.

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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.

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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.

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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
$

	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	Related amounts not offset in the balance sheet: Impact of master netting agreements or similar agreements (1)	Related amounts not offset in the balance sheet: 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.

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5. FINANCIAL RISK MANAGEMENT (continued)

Offsetting financial instruments (continued)

2017
$

	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	Related amounts not offset in the balance sheet: Impact of master netting agreements or similar agreements (1)	Related amounts not offset in the balance sheet: 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
$

	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	Related amounts not offset in the balance sheet: Impact of master netting agreements or similar agreements (1)	Related amounts not offset in the balance sheet: 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
$

	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	Related amounts not offset in the balance sheet: Impact of master netting agreements or similar agreements (1)	Related amounts not offset in the balance sheet: 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.

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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.*

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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.*

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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.

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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.

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6. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (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 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

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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 2018 $	Carrying value as at 2017 $	Fair value as at 2018 $	Fair value as at 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.

Notes to the Consolidated Financial Statements

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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.

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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%

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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

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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

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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*

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9. SECURITIES (continued)

2017
$

	Yield (1)	Term to maturity: Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	No fixed maturity	Total
Available-for-sale							
Government – 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.

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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.

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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

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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.

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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.

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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.*

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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

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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

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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

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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

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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

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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

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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.

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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.

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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.

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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.

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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%).*

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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

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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

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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.

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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.

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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

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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)

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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

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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.

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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.

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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

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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.

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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

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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.

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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.

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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

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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.

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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.

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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

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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%

December 31, 2018
in thousands of Canadian dollars

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.

December 31, 2018
in thousands of Canadian dollars

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).

December 31, 2018
in thousands of Canadian dollars

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.

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