SASKCENTRAL

SaskCentral Annual Report

2019

CONTENTS

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 2019, SaskCentral was clearly focused on supporting the success of credit unions with a progressive Business Plan, identifying goals critical to navigating the rapidly evolving financial services environment, and strategies to help guide progress this year and into the future.

That future includes a multi-year undertaking by Payments Canada to keep pace with a changing global payments ecosystem by modernizing Canada's payments system. While modernization will strengthen Canada's competitive position - addressing consumer demands for faster payments and improved access to funds, along with enhanced security and privacy - it will also open the marketplace to new competitors. Credit unions will need to be prepared, with the support of SaskCentral, along every step of the process.

Our 2019 strategic objectives are key to ensuring we are providing credit unions with the necessary support:

- A modernized statutory liquidity function with improved efficiency and effectiveness for credit unions.
- Effective and efficient clearing and settlement for credit unions.
- Strategic alignment of downstream investments to optimize capital and value of services.
- National Tier II transformation.
- Member engagement.
- Value for member credit unions.

While achievement of these goals will require a multi-year approach, we made great progress in 2019. (For full details, see the Strategy section of this report.)

Highlights include:

- Completing research on the optimum level of the statutory liquidity pool.
- Participating in development of the Payments Canada Modernization policy framework and building awareness among credit unions.
- Establishing a payments outsourcing arrangement as the next generation prairie payments alternative.
- Refining our reporting framework for our strategic investments to ensure alignment with SaskCentral's strategic priorities.
- Supporting CCUA's engagement with credit unions in preparation for the final transition to direct credit union ownership and control of CCUA by January 2021.
- Consulting with credit unions through a CFO Advisory Group and the Peer Group 3 Advisory Council.
- Meeting or exceeding targets for National Consulting revenue and other financial measures.

Providing value to member credit unions is deep-rooted in all that we do and we know that every employee at SaskCentral contributes directly to our overall success. Equipping our workforce and maintaining a positive culture remained a top priority in 2019, with positive results. We achieved 81% in our Culture survey done every two years, meeting our target for 2019, and 84.7% in our annual Engagement survey.

LETTER FROM THE PRESIDENT AND THE CEO

The continued strength of the credit union sector remained clearly evident in 2019. We saw Saskatchewan credit unions grow to close to $24.7 billion in assets, serving more than 482,000 members, and continuing to drive innovations, such as expanding mobile pay options including Interac Debit on Google Pay.

Change promises to continue into the future with ongoing technological advancements, increased regulation, and heightened consumer expectations. As credit unions respond with changes to remain relevant and best serve their members, SaskCentral will evolve as well to lead and support the transformation necessary for vibrant and sustainable credit unions.

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, CUPS 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 strategic investments. Through aggregating statutory liquidity deposits, SaskCentral facilitates clearing and settlement, provides credit facilities that support daily cash flow management, coordinates emergency liquidity support and provides investment management services.

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, which are structured 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 Morningstar.

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 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 and implementing sustainable solutions.

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 frontline 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.

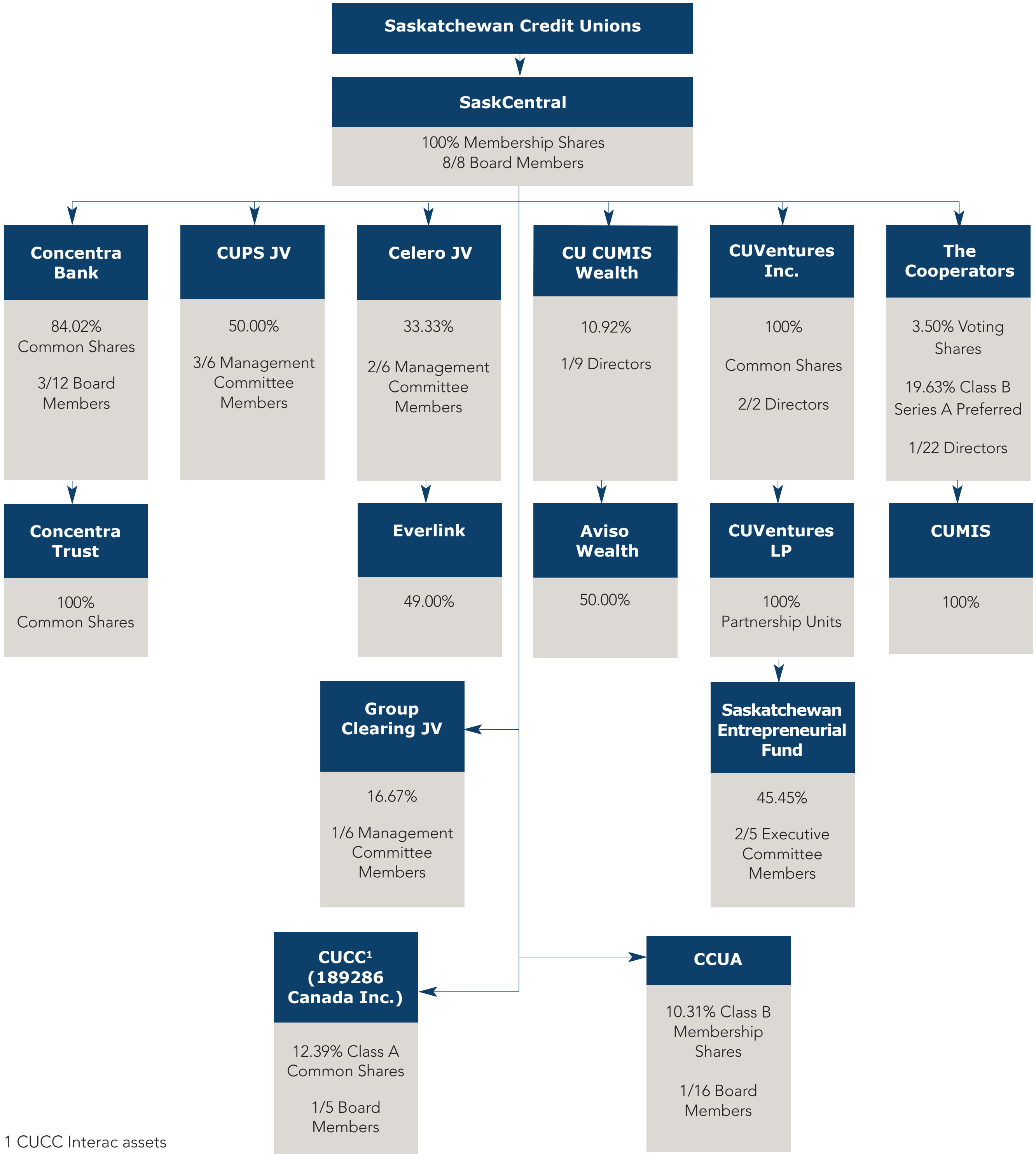
Member Relations

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 company.

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.

Exclusively owned by credit unions, 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.

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.

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. Celero owns 49% of Everlink Payment Services Inc.

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 Manitoba Central 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:

- *Advocate for* legislation that supports credit unions
- *Raise Awareness* for credit unions with government, media and the public
- Deliver 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 co-operatives and social enterprises, and works to contribute to communities across Canada.

The Co-operators owns CUMIS, which partners with credit unions to deliver a wide range of insurance, wealth management and investment services.

CUVentures Inc.
Share ownership by SaskCentral: 45.5%

CUVentures was established to enable credit unions to make aggregate investments in the Saskatchewan Entrepreneurial Fund which supported economic development across Saskatchewan. Having met its original objectives, the fund is being wound down.

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 and the SaskCentral CPO sits on the CUPS Management Committee. Together, these representations provide opportunities to engage strategic investees where credit union concerns are identified (e.g. service, profitability).

SaskCentral provides updates to the board on investee's performance. 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. The member loyalty payment is received annually and can fluctuate significantly, based on the earnings of Co-operators.

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 position 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: 39 years
- ICD.D designation from the Institute of Corporate Directors
- Fellows designation from the Credit Union Institute of Canada
- Certificate in Administration, University of Regina
- Board member: Canadian Credit Union Association, Everlink, Celero Joint Venture, CUPS Joint Venture

Sheri Lucas, EVP Finance, CFO, CRO

- Joined SaskCentral: 2007
- Bachelor of Commerce, University of Saskatchewan
- CPA, CA
- Member, Institute of Corporate Directors (ICD.D)
- Past employers: Saskatchewan Wheat Pool, Crown Investments Corporation of Saskatchewan
- Award: 100 Most Powerful Women in Canada for 2012
- Board member: CUC Wealth

Duane Blahun, EVP and Chief People Officer

- Joined SaskCentral: August 2019
- Past Employers: Credit Union Central Alberta Ltd, CUPS Payment Services, CIBC/Intria Items Inc., ATB Financial
- Professional Development: Queens University Executive Program; Directors Leadership Institute - Certified Credit Union Director, Rotman School of Management, University of Toronto; Business Administration Honours Diploma, Northern Alberta Institute of Technology
- Committee Member: CUPS Payment Services Joint Venture management committee

Debbie Lane, EVP and Chief People Officer

- Joined SaskCentral: 1992; Retired: July 2019
- Certified Human Resource Professional (CHRP) 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)

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, 2019, there were 40 credit unions in Saskatchewan serving 208 communities through 235 service outlets.
- Out of 1.179 million people in Saskatchewan (Statistics Canada estimate at Q4 2019), more than 482,000 are members of a credit union, and an additional 80,000 non-members do business with a credit union, which combined is close to 48%.
- In 2019, Saskatchewan credit unions had assets of $24.7 billion with revenue of more than $1.1 billion.
- Credit unions contribute $600 million in economic impact to Saskatchewan annually and in 2019, employed more than 3,300 people providing salaries and benefits close to $313 million.
- In 2019, provincial credit union lending amounts were more than $19.6 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 2019, Saskatchewan credit unions returned over $9.8 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 in charitable contributions to local community organizations, well above the recognized banking industry standard of 1%.
- In the annual 2019 Ipsos® Financial Service Excellence Awards, credit unions were ranked 1st among all financial institutions in providing Customer Service Excellence for the 15th year in a row.

STRATEGY

SaskCentral translates our strategic direction - including, among other things, our Vision and Purpose - into goals, measures and targets. The goals represent our desired outcomes or results, and what success looks like. The measures and targets indicate progress towards achieving those goals and, ultimately, our Vision.

1. Goal: Modernized statutory liquidity function with improved efficiency and effectiveness for credit unions

Statutory liquidity is one of SaskCentral's core services. The statutory liquidity function supports credit union system safety and financial stability, and requires SaskCentral to maintain adequate and appropriate forms of liquidity, and adequate capital.

Beyond managing the statutory liquidity pool, SaskCentral is working to modernize it, which includes determining the amount that credit unions should contribute to the pool throughout and after implementation of Payments Canada Modernization, a complex, multi-year initiative to modernize Canada's payments system.

SaskCentral's objective is to find the right balance to achieve credit union system safety and financial stability and allow member credit unions to retain and manage all other funds. This will provide member credit unions with greater flexibility in meeting strategic objectives and regulatory requirements regarding liquidity, and allow flexibility to evolve business models given the changing payments landscape.

In 2019, we:

- Evaluated the size and utility of the statutory liquidity pool and built understanding among, and support from, credit unions.

- Redesigned the Liquidity Management Assessment to identify the four service areas under its umbrella - clearing and settlement services, credit facilities, emergency liquidity management and investment management - increasing transparency and providing credit unions with information to assess the value they receive.

2. Goal: Effective and efficient clearing and settlement for credit unions

SaskCentral provides credit unions access to clearing and settlement through the GCJV. In order to provide this effectively and efficiently today and into the future, and ensure credit unions are positioned favourably from a competitive and efficiency perspective, SaskCentral must understand Payments Canada Modernization. This includes participating in development of a new Payments Canada policy framework and responding when Payments Canada determines that framework.

In 2019, we:

- Facilitated knowledge awareness of Payments Canada Modernization within SaskCentral and among member credit unions.

- Participated in the Payments Canada Modernization policy framework development through the Payments Modernization Advisory Group, which provides advice and recommendations to the Group Clearer on the direction of payments initiatives and modernization.

- Collaborated to develop an actionable strategy to access an efficient, cost-effective modernized infrastructure that would ensure prairie credit unions remain competitive in payments.

3. Goal: Strategic alignment of downstream investees to optimize capital and value of services

SaskCentral has significant capital in investments and must determine the appropriate use of its capital. SaskCentral needs influence or control over services provided through our investee organizations that are of direct strategic benefit to credit unions in the form of financial returns or access to products and services.

Current strategic investments include:

- Concentra
- CUPS
- Celero
- CUC Wealth
- The Co-operators
- GCJV
- 189286 Canada Inc. (CUCC)
- CCUA
- CUVentures Inc.

In 2019, we:

- Developed a Strategic Investment Management Framework.
- Began to execute an action plan for Concentra Bank to ensure alignment with SaskCentral's strategic priorities.

4. Goal: National Tier II transformation

SaskCentral believes functional integration contemplated by our Vision will be more efficient and effective than our current state, and ultimately support credit union competitiveness and growth. We are reliant on other Tier II organizations in order to achieve this and want those organizations to understand our belief.

In 2019, we saw progress on:

- The CCUA, as the national trade association for credit unions, engaging with credit unions across Canada in preparation for the final transition to direct credit union ownership and control.
- Establishing a payments outsourcing arrangement as the next generation prairie payments alternative, aligning with Payments Canada Modernization.
- The Group Clearing Joint Venture leading credit union sector response to Payments Canada Modernization.

5. Goal: Member engagement

SaskCentral exists to serve member credit unions. We listen to understand credit union needs and expectations, and respond as needed. We engage our members on the services we offer to ensure these services meet the current and future needs of member credit unions, and that credit unions understand and are equipped for decision-making on SaskCentral strategic priorities.

In 2019, we:

- Hosted spring and fall system webinars.
- Presented at the 2019 Credit Union Managers Association Conference, sharing how SaskCentral is helping credit unions address the changing financial landscape.
- Supported credit unions that subscribe to the digital banking management oversight service by facilitating a joint review of proposed options for the service going forward.
- Worked with Peer Group 3 (PG3) credit unions to establish a new approach to our engagement with them, forming a PG3 Advisory Council which provides feedback on matters of common concern.
- Began an internal assessment of SaskCentral's National Consulting business to ensure credit union needs are being met.
- Conducted the annual Member Voice Survey with credit unions.

6. Goal: Value for member credit unions

Credit unions expect effectiveness and efficiency from SaskCentral. The value SaskCentral provides, in turn, enables member credit unions to minimize service delivery costs to their members.

Every employee at SaskCentral contributes directly to the achievement of this goal; equipping our workforce and maintaining a positive culture is essential in positioning us for success.

In 2019, we met or exceeded targets as follows:

National Consulting out-of-province revenue:
Target ($000): 575 - 625
Actual ($000): 868

National Consulting in-province revenue:
Target ($000): 3,500 – 4,000
Actual: ($000): 3,690

Core Earnings:
Target ($000): 4,000 – 5,000
Actual ($000): 6,661

Interest Margin on average equity-funded portfolio investments:
Target (%): 2.0 – 2.4
Actual (%): 2.25

Operating Expenses:
Target ($000): 18,300 – 19,000
Actual ($000): 17,929

Culture:
Target (Organizational Cultural Inventory survey): 80 – 85%
Actual: 81%

Great Place To Work® Best Workplaces™ < 100 Employees CANADA 2019

SaskCentral is committed to ensuring an inclusive workplace where employees can enjoy a healthy work-life balance. This commitment has played a major role in the success of the organization.

In 2019, SaskCentral was again named as one of the Best Workplaces in Canada by the Great Place to Work® Institute Canada, coming in #13 for organizations with less than 100 employees and making the list for the 12th consecutive year.

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 and overall governance of SaskCentral, 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: 2022

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: 2022

Russ Siemens, President

Elected to SaskCentral Board of Directors in 2014
Director, Innovation Credit Union
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.

Director	Per Diem	Per Diem Paid to Organization	Honorarium	Honorarium Paid to Organization	Total
Mitchell Anderson	9,444	–	8,100	–	17,544
Gilles Colbert	10,500	–	8,100	–	18,600
Neil Cooper	–	6,825	–	8,100	14,925
Tim Goddard	10,955	1,158	8,100	–	20,213
Mark Lane	–	–	–	8,100	8,100
Kevin Lukey	11,657	–	8,100	–	19,757
Annette Revet	–	7,125	–	8,100	15,225
Russell Siemens	29,867	–	33,000	–	62,867
Total:	$ 72,423	$ 15,108	$ 65,400	$ 24,300	$ 177,231

Board Attendance	Meetings Attended
Mitchell Anderson	8/8
Gilles Colbert	8/8
Neil Cooper	8/8
Tim Goddard	8/8
Mark Lane	7/8
Kevin Lukey	8/8
Annette Revet	8/8
Russ Siemens	8/8

Board Evaluation

Evaluations are periodically conducted to ensure board operations are efficient and adhere to the highest standards of integrity. In 2019, the board revised its development roadmap to provide for an on-going cycle of self-evaluations, board and committee evaluations and peer evaluations. In 2019, the board also performed a comprehensive self assessment evaluation. This evaluation was used to build the foundation of the board development session in November 2019. In 2020, the board will perform a comprehensive board and committee evaulation. 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.

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 2019. 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, the 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	4/4
Gilles Colbert	4/4
Neil Cooper	3/4
Kevin Lukey	4/4
Russ Siemens	4/4

Governance, Human Resources 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.
- Reviews SaskCentral's human resources strategy and initiatives, human resources policies and programs, and oversees CEO performance management and compensation processes.
- 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
Tim Goddard	7/7
Kevin Lukey – Chair	7/7
Annette Revet	7/7
Russ Siemens	7/7

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
Jason Bazinet	3/4
Anne Favreau	2/4
Annette Revet – Chair	2/4
Mark Lane – Chair	4/4
Gina McGinn	4/4
Linda Osachoff	3/4
Russ Siemens	3/4
Joan Baer	3/4

The Public Policy Committee was disbanded in late 2019 in favour of a similar committee to be led in 2020 and beyond by the Canadian Credit Union Association.

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.

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 by providing the best total solution.

In 2019, 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 2019, 48% 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 300 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 2019, the organization donated more than $137,000 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 2019, $15,200 was donated to 44 Saskatchewan community organizations.

UNDERSTANDING SASKCENTRAL'S FINANCIAL STATEMENTS

In 2019, SaskCentral has prepared two sets of financial statements in order to enhance transparency of its operations, support accountability and offer two different views of SaskCentral's operations and results.

SASKCENTRAL'S 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

The purpose of the consolidated statements is to 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, CUC Wealth and 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 strategic investments 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's 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, 2019. SaskCentral's separate financial statements do not consolidate the activities of its subsidiaries.

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 10, 2020 and provides comments regarding SaskCentral's financial and operating results, risk management, capital management and business outlook.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

From time to time, SaskCentral makes written and verbal forward-looking statements. Statements of this type are included in reports to Saskatchewan credit union shareholders and 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 investments 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 continued to face a number of challenges in 2019, including a depressed resource sector, reduced mining activity, and heavy exposure to volatile trade exports in the canola and soybean industry. In 2019, Real Gross Domestic Product (GDP) was low at 0.6%, while employment growth was at a 6-year provincial high of 1.6%, primarily in manufacturing and service industries.

The 2020 outlook remains cautiously optimistic. Provincial GDP is forecasted to grow at 1.2%, with higher potash prices increasing with demand in 2020. Improved employment in 2019 is expected to spill over to increased household demand and housing starts in 2020. The oil and gas sector is not expected to hinder the economy as much in 2020 as it did in 2019.

SASKATCHEWAN CREDIT UNION 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, these entities are considered Provincially Regulated Financial Institutions (PRFIs). CUDGC is mandated through provincial legislation, *The Credit Union Act, 1998*, and *The Credit Union Central of Saskatchewan Act, 2016* in performing its duties. Provincial legislation also assigns responsibility for oversight of CUDGC to the Registrar of Credit Unions at the Financial and Consumer Affairs Authority of Saskatchewan.

CUDGC was the first deposit guarantor in Canada and has successfully guaranteed deposits since it was established in 1953. By promoting responsible governance and prudent management of capital, liquidity and guaranteeing deposits, CUDGC contributes to confidence in Saskatchewan PRFIs. For more information about CUDGC's regulatory and deposit protection responsibilities and its role in promoting the strength and stability of Saskatchewan PRFIs, consult their website at http://www.cudgc.sk.ca.

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

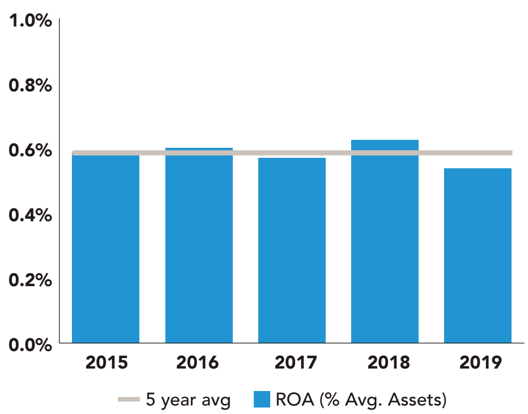
Results Overview

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 2019, credit unions reported earnings of $130 million (2018 - $162 million) for a return on average assets of 0.54% (2018 – 0.70%). Profitability has decreased primarily due to higher interest expense and the $23 million special dividend paid to credit unions from SaskCentral in 2018. The 2018 special dividend was the result of the tax recovery realized by SaskCentral from the consolidation of Concentra Bank.

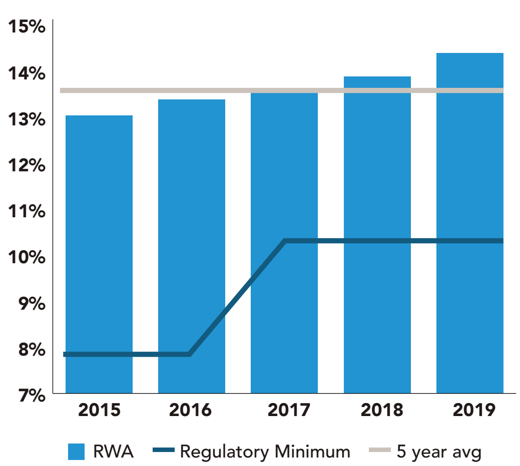
Return on Average Assets



Capital

Due in part to lower than expected loan growth, total eligible capital as a percentage of risk-weighted assets (RWA) increased to 14.3% from 13.9% in 2018. Credit union capital is well above the current regulatory minimum of 10.5%.

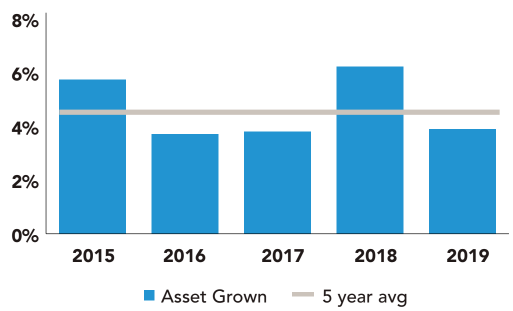
Total Eligible Capital (%RWA)



Growth

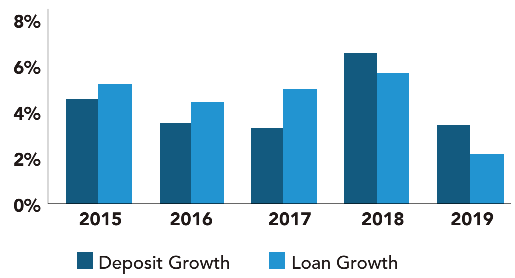
Growth in assets, loans and deposits decreased from the levels achieved in 2018. Assets grew by 4.0% to $24.7 billion (2018 – 6.0% to $23.8 billion). Overall, growth has been hindered by weak economic conditions.

Asset Growth



Loans grew 2.3% to $19.6 billion (2018 – 5.7% to $19.2 billion). Deposit growth has outpaced loan growth in 2019, which contributed to an increase in liquidity. Deposit growth decreased to 3.4% from 6.3% in 2018.

Deposit/Loan Growth



Liquidity Risk

As of January 1, 2019, credit unions were required to meet a minimum Liquidity Coverage Ratio (LCR) of 100%. A decrease in Net Cash Outflows contributed to a record level LCR of 277.7% at the end of 2019. The decrease in Net Cash Outflows was partly due to an increase in term deposits, and therefore fewer potential withdrawals.

Credit Risk

Delinquencies increased slightly in 2019 to 1.3% (2018 – 1.2%) due to the slowdown in the provincial economy. Delinquencies are manageable as credit unions are positioned with strong levels of capital. Consistent with 2018, delinquencies were mainly concentrated in the commercial loans and mortgages category. However, the agricultural sector has seen the largest year over year increase in delinquency.

Interest Rate Risk

Interest rate risk declined in 2019, dropping below the five-year average. For a 1% increase in interest rates, the net market value change to assets decreased to -0.42% (-0.65% in 2018).

SEPARATE MANAGEMENT DISCUSSION AND ANALYSIS

Statistical Review of Credit Unions

	2015	2016	2017	2018	**2019**
Credit Unions	49	46	46	44	**40**
Employees	3,477	3,427	3,306	3,355	**3,365**
Members	472,702	474,126	476,628	481,124	**482,009**

2019 SASKCENTRAL SEPARATE FINANCIAL PERFORMANCE

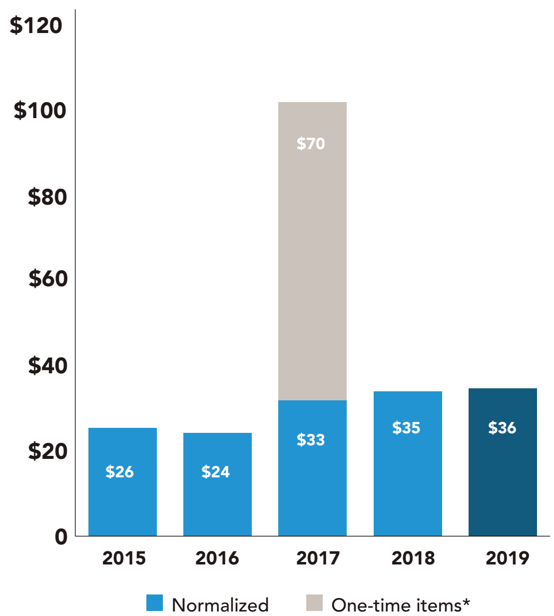
Results Overview

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 $35.9 million (2018 – $34.6 million). The increase was due to higher fee for service revenue and gains on financial instruments which were partially offset by lower share of profits in subsidiaries, associates and joint operations.

SaskCentral Profit (in millions)



* One-time item relates to gain on acquisition of control of Concentra Bank and the income tax recovery in 2017.

Net interest income decreased to $7.5 million (2018 - $7.8 million) primarily due to the Balance Sheet Restructure implementation that occurred on April 1, 2018 that eliminated interest margin and introduced the liquidity management assessment. Prior to that date, interest margin was generated on statutory liquidity deposits.

Income from dues collected decreased to $2.3 million (2018 – $2.8 million) as a result of continuous management of overhead and administration costs.

Fee for service revenue increased to $19.3 million (2018 – $17.5 million) primarily due to the liquidity management assessment fee. The fee was introduced in April 2018 to replace the margin on statutory liquidity deposits. 2019 was the first full year the fee was assessed on credit unions, causing an increase in the amount collected from prior year.

The share of profits of subsidiaries, associates, and joint operations 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. SaskCentral's share of profits was $28.1 million (2018 - $33.4 million). The decrease is mainly due to a decrease in Concentra Bank earnings year over year.

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 increased to $22.4 million (2018 – $21.8 million) due to an increase in professional fees relating to strategic initiative costs.

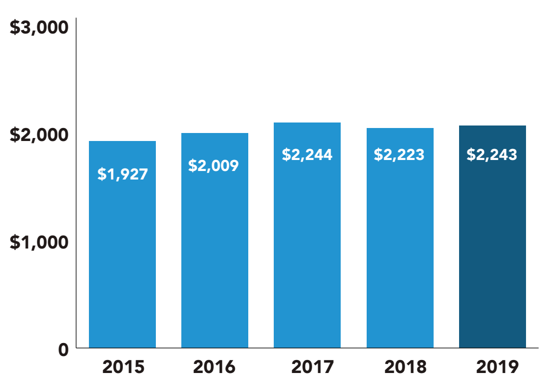
SaskCentral paid a dividend to credit unions in April 2019 of $7.6 million (2018 – $30.6 million) based on SaskCentral's 2018 earnings, representing a 4.7% (2018 – 18.9%) return on investment. The dividend in 2018 included a one-time special dividend of $23.4 million related to the income tax recovery realized by SaskCentral 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 (2018 – $4.5 million). Of this, $1.1 million was declared in December 2019 with payment in January 2020. Concentra Bank's dividends represented a 3.8% return on SaskCentral's investment in Concentra Bank (2018 – 3.8%).

The accounting treatment for the income tax reduction related to the payment of dividends was amended during 2019. As a result of the amendment, SaskCentral now records the income tax recovery related to the payment of dividends to the profit and loss instead of equity. This resulted in an income tax recovery of $0.7 million in 2019 compared to the total income tax expense of $1.7 million in 2018. Refer to the **Accounting Matters** section of the MD&A for further details on the IFRS amendment.

Growth

SaskCentral's deposits increased by 0.9% over prior year (2018 – 0.9% decrease). Deposits are comprised of statutory liquidity deposits and credit union cash balances. Statutory liquidity deposits increased 6.0% and credit union cash balances decreased 51.8%. Credit union cash balances can fluctuate substantially year over year. Statutory liquidity deposits comprise 95.4% (2018 – 90.8%) of total deposits.

SaskCentral Deposits (in millions)

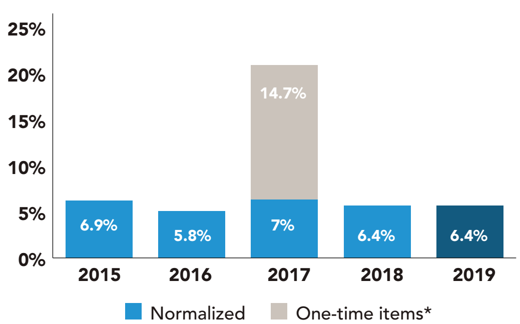


SEPARATE MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity
SaskCentral continued to hold a strong liquidity position in 2019. Cash and securities totalled $2.5 billion, or 84.4% of assets (2018 – $2.4 billion or 85.4%).

Return on Equity
Equity increased by $27.6 million over 2018 primarily due to another year of strong earnings from Concentra Bank and other downstream investees. Credit unions subscribed to $3.2 million (2018 - $1.2 million) in membership share capital during the year. For 2019, SaskCentral's ROE was 6.4% (2018 – 6.4%).

SaskCentral Return on Equity



* One-time item relates to gain on acquisition of control of Concentra Bank and the income tax recovery in 2017.

LIQUIDITY MANAGEMENT

SaskCentral manages liquidity by evaluating regulatory developments, monitoring liquidity risks and evaluating liquidity sufficiency.

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 Standards of Sound Business Practice Liquidity Adequacy Requirements (LAR) published by CUDGC. 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 2019. Refer to Note 4 of the separate financial statements for further information.

SaskCentral supports credit unions in managing their LCR. A credit union's stock of High Quality Liquid Assets (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, 2019, the borrowing multiple was 13.4:1 (2018 – 13.5:1).

SEPARATE MANAGEMENT DISCUSSION AND ANALYSIS

Regulatory Capital and Ratios

	2019	2018
Tier 1 Capital	**571,007**	546,499
Total Borrowing Multiple Capital	**175,201**	169,749
Total Borrowings	**2,353,931**	2,288,421
Actual Borrowing Multiple	**13:4:1**	13.5:1
SaskCentral Policy Limit	**17.0:1**	17.0:1
Tier 1 Regulatory Capital		
Membership shares	**165,424**	162,832
Retained earnings	**410,688**	390,294
Own credit risk[1]	**(1,234)**	(2,756)
IFRS related reclassification[2]	**(3,871)**	(3,871)
Total Tier 1 Captial	**571,007**	546,499
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	**574,878**	550,370
Deduct:		
Investments in unconsolidated subsidiaries	**392,173**	372,550
Assets of little or no realizable value	**7,504**	8,071
Total Tier 1 and Tier 2 Capital	**175,201**	169,749

[1] Represents the cumulative impact of SaskCentral's own credit risk (OCR) 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 mandatory membership share capital at 0.6% of their previous year's assets, and a maximum membership share balance at 1.0%. 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 2019, credit unions subscribed to $3.2 million in additional membership share capital. SaskCentral repatriated $0.6 million in membership share capital to credit unions that were above the 1.0% maximum ceiling in 2019.

At December 31, 2019 credit union membership share capital represented 0.67% of 2019 credit union assets (2018 – 0.75%).

SaskCentral remains well capitalized and able to support Saskatchewan credit unions. Based on the borrowing multiple at the end of 2019, SaskCentral would be able to withstand additional capital shocks of $36.7 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 business plan, and is integrated with SaskCentral's strategic goals 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 strategic investments in its risk analysis (i.e. Concentra Bank).

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

In 2019, SaskCentral's strategy map outlined the following primary strategic goals:
- Modernized statutory liquidity function with improved efficiency and effectiveness for credit unions;
- Effective and efficient clearing and settlement for credit unions;
- Strategic alignment of downstream investees to optimize capital and / or value of services;
- National Tier II transformation;
- Member engagement; and
- Value for member credit unions.

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 or new emerging 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.

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, CUPS, the group clearer and CCUA. In July 2019 SaskCentral carried out a test of the Liquidity Crisis Management Plan with the group of decision makers and updated the plan for gaps noted from the testing.

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 *Continuity Management Program* allowing us to effectively manage any major business continuity disruption. 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.

In 2019, SaskCentral developed a *Recovery Plan* in accordance with CUDGC Prudential Standard 2018-01 Provincial Systemically Important Financial Institutions. The purpose of a recovery plan is to restore stakeholder's confidence in the financial soundness of the institution following an extreme stress event. Extreme, but plausible, scenarios were developed and stress testing applied for capital and liquidity events. Management actions were developed to demonstrate SaskCentral's ability to recover in each scenario.

Concentra Bank manages its ERM process independent of SaskCentral. For further information, please refer to Concentra Bank's 2019 annual report.

2020 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 – including credit unions – operates in a rapidly changing environment driven by technology advancements, competitive pressures and consumer behavior. Change promises to continue as technological disruption including fintech, increased regulation and heightened consumer expectations reshape the global financial ecosystem.

SaskCentral's vision, "connecting Saskatchewan credit unions to the global financial network", reflects our focus on enabling further transformation of the wholesale activities and services we provide directly or on behalf of credit unions to ensure they are optimally positioned to meet current and future credit union needs. In pursuit of this, SaskCentral will be guided by our purpose: "we lead wholesale services and transformation necessary for vibrant and sustainable credit unions."

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

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

SaskCentral will make progress toward implementing our recommendations for the optimum level of statutory liquidity for credit unions, and provide input to influence the execution of Emergency Lending Assistance with the Bank of Canada and our regulator.

Effective and efficient payments, clearing and settlement for credit unions

SaskCentral will help position credit unions to respond to Payments Canada Modernization. We will facilitate engagement on the Prairie Payments Initiative and obtain volume commitments from Saskatchewan credit unions.

Alignment of strategic investments to optimize capital and value of services

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

Relevant, future-focused core and discretionary services for credit unions

SaskCentral will continue to evolve our business model in order to align with credit union needs while keeping costs down, and develop a future-focused business strategy to optimally deliver relevant, sustainable and valuable services to credit unions.

SaskCentral financial sustainability and governance reform

SaskCentral will continue to focus on managing financial resources and begin assessing the most appropriate governance model to support a transformed SaskCentral.

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 3 of the separate financial statements.

Changes in Accounting Policies

On January 1, 2019 mandatory amendments to IAS 12, *Income Taxes* (IAS 12) became effective. The amendments require an entity to recognize the income tax consequence of dividends according to the origin of the transactions that generated the distributable profit. As a result, SaskCentral's reduction in income tax related to the payment of dividends is now reflected in profit and loss. Prior to January 1, 2019 the reduction was recorded in equity.

Effective January 1, 2019, SaskCentral adopted IFRS 16, *Leases* (IFRS 16). The new standard brings most leases on balance sheet, eliminating the distinction between operating and finance leases. Lessor accounting remained largely unchanged. The application of IFRS 16 has had no impact on SaskCentral's separate financial statements.

For further details on the application of IAS 12 amendments and adoption of IFRS 16, refer to Note 28 of SaskCentral's separate financial statements.

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 10, 2020

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 10, 2020

INDEPENDENT AUDITOR'S REPORT

Deloitte LLP
2103 - 11th Avenue
9th Floor
Bank of Montreal Building
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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, 2019, 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, 2019, 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 10, 2020 on the Company's consolidated financial statements for the year ended December 31, 2019 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.

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 10, 2020

SEPARATE BALANCE SHEET

[in thousands of Canadian dollars]

As at December 31

	2019 $	2018 $
Assets		
Cash and cash equivalents [note 7]	**120,816**	266,875
Securities [note 8]	**2,366,259**	2,168,410
Derivative assets [note 9]	**8,556**	5,594
Loans [note 10]	**28,293**	12,505
Trade and other receivables	**874**	803
Other assets	**244**	323
Investments in subsidiaries, associates and joint operations [note 12]	**400,573**	375,796
Property, plant and equipment [note 13]	**5,208**	5,547
Investment property [note 14]	**9,184**	9,385
Intangible assets [note 15]	**59**	15
Deferred income tax assets [note 16]	**7,310**	7,372
	2,947,376	2,852,625
Liabilities		
Deposits [note 17]	**2,243,233**	2,223,343
Derivative liabilities [note 9]	**8,556**	5,594
Loans and notes payable [note 18]	**110,698**	65,078
Trade and other payables	**5,168**	6,532
Other liabilities	**133**	128
	2,367,788	2,300,675
Equity		
Share capital [note 19]	**165,424**	162,832
Retained earnings	**410,688**	390,294
Accumulated other comprehensive income (loss)	**3,476**	(1,176)
	579,588	551,950
	2,947,376	2,852,625

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

	2019 $	2018 $
Interest income		
Securities	**50,927**	42,389
Loans	**767**	1,114
	51,694	43,503
Interest expense		
Deposits	**42,394**	34,349
Loans and notes	**1,827**	1,389
	44,221	35,738
Net interest income [note 21]	**7,473**	7,765
Provision for credit losses (recoveries) [note 11]	**7**	(14)
Net interest income after provision for credit losses	**7,466**	7,779
Non-interest income		
Dues [note 22]	**2,276**	2,791
Fee for service [note 22]	**19,252**	17,498
Gain (Loss) on financial instruments [note 25]	**457**	(3,344)
Share of profits of subsidiaries, associates and joint operations [note 12]	**28,121**	33,392
	50,106	50,337
Net interest and non-interest income	**57,572**	58,116
Non-interest expense		
Salary and employee benefits [note 23]	**10,657**	10,607
Professional and advisory services [note 24]	**6,643**	5,893
Computer and office equipment	**1,042**	1,160
Occupancy	**2,371**	2,393
General business	**1,656**	1,720
	22,369	21,773
Profit for the year before income taxes	**35,203**	36,343
Income tax (recovery) expense [note 16]	**(683)**	1,762
Profit for the year	**35,886**	34,581

See accompanying notes

SEPARATE STATEMENT OF COMPREHENSIVE INCOME OR LOSS

[in thousands of Canadian dollars]

Year ended December 31

	2019 $	2018 $
Profit for the year	**35,886**	34,581
Other comprehensive income (loss)		
Items that may be reclassified subsequently to profit or loss:		
Net unrealized gains (losses) on FVTOCI securities during the year	**754**	(75)
Reclassification of (losses) gains on FVTOCI securities disposed of in the year	**(52)**	2
Reclassification of impairment gains (losses) on FVTOCI securities [note 11]	**18**	(15)
Share of other comprehensive income of subsidiaries, associates and joint operations	**2,678**	1,006
Income tax relating to items that may be reclassified subsequently [note 16]	**(268)**	121
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 25]	**1,767**	(8,270)
Income tax related to items that will not be reclassified subsequently [note 16]	**(477)**	2,233
Other comprehensive income (loss) for the year, net of tax	**4,420**	(4,998)
Total comprehensive income for the year	**40,306**	29,583

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, 2017	161,607	361,487	17,291	-	540,385
Impact of adopting IFRS 9 at January 1, 2018	-	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 (loss) income for the year, net of tax	-	-	1,039	(6,037)	(4,998)
Increase in share capital	1,225	-	-	-	1,225
Dividends [note 20]	-	(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 16]	-	8,262	-	-	8,262
Balance as at December 31, 2018	**162,832**	**390,294**	**1,580**	**(2,756)**	**551,950**
Profit for the year	**-**	**35,886**	**-**	**-**	**35,886**
Other comprehensive income for the year, net of tax	**-**	**-**	**3,130**	**1,290**	**4,420**
Increase in share capital, net of repatriation	**2,592**	**-**	**-**	**-**	**2,592**
Dividends [note 20]	**-**	**(15,260)**	**-**	**-**	**(15,260)**
Reclassification of own credit risk on derecognition of related financial liabilities, net of tax	**-**	**(232)**	**-**	**232**	**-**
Balance as at December 31, 2019	**165,424**	**410,688**	**4,710**	**(1,234)**	**579,588**

See accompanying notes

SEPARATE STATEMENT OF CASH FLOWS

[in thousands of Canadian dollars]

Year ended December 31

	2019 $	2018 $
Cash flows from (used in) operating activities		
Profit for the year	**35,886**	34,581
Adjustments to determine net cash used in operating activities:		
Depreciation of property, plant and equipment and investment property [note 13/14]	**711**	749
Other amortization/accretion	**(249)**	5,367
Provision for credit losses (recoveries) [note 11]	**7**	(14)
(Gain) Loss on financial instruments [note 25]	**(457)**	3,344
Net interest income	**(7,473)**	(7,765)
Share of profits in subsidiaries, associates and joint operations, net of losses [note 12]	**(28,121)**	(33,392)
Income tax (recovery) expense	**(683)**	1,762
Changes in operating assets and liabilities:		
Loans, net of repayments	**(15,767)**	18,647
Trade and other receivables (payables)	**(1,435)**	294
Other assets	**79**	218
Deposits, net of withdrawals	**8,023**	(16,684)
Loans and notes payable, net of repayments	**45,607**	(12,687)
Other liabilities	**5**	(474)
Interest received	**50,122**	43,330
Dividends received	**502**	533
Interest paid	**(43,939)**	(33,833)
Cash flows from operating activities	**42,818**	3,976
Cash flows from (used in) financing activities		
Proceeds from issuance of share capital	**3,200**	1,225
Repatriation of share capital	**(608)**	-
Dividends paid to members [note 20]	**(15,260)**	(37,368)
Cash flows used in financing activities	**(12,668)**	(36,143)
Cash flows from (used in) investing activities		
Purchase of securities	**(6,552,871)**	(7,957,360)
Proceeds from sales of securities	**6,369,728**	7,993,470
Distributions from investments in subsidiaries, associates and joint operations [note 12]	**7,179**	6,905
Property, plant and equipment [note 13]	**(198)**	(310)
Intangible assets [note 15]	**(47)**	(15)
Cash flows (used in) from investing activities	**(176,209)**	42,690
Net (decrease) increase in cash and cash equivalents	**(146,059)**	10,523
Cash and cash equivalents, beginning of year	**266,875**	256,352
Cash and cash equivalents, end of year	**120,816**	266,875

See accompanying notes

December 31, 2019
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) has regulatory responsibilities for SaskCentral.

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 12.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these separate financial statements. SaskCentral's separate financial statements do not consolidate the activities of its subsidiaries or joint operations. 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 10, 2020.

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 10, 2020. SaskCentral's audited consolidated financial statements should be referenced for further information.

(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) and fair value through other comprehensive income (FVTOCI), which have been measured at fair value, including all derivative contracts.

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

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

In estimating the fair value of an asset or liability, SaskCentral takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these 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.

December 31, 2019
in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of presentation (continued)

(b) Basis of measurement (continued)

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 3.

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.

December 31, 2019
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 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.

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 and recorded at fair value. Obligations related to assets sold under repurchase agreements are recorded in loans payable (note 18). 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.

December 31, 2019
in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

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

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.

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 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, 2019
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 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 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.

(b) Financial liabilities

SaskCentral classifies its financial liabilities as measured at amortized cost or FVTPL.

SaskCentral may, at initial recognition, irrevocably designate a financial liability 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.

December 31, 2019
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

(c) Reclassification of financial assets

Financial assets are not reclassified subsequent to their initial recognition, unless 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, 2019.

(d) Impairment of financial assets

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 expected credit loss (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, *Financial Instruments* (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.

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.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

(d) Impairment of financial assets (continued)

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.

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'.

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.

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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 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.

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.

(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.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognized within interest income and interest expense in the 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 21.

2.8 Revenue recognition

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.

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.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Revenue recognition (continued)

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.

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.

Rental revenue

SaskCentral collects rental revenue from tenants relating to the lease of office space. SaskCentral retains substantially all of the risks and benefits of ownership and therefore accounts for leases with its tenants as operating leases. Rental income is recognized systemically over the term of the lease. Any incentives offered in negotiating and arranging an operating lease is amortized over the term of the operating lease. Rental revenue is recorded based on the amount received or to be received in accordance with the operating lease.

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 9.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Derivative financial instruments (continued)

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.

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

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

2.12 Investment property

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

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

2.13 Intangible assets

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

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Intangible assets (continued)

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

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

2.14 Impairment of non-financial assets

Non-financial assets such as property, plant and equipment, investment property and intangible assets 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 2019 or 2018.

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 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.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Taxation (continued)

(b) Deferred tax (continued)

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, 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.

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 benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

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

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Provisions

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

2.18 Dividends

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

3. 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 solely payments of principal and interest 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

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.

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3. 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 84.02% (2018 - 84.02%) 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 33.33% (2018 – 33.33%) interest in Celero Solutions. SaskCentral has the right to appoint two out of six (33.33%) 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 33.33% 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% (2018 – 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 NEI, Credential Financial Inc. 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 (11.11%) 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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3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Critical judgments in applying accounting policies (continued)

Classification of CUPS Payment Services as a joint operation

SaskCentral owns 50% interest in 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. 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.

Transfer of control of goods or services

Under IFRS 15, *Revenue from Contracts with Customers* (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.

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 5 and 14.

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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3. 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.

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.

4. 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.

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.*

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4. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

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, 2018.

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:

		2019 $	
	Amount outstanding	**Undrawn commitments**	**Total**
Cash and cash equivalents	**120,816**	**-**	**120,816**
Securities	**2,366,266**	**-**	**2,366,266**
Derivative assets	**5,794**	**-**	**5,794**
Loans	**28,298**	**518,350**	**546,648**
Investments in subsidiaries, associates and joint operations	**400,573**	**-**	**400,573**
Total exposure	**2,921,747**	**518,350**	**3,440,097**

		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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4. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

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

	2019 $	2018 $
Low risk		
Risk rating 1	**539,369**	529,583
Risk rating 2	**-**	-
Standard monitoring		
Risk rating 3	**-**	-
Risk rating 4	**7,261**	7,711
Special monitoring		
Risk rating 5	**-**	-
Default		
Risk rating 6	**-**	-
Risk rating 7	**-**	-
Total exposure	**546,630**	537,294

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

	2019 $	2018 $
AAA/R1H	**813,371**	764,594
AA/R1M	**458,120**	435,989
A/R1L	**705,326**	696,020
BBB/R2H	**174,588**	87,118
Co-operatives	**1,114**	1,932
Unrated	**179**	350
Total exposure	**2,152,698**	1,986,003

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

	2019 $	2018 $
AAA/R1H	**64,790**	42,856
AA/R1M	**47,415**	46,878
A/R1L	**60,305**	65,808
BBB/R2H	**20,534**	7,503
Co-operatives	**4,425**	4,331
Total exposure	**197,469**	167,376

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

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4. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

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

	2019 $	2018 $
Automobile financing	**103,434**	57,300
Banking (Schedule 1)	**486,909**	592,564
Credit card issuing/financing	**25,063**	17,393
Diversified holdings	**5,089**	-
Information	**61,783**	44,020
Insurance carriers and related activities	**997**	1,797
Local credit union	**445,588**	538,684
Manufacturing	**70,668**	83,124
MAV	**179**	350
Mining & oil and gas extraction	**44,758**	18,471
Other non-depository (co-operatives)	**521,728**	518,870
Public administration (federal, provincial, and municipal government)	**1,371,409**	1,350,783
Real estate	**78,325**	55,187
Residential mortgages (conventional)	**1,133**	1,095
Retail trade	**51,447**	7,026
Securities, commodity contracts and other financial institutions	**34,348**	3,034
Transportation and warehousing	**58,793**	36,616
Utilities	**73,919**	30,174
Wholesale trade	**4,527**	1,006
Total exposure	**3,440,097**	3,357,494

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.

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4. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

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, 2018.

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. 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.

(a) Interest rate risk

The following represents the SaskCentral market risk position:

	2019		2018	
	Adjusted net interest income	**Economic value of equity**	**Adjusted net interest income**	**Economic value of equity**
Impact of:				
200 bp increase in rates	**42.34%**	**(0.88%)**	29.77%	(0.96%)
200 bp decrease in rates	**(31.78%)**	**1.30%**	(24.14%)	0.86%
Impact of:				
30% rate ramp increase	**6.98%**	**(0.01%)**	6.97%	(0.15%)
30% rate ramp decrease	**(1.40%)**	**0.02%**	(3.99%)	0.19%

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%.

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4. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

(a) Interest rate risk (continued)

SaskCentral's interest rate sensitivity to a 200 bp fluctuation in the yield curve over the next twelve months would be as outlined in the following table:

	2019 $		2018 $	
	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	**9,231**	**(2,632)**	7,901	(2,607)
200 bp decrease in rates	**4,424**	**2,529**	4,619	2,504

(b) Other price risk

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

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 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.

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4. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

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

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

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

	2019 $				
	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Loans payable	**23,085**	-	-	-	**23,085**
Central 1 line of credit	**37,647**	-	-	-	**37,647**
Notes payable	**49,966**	-	-	-	**49,966**
Total Exposure	**110,698**	-	-	-	**110,698**

	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

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 CUDGC Standards of Sound Business Practice – Liquidity Adequacy Requirements (SSBP-LAR). This SSBP does not apply to SaskCentral; however, SaskCentral has incorporated the LAR principles in the LCR.

	2019 $		2018 $	
	System-wide LCR	Stand-alone LCR	System-wide LCR	Stand-alone LCR
Policy limit	**120%**	**110%**	120%	110%
Actual	**278%**	**163%**	241%	180%

SaskCentral also evaluates liquidity quality of investments using the liquidity score. The liquidity score is an internal rating system originally 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 3.4 at December 31, 2019 (2018 – 3.5).

SaskCentral's liquidity risk objectives and methodologies have not changed materially from December 31, 2018.

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5. 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 2019 $	2018 $	Fair value hierarchy	Valuation technique(s) and key input(s)
Financial assets					
Government	FVTOCI	**33,926**	34,077	Level 2	Market comparable prices using quoted bid prices obtained from Bloomberg, or dealer quoted prices where applicable.
	Designated FVTPL	**1,332,457**	1,265,866	Level 2	
Corporate					
Corporate debt	FVTOCI	**44,565**	31,661	Level 2	Market comparable prices using quoted bid prices obtained from Bloomberg, or dealer quoted prices where applicable.
	Designated FVTPL	**545,324**	322,512	Level 2	
Chartered banks	FVTOCI	**114,553**	97,307	Level 2	Market comparable prices using quoted bid prices obtained from Bloomberg, or dealer quoted prices where applicable.
	FVTPL and designated FVTPL	**273,623**	395,343	Level 2	
Co-operatives [1]	FVTOCI	**4,425**	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%.
	FVTPL	**-**	17	Level 2	Market comparable prices using quoted bid prices obtained from Bloomberg, or dealer quoted prices where applicable.
MAVIII	FVTPL	**179**	350	Level 2	Market comparable prices using dealer quoted prices.
Derivative assets					
Index-linked term deposits	FVTPL	**8,556**	5,594	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.

[1] Certain co-operative securities with a carrying value at December 31, 2019 of $1,115 (2018 - $1,915) 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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5. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

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

		Fair value as at			
Instrument	**Classification**	**2019 $**	**2018 $**	**Fair value hierarchy**	**Valuation technique(s) and key input(s)**
Financial liabilities					
Deposits	Designated FVPTL	**2,147,746**	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.
Derivative liabilities					
Index-linked term deposits	FVTPL	**8,556**	5,594	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.

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

	2019 $	**2018 $**
Level 3, beginning of year	-	28,665
Realized (losses) gains in profit or loss	-	(1,211)
Transfer (out) in of Level 3	-	(27,454)
Level 3, end of year	-	-
Total losses for the period included in profit or loss for assets held at the end of the reporting period	-	(1,211)

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

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			
	2019 $	2018 $	2019 $	2018 $	Fair value hierarchy	Valuation technique(s)
Financial assets						
Commercial loans	**2,261**	2,711	**2,258**	2,710	Level 2	Discounted cash flows based on current market rates of interest for similar lending.
Central 1 subordinated debt	**7,000**	7,000	**6,908**	6,834	Level 2	
Financial liabilities						
Deposits [(1)]	**95,487**	197,949	**95,487**	197,949	Level 2	Discounted cash flows based on current market rates of interest for similar maturities.
Loans payable	**23,085**	23,150	**23,056**	23,136	Level 2	
Notes payable	**49,966**	41,928	**49,966**	41,928	Level 2	

(1) Deposits designated at FVTPL are measured at fair value on a recurring basis. The fair value methods of those deposits have been disclosed in the preceding charts.

6. 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 three-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. 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.

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6. CAPITAL MANAGEMENT (continued)

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.

	2019 $	2018 $
Capital		
Tier 1 and Tier 2 regulatory capital	**574,878**	550,370
Less deductions:		
Substantial investments	**392,173**	372,550
Assets of little value	**7,504**	8,071
Total borrowing multiple capital	**175,201**	169,749
Borrowing multiple	**13.4:1**	13.5:1

7. CASH AND CASH EQUIVALENTS

	2019 $	2018 $
Cash and balances with Central 1	-	118,187
Cash and balances with banks	**6,115**	4,259
Cash equivalents	**114,701**	144,429
	120,816	266,875

8. SECURITIES

SaskCentral's securities portfolio is comprised of a large number of securities carrying a variety of terms and conditions. Approximately 77% (2018 – 73%) 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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8. SECURITIES (continued)

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

	2019 $					
	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	9,748	10,640	13,538	-	-	33,926
Amortized cost	9,743	10,627	13,489	-	-	33,859
Yield (1)	1.94%	1.86%	2.10%			1.98%
Corporate debt (2)						
Fair value	14,989	22,147	7,429	-	-	44,565
Amortized cost	14,987	22,113	7,311	-	-	44,411
Yield (1)	2.10%	2.43%	2.97%			2.41%
Chartered banks						
Fair value	33,449	5,004	76,100	-	-	114,553
Amortized cost	33,454	4,990	75,388	-	-	113,832
Yield (1)	1.83%	2.37%	2.58%			2.35%
Co-operatives						
Fair value	-	-	-	-	4,425	4,425
Amortized cost	-	-	-	-	944	944
Total FVTOCI fair value	58,186	37,791	97,067	-	4,425	197,469
Total FVTOCI amortized cost	58,184	37,730	96,188	-	944	193,046
Designated FVTPL						
Government						
Fair value	300,095	275,252	722,422	34,688	-	1,332,457
Amortized cost	300,187	275,292	718,696	33,920	-	1,328,095
Yield (1)	1.75%	1.79%	2.05%	2.43%	-	1.94%
Corporate debt (2)						
Fair value	43,913	184,711	316,700	-	-	545,324
Amortized cost	43,915	184,469	314,484	-	-	542,868
Yield (1)	2.04%	2.26%	2.51%			2.38%
Chartered banks						
Fair value	15,457	111,275	132,380	-	-	259,112
Amortized cost	15,462	111,324	132,355	-	-	259,141
Yield (1)	1.74%	1.78%	2.07%			1.93%
Total designated FVTPL fair value	359,465	571,238	1,171,502	34,688	-	2,136,893
Total designated FVTPL amortized cost	359,564	571,085	1,165,535	33,920	-	2,130,104

(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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8. SECURITIES (continued)

	2019 (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	-	-	-	-	14,511	14,511
Amortized Cost	-	-	-	-	14,408	14,408
Yield [(1)]					4.23%	4.23%
Co-operatives						
Fair value	-	-	-	-	1,115	1,115
Amortized Cost	-	-	-	-	1,115	1,115
MAV						
Fair value	-	-	-	179	-	179
Total FVPTL fair value	-	-	-	179	15,626	15,805
Total amortized cost	-	-	-	-	15,523	15,523
Amortized cost						
Central 1 subordinated debentures						
Amortized cost	-	-	-	7,000	-	7,000
Yield[(1)]				2.18%		2.18%
Total amortized cost	-	-	-	7,000	-	7,000
Total carrying value of securities						2,357,167
Accrued interest						9,099
Allowance for credit losses [note 11]						(7)
						2,366,259

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

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8. SECURITIES (continued)

	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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8. SECURITIES (continued)

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
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 11]						(7)
						2,168,410

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

Unrealized gains and losses on securities

2019 $	Amortized cost	Unrealized gains	Unrealized losses	Fair value
FVTOCI securities				
Government	33,859	70	(3)	33,926
Corporate	159,187	4,363	(7)	163,543
	193,046	4,433	(10)	197,469
Designated FVTPL securities				
Government	1,328,095	4,979	(617)	1,332,457
Corporate	802,009	3,062	(635)	804,436
	2,130,104	8,041	(1,252)	2,136,893
FVTPL securities				
Corporate	15,523	282	-	15,805
	15,523	282	-	15,805
	2,338,673	12,756	(1,262)	2,350,167

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8. SECURITIES (continued)

Unrealized gains and losses on securities (continued)

	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

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 $111 (2018 - $86) of principal and interest payments on the MAV notes held.

There were no credit impaired (Stage 3) securities in either 2019 or 2018.

9. DERIVATIVE ASSETS AND LIABILITIES

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

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

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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9. DERIVATIVE ASSETS AND LIABILITIES (continued)

Notional amounts and term to maturity

	2019 $				
	Within 3 months	**Over 3 months to 1 year**	**Over 1 year to 5 years**	**Over 5 years**	**Total**
Index-linked term deposits	**10,977**	**17,037**	**51,416**	**-**	**79,430**

	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

Fair value of derivative instruments

	2019 $		2018 $	
	Positive	**Negative**	**Positive**	**Negative**
Index-linked term deposits	**8,556**	**8,556**	5,594	5,594

Amounts expected to be recovered or settled

	2019 $		2018 $	
	Positive	**Negative**	**Positive**	**Negative**
Within 12 months	**2,378**	**2,378**	1,502	1,502
After 12 months	**6,178**	**6,178**	4,092	4,092
	8,556	**8,556**	5,594	5,594

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.

10. LOANS

	2019 $	2018 $
Credit union	**26,019**	9,802
Commercial loans	**2,261**	2,711
	28,280	12,513
Accrued interest	**18**	9
Allowance for credit losses [note 11]	**(5)**	(17)
	28,293	12,505

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10. LOANS (continued)

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

	2019				
	Within 3 months	**Over 3 months to 1 year**	**Over 1 year to 5 years**	**Over 5 years**	**Total**
Credit union					
Amortized cost ($)	**26,019**	-	-	-	**26,019**
Rate (%)	**3.48%**				**3.48%**
Commercial loans					
Amortized cost ($)	-	-	**2,261**	-	**2,261**
Rate (%)			**3.95%**		**3.95%**
Amortized cost	**26,019**	-	**2,261**	-	**28,280**

	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

11. 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.

	2019 $	**2018 $**
Allowance on financial assets at amortized cost		
Balance as at January 1	**24**	-
Impact of adopting IFRS 9 at January 1, 2018	-	23
Provision for credit (recoveries) losses on financial assets	**(11)**	1
Balance at December 31	**13**	24
Allowance on financial assets at FVTOCI		
Balance as at January 1	**21**	-
Impact of adopting IFRS 9 at January 1, 2018	-	36
Provision for credit losses (recoveries) on financial assets	**18**	(15)
Balance at December 31	**39**	21
Total allowance for credit losses		
Balance as at January 1	**45**	-
Impact of adopting IFRS 9 at January 1, 2018	-	59
Provision for credit losses (recoveries) on financial assets	**7**	(14)
Balance at December 31	**52**	45

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11. 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, 2019.

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 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 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.

12. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT OPERATIONS

Concentra Bank

At December 31, 2019, SaskCentral holds 84.02% (2018 – 84.02%) 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, 2019, SaskCentral has a 33.33% (2018 – 33.33%) 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.

In December 2019, SaskCentral, Credit Union Central Alberta Limited (Alberta Central), and Credit Union Central of Manitoba (Manitoba Central) (the prairie centrals) received requisite board approvals and executed agreements with IBM Canada Ltd. (IBM) to outsource certain payments processing capabilities currently performed by CUPS. The prairie centrals will administer the IBM contracts and the current payments processing capabilities through a new three-way joint venture structure commencing in 2020, with each prairie central having a one-third interest. SaskCentral is currently assessing the impact on its financial reporting and disclosure for the fiscal year ending December 31, 2020. SaskCentral will be liable in proportion to its ownership interest in the joint venture for the joint venture's covenants and obligations.

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

CUC Wealth

As described in note 3, 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, 2019 SaskCentral has a 10.92% (2018 – 10.92%) 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 was 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 was recorded in gain (loss) on financial instruments in the separate statement of profit or loss.

SEF JV

At December 31, 2019, SaskCentral has a 45.45% (2018 – 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% (2018– 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 26.

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

	2019 $					
	Assets	Liabilities	Revenue	Profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)
Concentra Bank	8,944,702	8,442,814	321,908	30,082	3,079	33,161
Celero Solutions	58,793	38,390	65,727	8,019	-	8,019
CUPS	6,624	3,683	24,980	2,941	-	2,941
CUC Wealth	122,804	8,245	18,208	16,287	412	16,699
SEF JV	625	95	4	(4)	-	(4)
	9,133,548	8,493,227	403,827	57,325	3,491	60,816

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

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

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.

2019	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	253,414		
Accumulated other comprehensive income	3,235		
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 (2)	(168,905)	84.30%	142,387
Retained earnings attributable to common shareholders	67,695	84.02%	56,877
			328,504
Goodwill			(19,248)
Fair value increase as result of change in control (2)			48,343
Accumulated amortization of fair value differential (2)			4,337
Other adjustments			(930)
Carrying amount of SaskCentral’s investment in Concentra Bank			361,006

(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.

(2) 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). Prior to the bank continuance, SaskCentral held 84.02% of the non-voting Class A shares. As a result of the bank continuance, Concentra Bank became a subsidiary of SaskCentral on January 1, 2017.

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

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 [(2)]	(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 [(2)]			48,343
Accumulated amortization of fair value differential [(2)]			4,222
Other adjustments			(3,062)
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.
[(2)] 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). Prior to the bank continuance, SaskCentral held 84.02% of the non-voting Class A shares. As a result of the bank continuance, Concentra Bank became a subsidiary of SaskCentral on January 1, 2017.

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.

	2019 $			
	Celero Solutions	**CUPS**	**CUC Wealth**	**SEF JV**
Net assets of the associates and joint operations	**20,403**	**2,941**	**114,559**	**530**
Proportion of SaskCentral's ownership interest	**33.33%**	**50.00%**	**10.92%**	**45.45%**
	6,801	**1,471**	**12,510**	**241**
Fair value differential upon acquisition	-	-	**18,530**	-
Accumulated amortization of fair value differential	-	-	**(925)**	-
Other adjustments	**19**	**63**	**857**	-
Carrying amount of SaskCentral's interest in associates and joint operations	**6,820**	**1,534**	**30,972**	**241**

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

	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	33.33%	50.00%	10.92%	45.45%
	5,445	1,239	11,111	1,205
Fair value differential upon acquisition	-	-	18,530	-
Accumulated amortization of fair value differential	-	-	(477)	-
Other adjustments	11	85	(2)	(1,049)
Carrying amount of SaskCentral's interest in associates and joint operations	5,456	1,324	29,162	156

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

	2019 $	2018 $
Concentra Bank	**4,512**	4,512
Celero Solutions	**1,317**	644
CUPS	**1,324**	700
CUC Wealth	**26**	-
SEF JV	-	1,049
	7,179	6,905

13. PROPERTY, PLANT AND EQUIPMENT

	2019 $			
	Land	**Building**	**Furniture and equipment**	**Total**
Cost				
Balance as at January 1	859	12,977	2,717	16,553
Additions	-	142	56	198
Disposals	-	(5)	(106)	(111)
Ending balance as at December 31	859	13,114	2,667	16,640
Accumulated depreciation				
Balance as at January 1	-	8,816	2,190	11,006
Depreciation charges	-	340	170	510
Disposals	-	(5)	(79)	(84)
Ending balance as at December 31	-	9,151	2,281	11,432
Carrying value as at December 31	859	3,963	386	5,208

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13. PROPERTY, PLANT AND EQUIPMENT (continued)

	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

14. 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:

	2019 $	2018 $
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	**2,064**	1,863
Depreciation charges	**201**	201
Ending Balance as at December 31	**2,265**	2,064
Carrying Value as at December 31	**9,184**	9,385

The fair value of SaskCentral's investment property at December 31, 2019 is $18,881 (2018 - $19,384). 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.

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14. INVESTMENT PROPERTY (continued)

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

Income approach	2019	2018
Rent per square foot (in actual Canadian dollars)	**$11 - $17**	$11 - $18
Parking rate per month (in actual Canadian dollars)	**$195.94**	$198.55
Vacancy rate	**8.44%**	9.49%
Capitalization rate	**7.5%**	7.5%

In 2019, investment property generated rental income of $3,419 (2018 - $3,581). Direct operating expenses recognized in the separate income statement were $1,785 (2018 - $1,890).

15. INTANGIBLE ASSETS

	2019 $		
	Computer software	Intangible assets under development	Total
Cost			
Balance as at January 1	**2,134**	**-**	**2,134**
Additions	**-**	**47**	**47**
Ending balance as at December 31	**2,134**	**47**	**2,181**
Accumulated amortization			
Balance as at January 1	**2,119**	**-**	**2.119**
Amortization charges	**3**	**-**	**3**
Ending balance as at December 31	**2,122**	**-**	**2,122**
Carrying value as at December 31	**12**	**47**	**59**

	2018 $		
	Computer software	Intangible assets under development	Total
Cost			
Balance as at January 1	2,119	-	2,119
Additions	15	-	15
Ending balance as at December 31	2,134	-	2,134
Accumulated amortization			
Balance as at January 1	2,092	-	2,092
Amortization charges	27	-	27
Ending balance as at December 31	2,119	-	2,119
Carrying value as at December 31	15	-	15

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16. INCOME TAXES

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

	2019 $	2018 $
Deferred income tax (recovery) expense		
Origination and reversal of temporary differences	(683)	1,762
	(683)	1,762

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

	2019 $	2018 $
Net unrealized gains on financial instruments		
Deferred income tax expense (recovery)	274	(152)
	274	(152)
Reclassification of gains on financial instruments		
Deferred income tax (recovery) expense	(6)	31
	(6)	31
Own credit risk reserve		
Deferred income tax expense (recovery)	477	(2,233)
	477	(2,233)
	745	(2,354)

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

	2019 $	2018 $
Reduction in income taxes due to payment of dividends		
Deferred income tax recovery	-	(8,262)
	-	(8,262)

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 profit and loss. Prior to January 1, 2019 the reduction was recorded in retained earnings. For further details on the amendment of IAS 12, *Income Taxes* (IAS 12), refer to note 28.

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16. INCOME TAXES (continued)

Total income tax reported in the separate financial statements:

	2019 $	2018 $
	62	(8,854)

Reconciliation of income tax expense from continuing operations:

	2019 $	2018 $
Combined federal and provincial income tax rate applied to income from		
Continuing operations (2019 – 27%; 2018 – 27%)	9,505	9,813
Income tax expense adjusted for the effect of:		
Non-taxable dividend income	(136)	(144)
Impact of tax rate changes	-	165
Expenses not deductible for tax purposes	56	39
Adjustments related to prior periods	(458)	207
Tax not recorded on equity pick-up of subsidiary	(6,431)	(8,291)
Reduction in income taxes due to payment of dividends	(2,902)	-
Amounts taxed at other than general income tax rate	(317)	(27)
	(683)	1,762

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 21% (2018 - 21%). The movement in deferred income tax asset (liability) is as follows:

	2019 $	2018 $
Balance, beginning of year	7,372	3,402
Impact of adopting IFRS 9	-	(4,884)
Recognized in profit or loss	683	(1,762)
FVTOCI:		
Fair value measurement	(751)	2,385
Transfer to profit or loss	6	(31)
Recognized in retained earnings	-	8,262
Balance, end of year	7,310	7,372

December 31, 2019
in thousands of Canadian dollars

16. INCOME TAXES (continued)

The components of deferred income taxes are as follows:

	2019 $	2018 $
Deferred income tax assets		
Non capital loss carryforward	**11,911**	11,956
Accounts payable and deferred revenue	**120**	-
Losses not yet deductible for tax purposes	**90**	110
Other	-	27
	12,121	12,093
Deferred income tax liabilities		
Securities	**(4,235)**	(3,737)
Property, plant and equipment	**(576)**	(700)
Accounts payable and deferred revenue	-	(284)
	(4,811)	(4,721)
Net deferred income tax asset (liability)	**7,310**	7,372

	2019 $	2018 $
Deferred income tax assets		
Recoverable after more than 12 months	**12,121**	12,093
Recoverable within 12 months	-	-
	12,121	12,093
Deferred income tax liabilities		
Payable after more than 12 months	**(4,811)**	(4,721)
	(4,811)	(4,721)
Net deferred income tax asset (liability)	**7,310**	7,372

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 $44,114 (2018 - $44,281) which are available to offset future taxable income. The balance of these loss carryforwards will expire in the years 2030 ($6,702), 2032 ($1,447), 2037 ($17,958) and 2038 ($18,007). The benefit of the tax losses has been recognized in SaskCentral's financial statements as realization of the related tax benefit is probable.

December 31, 2019
in thousands of Canadian dollars

17. 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:

2019
$

	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	**95,487**	-	-	-	-	-	**95,487**
Yield (1)	**0.10%**						**0.10%**
Provincial liquidity program							
Designated FVTPL (2)	-	**159,580**	**374,948**	**849,330**	-	**757,269**	**2,141,127**
Yield (1)		**1.64%**	**1.98%**	**2.17%**		**1.89%**	**2.00%**
	95,487	**159,580**	**374,948**	**849,330**	-	**757,269**	**2,236,614**
Accrued interest							**6,619**
							2,243,233

(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, 2019 is equal to $2,135,644, resulting in cumulative unrealized losses on these deposits of $5,483.

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.

Interest rates on deposits are determined by market conditions.

December 31, 2019
in thousands of Canadian dollars

18. 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 (2018 – one month).

In addition, SaskCentral has a credit facility with Central 1 for $100,000 (2018 - $100,000) for which SaskCentral has pledged securities with the Bank of Canada to support the group clearing agreement (note 27). 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 (2018 - $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% (2018 – banker's acceptance rate plus 0.45%).

SaskCentral is authorized to issue a maximum of $300,000 (2018 - $300,000) under a commercial paper program. Outstanding commercial paper matures within one month (2018 – one to three months).

	Loans and notes payable		Collateral			
			Securities pledged			
			Fair value		Carrying value	
	2019	2018	2019	2018	2019	2018
	$	$	$	$	$	$
Repurchase payable [1]	**23,085**	23,150	**23,056**	23,136	**22,991**	22,970
Central 1 line of credit [2]	**37,647**	-	**179,717**	198,174	**176,855**	197,139
Commercial paper [3]	**49,966**	41,928	**-**	-	**-**	-
	110,698	65,078	**202,773**	221,310	**199,846**	220,109

[1] *Weighted average effective interest rate based on year-end carrying values is 1.90% (2018 – 1.90%).*
[2] *Weighted average effective interest rate based on year-end carrying values is 1.75% (2018 – nil).*
[3] *Weighted average effective interest rate based on year-end carrying values is 2.00% (2018 – 2.25%).*

19. 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 a minimum of 0.60% and a maximum of 1% of their previous year's assets. During 2019, SaskCentral repatriated $608 of Class A membership shares as a result of credit unions holding more than the maximum 1% of their previous year assets.

December 31, 2019
in thousands of Canadian dollars

19. 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 except in circumstances where a representative vote is requested, in which case voting is conducted on a representative basis using a formula calculated by the Board. 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, 2019, 16,542,424 Class A membership shares (2018 – membership shares of 16,283,238) 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.

20. DIVIDENDS

In 2019, dividends of $15,260 (2018 - $35,112) were declared, as approved by the Board. Of the amount recognized in 2019, on December 11, 2019, the Board approved payment of a dividend of $1,128 to be paid to credit unions on January 17, 2020.

December 31, 2019
in thousands of Canadian dollars

21. NET INTEREST INCOME

	2019 $	2018 $
Interest income		
Financial assets measured at amortized cost	**1,440**	1,746
Financial assets measured at FVTOCI	**5,993**	4,963
Financial assets measured at FVTPL	**968**	947
Financial assets designated at FVTPL	**43,293**	35,847
	51,694	43,503
Interest expense		
Financial liabilities measured at amortized cost	**2,087**	1,654
Financial liabilities designated at FVTPL	**42,134**	34,084
	44,221	35,738
Net interest income	**7,473**	7,765

22. 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.

	2019 $	2018 $
Dues		
Services transferred over time	**2,276**	2,791
Fee for service revenue		
Services transferred at a point in time		
Deposit and lending education	**405**	344
Clearing and settlement	**445**	425
	850	769
Services transferred over time		
Liquidity management assessment	**6,833**	5,000
Consulting	**5,322**	4,963
Management oversight	**1,433**	1,772
Other revenue		
Tenant revenue	**4,437**	4,460
Parking revenue	**352**	352
Foreign exchange revenue	**18**	130
Miscellaneous revenue	**7**	52
	18,402	16,729
	19,252	17,498

December 31, 2019
in thousands of Canadian dollars

23. SALARY AND EMPLOYEE BENEFITS

	2019	2018
	$	$
Contributions to defined contribution plans	**442**	442
Employee training and development	**122**	164
Other employee benefits	**653**	595
Salaries and incentive compensation	**9,440**	9,406
	10,657	10,607

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.

24. PROFESSIONAL AND ADVISORY SERVICES

	2019	2018
	$	$
Concentra Bank consulting fees	**620**	605
Professional fees	**6,023**	5,288
	6,643	5,893

25. GAIN (LOSS) ON FINANCIAL INSTRUMENTS

	2019	2018
	$	$
Realized gains (losses) arising on financial assets measured as at FVTOCI	**52**	(2)
Unrealized and realized gains (losses) arising on financial assets measured at FVTPL	**1,286**	(1,546)
Unrealized and realized gains arising on financial assets designated as at FVTPL	**12,484**	263
Unrealized losses arising on financial liabilities designated as at FVTPL	**(11,598)**	(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)	**(1,767)**	8,270
	457	(3,344)

26. 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.

December 31, 2019
in thousands of Canadian dollars

26. RELATED PARTY TRANSACTIONS (continued)

SaskCentral provides a variety of services to Concentra Bank, Celero Solutions, and CUPS. 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.

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:

	2019 $	2018 $
Celero Solutions		
Loan receivable from (amount drawn on line of credit)	**2,261**	2,711
Due from included in trade and other receivables	**81**	75
Due to included in trade and other payables	**1,036**	987
Interest received from	**107**	98
Fee for service revenue received from	**945**	762
Technology services paid to	**10,419**	9,730
Concentra Bank		
Lines of credit authorized to	**100,000**	100,000
Loans receivables from (amount drawn on line of credit)	**403**	3,907
Collateral received from	**20,603**	21,914
Due from included in trade and other receivables	**63**	22
Deposits payable to	**16,170**	20,762
Due to included in trade and other payables	**49**	51
Interest received from	**153**	155
Fee for service revenue received from	**1,695**	1,548
Financial services fees paid to	**671**	724
CUPS		
Fee for service revenue received from	**-**	6
Services charges paid to	**5**	6

Key management compensation

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

	2019 $	2018 $
Directors		
Salaries and other short-term employee benefits	**150**	131
Post-employment benefits	**7**	6
	157	137
Key management personnel		
Salaries and other short-term employee benefits	**4,085**	4,010
Post-employment and other long-term benefits	**182**	151
	4,267	4,161
	4,424	4,298

December 31, 2019
in thousands of Canadian dollars

27. 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.

	2019 $	2018 $
Lines of credit and loan commitments		
Original term to maturity of one year or less	**518,350**	526,605

Contractual commitments

As of December 31, 2019, 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 $8,636. (2018 – $12,537). Actual amounts incurred may differ from the estimates calculated.

	2019 $	2018 $
CRI Canada – Data Services	**862**	1,382
Jack Henry & Associates – ProfitStars	**49**	46
Hyland Software - ECM Solution	**207**	300
SaskTel – Telecommunication Services	**3,495**	4,975
SaskTel – Technology Management	**72**	180
Celero Solutions – Support Services	**1,834**	3,596
Celero Solutions – Technology Management	**365**	1,042
WBM – Technology Management	**6**	-
Everlink – Card Issuance Services	**307**	401
Everlink – Risk Management Services	**342**	483
Brinks – Amoured Tranportation	**1,010**	-
Central 1 – Risk Management Services	**87**	132
	8,636	12,537

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, 2019
in thousands of Canadian dollars

28. APPLICATION OF NEW AND REVISED IFRSs

IAS 12, *Income taxes*

The IASB issued amendments to IAS 12 mandatorily effective January 1, 2019. The amendments require an entity to recognize the income tax consequence of dividends in profit or loss, OCI or equity according to where the entity originally recognized the transactions that generated the distributable profit.

As a result of SaskCentral's assessment of this amendment, the reduction in income tax resulting from the payment of dividends is recognized in profit and loss, effective January 1, 2019. This is based on the conclusion that SaskCentral pays dividends on earnings generated in profit and loss. Prior to January 1, 2019 the reduction was recorded in equity.

IFRS 16, *Leases*

SaskCentral has adopted IFRS 16, *Leases* (IFRS 16) issued by the IASB that was mandatorily effective for the accounting period that begins on or after January 1, 2019. IFRS 16 supersedes IAS 17, *Leases* (IAS 17) and related Interpretations. 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 remained largely unchanged.

The application of IFRS 16 has had no impact on SaskCentral's separate financial statements.

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, 2019. For the purpose 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) CUVentures LP and Saskatchewan Entrepreneurial Fund Joint Venture (SEF).

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 10, 2020 and provides comments regarding SaskCentral's financial and operating results, risk management, capital management and business outlook.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

From time to time, SaskCentral makes written and verbal forward-looking statements. Statements of this type are included in reports to Saskatchewan credit union shareholders and 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
SEF	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 2019 financial results, please visit their website at www.concentra.ca.

2019 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

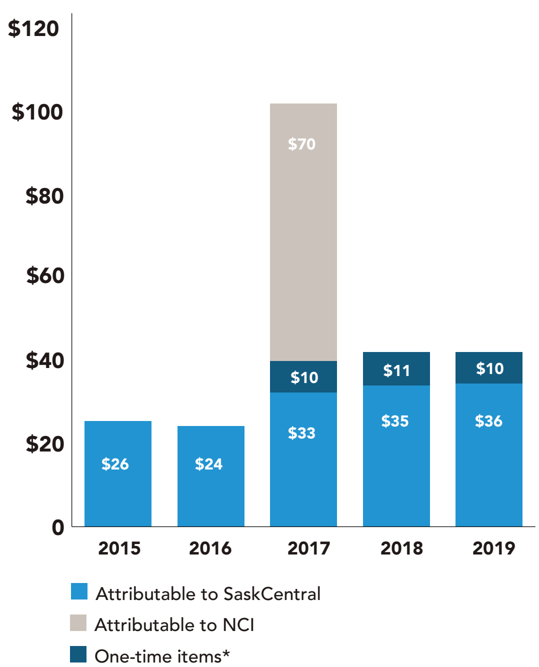
December 31 (in thousands)	**2019** **$**	2018 $	2017 $	2016 $	2015 $
Income from continuing operations					
Net interest income after provision for credit losses	**96,824**	108,521	99,941	10,999	11,074
Non-interest income	**63,525**	52,876	97,495	53,256	55,373
Non-interest expense	**103,030**	97,885	92,210	33,307	33,770
Income tax expense (recovery)	**11,910**	17,986	(7,911)	7,139	6,374
Net income	**45,409**	45,426	113,137	23,809	26,303
Distribution of income					
Dividends (includes non-controlling interests)	**21,223**	41,075	19,894	13,715	9,900
Distribution as a % of average share capital	**12.9%**	25.3%	12.3%	9.1%	7.2%
Financial Position					
Securities	**3,128,436**	2,995,653	3,077,842	2,131,450	2,054,862
Loans	**7,586,152**	8,311,602	7,721,935	45,057	37,800
Deposits	**6,607,380**	7,039,434	5,998,315	2,009,060	1,926,524
Equity	**758,047**	726,357	711,060	437,327	405,841

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

Profitability

SaskCentral's profit was $45.4 million (2018 – $45.5 million), of which $9.5 million (2018 - $10.9 million) is attributable to non-controlling interests (NCI). Concentra Bank contributed $30.1 million to SaskCentral's consolidated profit in 2019 (2018 – $40.6 million).

Consolidated Profits (in millions)



* One-time item relates to gain on acquisition of control of Concentra Bank and the income tax recovery in 2017.

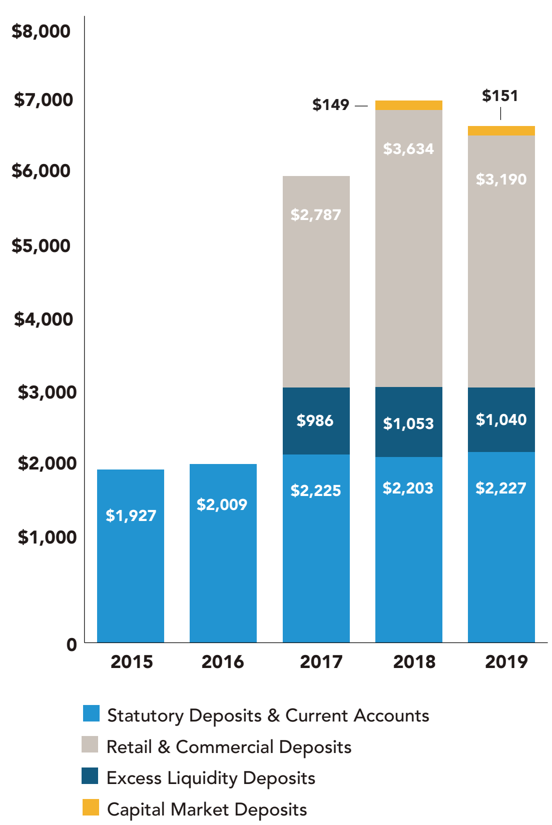
Growth

Deposits are comprised of credit union deposits, retail (personal) 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 (personal) 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 consumer deposits. Capital market deposits relate to the issuance of floating rate deposit notes in the debt capital markets to a broad group of investors.

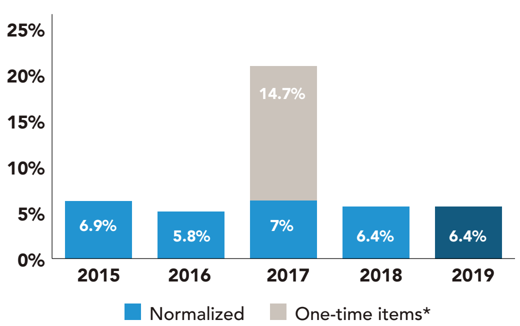
SaskCentral's deposits, excluding excess liquidity, retail, commercial and capital market deposits increased by 1.1% over prior year (2018 – 1.0% decrease). Statutory liquidity deposits increased 6.0% (2018 – 3.2% increase) and credit union cash balances decreased by 55.2% (2018 – 32.7% decrease). Credit union cash balances can fluctuate substantially year over year.

Consolidated Deposits (in millions)



Return on Equity
Equity attributable to SaskCentral increased by $27.6 million over 2018. Another year of strong earnings offset by dividends paid to credit unions resulted in a net increase to retained earnings of $20.4 million. Credit unions subscribed to $3.2 million (2018 - $1.2 million) in membership share capital during the year. SaskCentral repatriated $0.6 million in membership share capital to credit unions that were above the 1.0% maximum of their previous year's assets. For 2019, SaskCentral's ROE held steady at 6.4% (2018 – 6.4%).

Consolidated Return on Equity



* One-time item relates to gain on acquisition of control of Concentra Bank and the income tax recovery in 2017.

2020 OUTLOOK

Please refer to the Separate MD&A for discussion on SaskCentral's 2020 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
On January 1, 2019 mandatory amendments to IAS 12, *Income Taxes* (IAS 12) became effective. The amendments require an entity to recognize the income tax consequence of dividends according to the origin of the transactions that generated the distributable profit. As a result, SaskCentral's reduction in income tax related to the payment of dividends is now reflected in profit and loss. Prior to January 1, 2019 the reduction was recorded in equity.

Effective January 1, 2019, SaskCentral adopted IFRS 16, *Leases* (IFRS 16). The new standard brings most leases on balance sheet, eliminating the distinction between operating and finance leases. Lessor accounting remained largely unchanged. Upon transition to IFRS 16, SaskCentral has recognized lease liabilities and corresponding right-of-use assets of $0.7 million as at January 1, 2019, with no impact to the previously reported retained earnings.

For further details on the application of IAS 12 amendments and adoption of IFRS 16, refer to Note 3 of SaskCentral's consolidated financial statements.

Future Changes in Accounting Policies
Refer to Note 2.27 of the consolidated financial statements for details on new standards and interpretations that have not yet been adopted as at December 31, 2019. 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 10, 2020

AUDIT AND RISK COMMITTEE REPORT TO THE MEMBERS

To the Members of Credit Union Central of Saskatchewan

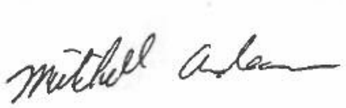
The purpose of the Audit and Risk Committee is to ensure an independent review of SaskCentral's financial operation in areas deemed necessary to maintain the integrity of financial data, adequacy of internal controls and adherence to sound financial practices.

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 10, 2020

Deloitte.

Deloitte LLP
2103 - 11th Avenue
9th Floor
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Regina SK S4P 3Z8
Canada

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Independent Auditor's Report

To the Members of
Credit Union Central of Saskatchewan

Opinion

We have audited the consolidated financial statements of Credit Union Central of Saskatchewan (the "Company"), which comprise the consolidated balance sheet as at December 31, 2019, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and its financial performance and its 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 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 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 Financial Statements

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

In preparing the 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 Financial Statements
Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 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 financial statements, including the disclosures, and whether the 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 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 10, 2020

CONSOLIDATED BALANCE SHEET

[in thousands of Canadian dollars]

As at December 31

	2019	2018
	$	$
Assets		
Cash and cash equivalents [note 8]	**589,402**	655,050
Securities [note 9]	**3,128,436**	2,995,653
Derivative assets [note 10]	**20,578**	23,542
Loans [note 11]	**7,586,152**	8,311,602
Other securitization assets [note 13]	**76,286**	60,875
Trade and other receivables	**6,210**	5,676
Other assets	**3,546**	1,522
Investments in associates [note 14]	**38,034**	34,775
Property, plant and equipment [note 15]	**25,639**	26,436
Investment property [note 16]	**6,290**	6,427
Intangible assets [note 17]	**5,222**	2,872
Current income tax assets [note 18]	**329**	-
Deferred income tax assets [note 18]	**22,001**	22,204
Goodwill	**41,979**	41,979
Assets held for sale [note 32]	**-**	16,736
	11,550,104	12,205,349
Liabilities		
Deposits [note 19]	**6,607,380**	7,039,434
Derivative liabilities [note 10]	**20,855**	24,080
Loans and notes payable [note 20]	**530,571**	375,626
Securitization liabilities [note 13]	**3,544,295**	3,971,890
Trade and other payables	**62,859**	40,385
Other liabilities [note 21]	**13,679**	10,965
Current income tax liabilities [note 18]	**284**	2,148
Deferred income tax liabilities [note 18]	**12,134**	14,246
Liabilities held for sale [note 32]	**-**	218
	10,792,057	11,478,992
Equity		
Share capital [note 22]	**165,424**	162,832
Retained earnings	**410,688**	390,294
Accumulated other comprehensive income (loss)	**3,476**	(1,176)
Total equity attributable to equity holders of SaskCentral	**579,588**	551,950
Non-controlling interest [note 30]	**178,459**	174,407
	758,047	726,357
	11,550,104	12,205,349

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

	2019 $	2018 $
Interest income		
Securities	**77,843**	63,540
Loans	**266,327**	243,486
	344,170	307,026
Interest expense		
Deposits	**151,860**	118,975
Loans and notes	**9,695**	7,550
Securitization liabilities	**68,936**	72,993
Other direct expenses	**9,955**	6,599
	240,446	206,117
Net interest income [note 24]	**103,724**	100,909
Provision for credit losses (recoveries) [note 12]	**6,900**	(7,612)
Net interest income after provision for credit losses	**96,824**	108,521
Non-interest income		
Dues [note 25]	**2,276**	2,791
Fee for service [note 25]	**48,644**	45,417
Gain on financial instruments [note 27]	**6,268**	3,107
Share of profits of associates [note 14]	**3,351**	1,361
Gain on sale of assets held for sale [note 32]	**2,986**	-
Gain on sale of business line [note 28]	**-**	200
	63,525	52,876
Net interest and non-interest income	**160,349**	161,397
Non-interest expense		
Salary and employee benefits [note 26]	**53,526**	53,135
Professional and advisory services	**15,508**	12,505
Computer and office equipment	**11,639**	10,666
Occupancy	**5,103**	5,251
General business	**17,254**	16,328
	103,030	97,885
Profit for the year before income taxes	**57,319**	63,512
Income tax expense [note 18]	**11,910**	17,986
Profit for the year	**45,409**	45,526
Attributable to:		
Owners of SaskCentral	**35,886**	34,581
Non-controlling interest	**9,523**	10,945
	45,409	45,526

See accompanying notes

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OR LOSS

[in thousands of Canadian dollars]

Year ended December 31

	2019 $	2018 $
Profit for the year	**45,409**	45,526
Other comprehensive income (loss)		
Items that will be reclassified subsequently to profit or loss:		
Financial assets at FVTOCI		
Net unrealized gains on FVTOCI securities and loans during the year	**6,844**	4,039
Reclassification of gains on FVTOCI securities and loans disposed of in the year	**(2,133)**	(1,683)
Reclassification of impairment losses on FVTOCI securities and loans [note 12]	**196**	455
Cash flow hedges		
Net gains (losses) on derivatives designated as cash flow hedges	**804**	(227)
Reclassification of gains on derivatives designated as cash flow hedges to profit or loss	**(779)**	(985)
Share of other comprehensive income (loss) of associates	**91**	(31)
Income tax relating to items that will be reclassified subsequently [note 18]	**(1,401)**	(332)
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 27]	**1,767**	(8,270)
Income tax related to items that will not be reclassified subsequently [note 18]	**(477)**	2,233
Other comprehensive income (loss) for the year, net of tax	**4,912**	(4,801)
Total comprehensive income for the year	**50,321**	40,725
Attributable to:		
Owners of SaskCentral	**40,306**	29,583
Non-controlling interest	**10,015**	11,142
	50,321	40,725

See accompanying notes

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

[in thousands of Canadian dollars]

Year ended December 31

			Accumulated other comprehensive income				
	Share capital	**Retained earnings**	**Fair value reserves**	**Own credit risk reserve**	**Total**	**Non-controlling interest**	**Total equity**
Balance as at December 31, 2017	161,607	361,487	17,291	-	540,385	170,675	711,060
Impact of adopting IFRS 9 at January 1, 2018	-	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 30]	-	(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**
Profit for the year	-	35,886	-	-	35,886	9,523	45,409
Other comprehensive income for the year, net of tax	-	-	3,130	1,290	4,420	492	4,912
Increase in share capital, net of repatriation	2,592	-	-	-	2,592	-	2,592
Dividends [notes 23 and 30]	-	(15,260)	-	-	(15,260)	(5,963)	(21,223)
Reclassification of own credit risk on derecognition of related financial liabilities, net of tax	-	(232)	-	232	-	-	-
Balance as at December 31, 2019	**165,424**	**410,688**	**4,710**	**(1,234)**	**579,588**	**178,459**	**758,047**

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS

[in thousands of Canadian dollars]

Year ended December 31

	2019 $	2018 $
Cash flows from (used in) operating activities		
Profit for the year	**45,409**	45,526
Adjustments to determine net cash used in operating activities:		
Depreciation of property, plant and equipment and investment property [note 15/16]	**1,950**	2,228
Other amortization/accretion	**544**	6,071
Gain on financial instruments [note 27]	**(6,268)**	(3,107)
Net interest income	**(103,724)**	(100,909)
Provision for credit losses (recoveries) [note 12]	**6,900**	(7,612)
Gain on sale of business line	**-**	(200)
Gain on sale of assets held for sale [note 32]	**(2,986)**	-
Share of profits in associates, net of losses	**(3,351)**	(1,361)
Income tax expense (recovery)	**11,910**	17,986
Changes in operating assets and liabilities:		
Loans, net of repayments and sales	**708,325**	(642,997)
Trade and other receivables (payables)	**23,861**	(38,320)
Other assets	**(2,024)**	252
Deposits, net of withdrawals	**(436,454)**	1,033,638
Securitization liabilities, net of repayments	**(453,217)**	(139,860)
Loans payable and notes payable, net of repayments	**149,912**	(413,643)
Other liabilities	**3**	(474)
Interest received	**345,700**	337,700
Dividends received	**502**	533
Interest paid	**(239,669)**	(188,567)
Net realized (losses) gains from derivatives	**(2,063)**	555
Net realized losses from derivatives designated as cash flow hedges	**(356)**	(227)
Income taxes paid	**(17,892)**	(25,847)
Cash flows from (used in) operating activities	27,012	(118,635)
Cash flows from (used in) financing activities		
Proceeds from issuance of share capital	**3,200**	1,225
Repatriation of share capital	**(608)**	-
Dividends paid to members [note 23]	**(15,260)**	(37,368)
Dividends paid to non-controlling interest [note 30]	**(5,963)**	(5,963)
Cash outflow for lease financing	**(211)**	-
Cash flows used in financing activities	**(18,842)**	(42,106)

Continued on following page

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

[in thousands of Canadian dollars]

Year ended December 31

	2019 $	2018 $
Cash flows from (used in) investing activities		
Purchase of securities	**(7,148,804)**	(9,220,165)
Proceeds from sales of securities	**7,057,471**	9,309,761
Proceeds from sale of business line	**-**	200
Distributions from investments in associates [note 14]	**1,343**	1,693
Property, plant and equipment [note 15]	**(361)**	(1,127)
Investment property [note 16]	**-**	(1,804)
Proceeds from disposal of assets held for sale [note 32]	**19,039**	-
Intangible assets [note 17]	**(3,042)**	(1,020)
Cash flows (used in) from investing activities	(74,354)	87,538
Net decrease in cash and cash equivalents	**(66,184)**	(73,203)
Cash and cash equivalents, beginning of year	**655,050**	728,789
Cash of assets held for sale, beginning of year [note 32]	**536**	-
Cash reclassified to assets held for sale [note 32]	**-**	(536)
Cash and cash equivalents, end of year	**589,402**	655,050

See accompanying notes

December 31, 2019
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) has regulatory responsibilities for SaskCentral.

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, 30 and 31.

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 IAS 12, *Income Taxes* (IAS 12) and IFRS 16, *Leases* (IFRS 16) as described in note 3.

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 10, 2020.

(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) and fair value through other comprehensive income (FVTOCI), which have been measured at fair value, including all derivative contracts.

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

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

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

December 31, 2019
in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of presentation (continued)

(b) Basis of measurement (continued)

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.

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

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

(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.

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, 2019
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 84.02% (2018 – 84.02%) 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.

Concentra Trust – Concentra Bank owns 100% (2018 – 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% (2018 – 100%) of CUVentures LP as a result of SaskCentral's 100% ownership (2018 – 100%) 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.

December 31, 2019
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 33.33% (2018 – 33.33%) interest in Celero Solutions and has concluded that Celero Solutions is considered an investment in associate. 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% (2018 – 10.92%) 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 Northwest and Ethical Investments (NEI), Credential Financial Inc. 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% (2018 – 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.

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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 (2018 – 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 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

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.

December 31, 2019
in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

(a) Financial assets (continued)

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 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. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. Amortized cost is calculated taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate. Amortization of premiums, discounts and other transaction costs is included in interest income in the consolidated statement of income.

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.

December 31, 2019
in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

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.

These instruments are measured at fair value in the consolidated balance sheet, with transaction costs recognized immediately in the consolidated statement of profit or loss as part of gain on financial instruments. For financial assets designated at FVTPL, changes in fair value are recognized in the consolidated statement of profit or loss.

Equity instruments measured at FVTPL/FVTOCI

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.

SaskCentral can elect to classify non-trading equity instruments at FVTOCI. This election will be used for certain equity investments for strategic or longer-term investment purposes. The FVTOCI election is made upon initial recognition, on an instrument-by-instrument basis and once made is irrevocable. Both realized and unrealized gains and losses on these instruments are recorded in OCI and are not subsequently reclassified to the consolidated statement of profit or loss. Dividends received are recorded in interest income in the consolidated statement of profit or loss. Any transaction costs incurred upon purchase of the security are added to the cost basis of the security and are not reclassified to the consolidated statement of profit or loss on sale of the security.

(b) **Financial liabilities**

SaskCentral classifies its financial liabilities as measured at amortized cost or FVTPL. A financial liability is classified as 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. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. 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. With the exception of its deposits and derivative financial instruments which are FVTPL, SaskCentral's holdings in financial liabilities are classified as measured at amortized cost.

December 31, 2019
in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

(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, 2019.

(d) Impairment of financial assets

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 – *Financial Instruments* (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 (ECL) 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.

December 31, 2019
in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

(d) Impairment of financial assets (continued)

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.

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.

December 31, 2019
in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

(d) Impairment of financial assets (continued)

Significant increase in credit risk (continued)

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.

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'.

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 a high probability of the borrower entering a financial reorganization ; 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.

December 31, 2019
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

(d) Impairment of financial assets (continued)

Macroeconomic factors (continued)

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.

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, 2019 include the following ranges of macro-economic factors:

	12 month forecast			5 year forecast		
% change(1)	**Base case**	**Optimistic**	**Pessimistic**	**Base case**	**Optimistic**	**Pessimistic**
Bank of Canada interest rates	(12.1%)	5.4%	(29.7%)	N/A	N/A	N/A
Canadian equity index	(7.8%)	1.3%	(17.6%)	8.3%	13.4%	0.7%
Canadian unemployment						
National	6.4%	(8.4%)	13.5%	16.7%	12.7%	21.6%
Regional(2)	2.0%	(10.3%)	7.4%	7.7%	3.6%	13.0%
GDP growth	25.0%	50.0%	0.0%	N/A	N/A	N/A
New housing starts	(7.3%)	11.3%	(25.8%)	N/A	N/A	N/A
Oil price	5.1%	27.6%	0.4%	14.3%	36.2%	9.6%

(1) The % change represents the change in the macroeconomic factor as a percentage difference from the most recent publicly available actual result reported as of December 31, 2019.

(2) Represents a weighted average based on the credit concentration % for each region.

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.

December 31, 2019
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 ECL in the statement of financial position (continued)

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 in the consolidated statement profit or loss.

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

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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019
in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

(f) Derecognition of financial assets or liabilities (continued)

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

2.7 Asset securitizations

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

2.8 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 considered when determining the allowance for credit losses for the related loan. 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 provision for credit losses in the consolidated statement of profit and loss to offset the associated impairment loss. Reimbursement assets are included in other assets as an accounts receivable.

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

SaskCentral enters into derivative transactions to hedge interest rate and foreign currency risks, and for economic and asset/liability management purposes. SaskCentral also enters into derivative transactions on an intermediary basis on behalf of its clients. SaskCentral does not have a trading program for derivatives.

Derivative financial instruments are classified as FVTPL and measured at fair value in the consolidated balance sheet. Changes in fair value are included in the consolidated statement of profit or loss within gain on financial instruments unless they are designated in a qualifying hedge accounting relationship.

December 31, 2019
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Derivative financial instruments and hedge accounting (continued)

Hedge accounting

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 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.

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 within gain on financial instruments 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 statement of profit or loss and are recorded in gain 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.

December 31, 2019
in thousands of Canadian dollars

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Revenue recognition

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.

Incremental costs of obtaining a contract are recognized in net income on a basis consistent with the transfer of control of the related product or service. SaskCentral utilizes a practical expedient and expenses these costs as they are incurred when the expected recognition period is one year or less.

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 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.

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.

Rental revenue

SaskCentral collects rental revenue from tenants relating to the lease of office space. SaskCentral retains substantially all of the risks and benefits of ownership and therefore accounts for leases with its tenants as operating leases. Rental income is recognized systemically over the term of the lease. Any incentives offered in negotiating and arranging an operating lease is amortized over the term of the operating lease. Rental revenue is recorded based on the amount received or to be received in accordance with the operating lease.

(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.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Revenue recognition (continued)

(b) Concentra Bank revenue recognition (continued)

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.

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.

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

Policy applicable from January 1, 2019 under IFRS 16 – *Leases*

SaskCentral classifies a contract, or component of a contract, as a lease if it conveys a right to control the use of an identifiable asset for a period of time in exchange for consideration.

(a) As lessee

With the exception of certain short-term and low-value leases, SaskCentral recognizes a right-of-use asset and lease liability for all leases at commencement.

Lease liabilities are initially measured at the present value of the lease payments due over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, at SaskCentral's incremental borrowing rate. Lease payments included in the measurement of the lease liability include fixed contractual payments, variable contractual payments based upon a rate or index and any amounts payable with respect to purchase, extension and/or termination options when it is reasonably certain that SaskCentral will exercise the option. Subsequent to initial recognition, lease liabilities are measured at amortized cost using the effective interest method.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Leases (continued)

(a) As lessee (continued)

Right-of-use assets are initially measured at cost, which comprises the initial amount of the lease liability plus initial direct costs and estimated decommissioning costs, less any lease incentives received. Right-of-use assets are subsequently amortized on a straight-line basis over the term of the lease or the estimated useful life of the asset, whichever is shorter.

Right-of-use assets are recognized as part of SaskCentral's property, plant and equipment on the consolidated balance sheet, while lease liabilities are included in other liabilities.

(b) As lessor

At inception, SaskCentral classifies a lease which transfers substantially all of the risks and rewards incidental to ownership of the underlying asset as a finance lease. All other leases are classified as operating leases.

When assets are held subject to a finance lease, SaskCentral recognizes a finance lease asset included in loans receivable in the consolidated balance sheet representing its net investment in the lease. Interest income is recognized over the term of the lease using the implicit interest rate, which reflects a constant rate of return.

For operating leases, SaskCentral recognizes lease payments received as income on a straight-line basis over the term of the lease.

Policy applicable before January 1, 2019 under IAS 17 – *Leases* (IAS 17)

SaskCentral classifies a lease which transfer substantially all of the risks and rewards incidental to ownership as a finance lease. All other leases are classified as operating leases.

(a) As lessee

The leases entered into by SaskCentral are all classified as operating leases. The total payments made under operating leases are charged to non-interest expense in the consolidated statement of profit or loss on a straight-line basis over the term of the lease.

(b) As lessor

SaskCentral leases certain commercial equipment to customers which are classified as finance leases. When assets are held subject to a finance lease, SaskCentral recognizes a finance lease asset included in loans receivable in the consolidated balance sheet representing its net investment in the lease.

Interest income is recognized over the term of the lease using the implicit interest rate, which reflects a constant rate of return.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2.17 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.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Intangible assets (continued)

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 2019 or 2018.

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.

(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 lease receivables, allowances for credit losses, amortization of property, plant and equipment, accrued expenses, the effective interest method, and carry-forward amounts.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Taxation (continued)

(b) Deferred tax (continued)

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 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 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.

2.20 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.

(b) Short-term employee benefits

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

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

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Employee benefits (continued)

(c) Termination benefits

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

2.21 Provisions

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

2.22 Dividends

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

2.23 Goodwill

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

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

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

2.24 Assets under administration

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

2.25 Assets held for sale

Non-current non-financial assets (and disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. These assets meet the criteria for classification as held for sale if they are available for immediate sale in their present condition and their sale is considered highly probable to occur within one year.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 Assets held for sale (continued)

Non-current non-financial assets classified as held for sale are measured at the lower of their carrying amount and fair value (less costs to sell) in the consolidated balance sheet. Any subsequent write-down to fair value less costs to sell is recognized in the consolidated statement of income. Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative write-down, is also recognized in income, together with any realized gains or losses on disposal.

2.26 Comparatives

Except when a standard or interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information. Where retrospective application or restatement applies, comparative figures have been adjusted to conform to the changes in presentation in the current year except as follows:

- IFRS 16 – as permitted by the standard, SaskCentral has applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated (see note 3).

Certain amounts of the prior year have been reclassified within the consolidated financial statements to match the current year presentation. These changes had no impact to the previously reported net income.

2.27 New standards and interpretations not yet adopted

At December 31, 2019 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.

Interest rate benchmark reform

The IASB issued amendments to IFRS 9, IAS 39 - *Financial Instruments: Recognition and Measurement* and IFRS 7 - *Financial Instruments: Disclosures* on September 26, 2019, to amend certain requirements for hedge accounting in order to support the provision of useful information by entities during the period of uncertainty arising from the phase out of interest rate benchmarks (e.g. interbank offered rates – IBORs).

The amendments aim to provide relief for financial instruments qualifying for hedge accounting which are affected during the period of uncertainty leading up to contractual rate replacement. The amendments would no longer apply once uncertainties arising from IBOR reform are no longer present. The amendments require providing specific disclosures for the affected hedging relationships. The amendments are effective for SaskCentral from January 1, 2020. Early application is permitted. SaskCentral is currently assessing the impact and extent of disclosure requirements.

3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

IAS 12, *Income taxes*

The IASB issued amendments to IAS 12 mandatorily effective January 1, 2019. The amendments require an entity to recognize the income tax consequence of dividends in profit or loss, OCI or equity according to where the entity originally recognized the transactions that generated the distributable profit.

As a result of SaskCentral's assessment of this amendment, the reduction in income tax resulting from the payment of dividends is recognized in profit and loss, effective January 1, 2019. This is based on the conclusion that SaskCentral pays dividends on earnings generated in profit and loss. Prior to January 1, 2019 the reduction was recorded in equity.

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3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 16, *Leases*

SaskCentral adopted IFRS 16 effective January 1, 2019, which supersedes the previous IAS 17 Leases ("IAS 17") standard and the related interpretations.

IFRS 16 eliminates the operating and finance lease classifications for lessees with a single, on-balance sheet lease accounting model. As a result of this change, SaskCentral now recognizes all leases to which it is a lessee in the consolidated balance sheet as a lease liability with a corresponding right-of-use asset, subject to recognition exemptions for certain short-term and low-value leases. For lessors, IFRS 16 substantially carries forward the accounting requirements from IAS 17 and consequently has not impacted the accounting for leases in which SaskCentral acts as lessor.

SaskCentral has elected to use the modified retrospective approach for its transition to IFRS 16, which applies the requirements of the standard retrospectively from the date of adoption except as described below:

- Comparative periods have not been restated. Differences in the carrying value of assets and liabilities recorded upon transition are recognized in retained earnings as at January 1, 2019.
- Lease liabilities have been measured as of the transition date, rather than the commencement date of the lease, at an amount equal to the present value of the remaining lease payments, discounted using the incremental borrowing rate in effect at the transition date.
- Right-of-use assets have been measured as of the transition date, rather than the commencement date of the lease, at an amount equal to the recognized lease liabilities.

Upon transition to IFRS 16, SaskCentral has recognized lease liabilities and corresponding right-of-use assets of $655 as at January 1, 2019 with no impact to the previously reported retained earnings.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Critical judgments in applying accounting policies

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

Business model assessment

Classification and measurement of financial assets under IFRS 9 depends on the results of the solely payments of principal and interest, 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.

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(continued)*

Critical judgments in applying accounting policies (continued)

Allowance for credit losses

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-days past due and DBRS ratings. The assessment of significant increase in credit risk requires experienced credit 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.

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 84.02% (2018 - 84.02%) 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.

Significant influence over Celero Solutions

SaskCentral has significant influence over Celero Solutions by virtue of its 33.33% (2018– 33.33%) interest in Celero Solutions. SaskCentral has the right to appoint two out of six (33.33%) 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 33.33% of the voting power of Celero Solutions, management has concluded that SaskCentral has significant influence over Celero Solutions.

Control of CUVentures LP

CUVentures LP is a subsidiary of SaskCentral as a result of SaskCentral's 100% (2018– 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% (2018 - 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.

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(continued)*

Critical judgments in applying accounting policies (continued)

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% (2018 – 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 NEI, Credential Financial Inc. 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 (11.11%) 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* (IFRS 3) 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. 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.

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.

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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 (continued)

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.

Transfer of control of goods or services

Under IFRS 15, *Revenue from Contracts with Customers* (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.

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 and 16.

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.

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.

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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.

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, 2019 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.

Derecognized securitizations

SaskCentral assesses whether substantially all of the risks and rewards related to securitizations have been transferred and/or whether SaskCentral continues to control the transferred assets. Information about the criteria used in determining what securitization transactions qualify for derecognition are disclosed in note 13.

Litigation and other contingencies

SaskCentral determines the probability of a loss arising and reliably estimates the expenditures required to settle any current or pending claims.

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.

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5. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

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.

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, 2018.

Concentra Bank

Concentra Bank manages credit risk by:

- Operating in accordance with an approved business lending strategy, investment management strategy and identified target markets;
- Segregating business generation activities from credit risk oversight;
- Maintaining prudent credit granting criteria and entering into lending and investment transactions within SaskCentral'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 and reporting compliance with those limits to relevant internal stakeholders;
- Maintaining underwriting guidelines and procedures aligned to policy and risk appetite; and
- Complying with applicable regulatory expectations, regulations and guidelines.

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5. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Concentra Bank (continued)

Concentra Bank mitigates credit risk by taking collateral for funds advanced or other credit enhancements such as financial guarantees. Concentra Bank maintains policies and guidelines 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 follows a dual stream approval process for credit transactions, where the First Line of Defense (Retail and Commercial Banking) recommends a transaction and the Second Line of Defence (Credit Risk function within the Risk Management Group) concurs with the recommendation. Both a recommendation and concurrence must occur for the transaction to be approved. In addition, the Credit Risk Review function within the Risk Management Group 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.

For regulatory purposes, Concentra Bank measures credit risk under Basel III using the standardized approach. Under this approach, risk weights prescribed by the Office of the Superintendent of Financial Institutions (OSFI) are used to calculate risk-weighted assets for credit risk exposures. In measuring credit risk for internal capital adequacy assessment process (ICAAP) purposes, internal models are used to quantify capital required to cover credit risk exposures. In addition, internal capital is set aside for stress testing credit risk exposures under extreme but plausible conditions.

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). SaskCentral uses the most conservative rating from the rating agency data available. In the loans portfolio, SaskCentral places primary reliance on internal risk ratings and a comprehensive review of the credit worthiness of the borrower and the quality of the collateral underlying the loan. 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.

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5. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

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

	2019 $		
	Amount outstanding	**Undrawn commitments (1)**	**Total**
Cash and cash equivalents	**589,402**	**-**	**589,402**
Securities	**3,128,443**	**-**	**3,128,443**
Derivative assets	**17,816**	**-**	**17,816**
Loans	**7,612,903**	**962,123**	**8,575,026**
Investments in associates	**38,034**	**-**	**38,034**
Letters of credit and financial guarantees	**-**	**38,990**	**38,990**
Total exposure	**11,386,598**	**1,001,113**	**12,387,711**

(1) *Excludes origination commitment as they are not tied to specific borrowers and therefore do not represent a credit risk exposure. Refer to note 29 for more information.*

	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 commitments as they are not tied to specific borrowers and therefore do not represent a credit risk exposure. Refer to note 29 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:

		2019 $			2018 $
	Stage 1	Stage 2	Stage 3	Total	Total
Loans at amortized cost					
Low risk	4,548,877	-	-	4,548,877	5,019,893
Standard monitoring	2,045,800	173,195	-	2,218,995	2,106,325
Special monitoring	-	46,108	-	46,108	62,184
Default	-	-	49,047	49,047	30,313
Total exposure	6,594,677	219,303	49,047	6,863,027	7,218,715
Allowance for credit losses	(8,090)	(7,698)	(10,963)	(26,751)	(21,617)
Loans at FVTOCI	-	-	-	-	
Standard monitoring	723,788	17,912	-	741,700	1,103,581
Special monitoring	-	5,555	-	5,555	6,134
Default	-	-	2,621	2,621	4,789
Total exposure	723,788	23,467	2,621	749,876	1,114,504
Impairment reserve(3)	(1,062)	(397)	(372)	(1,831)	(3,155)
Undrawn commitments and letters of credit (1)	-	-	-	-	
Low risk	688,313	-	-	688,313	711,351
Standard monitoring	311,060	1,740	-	312,800	297,047
Special monitoring	-	-	-	-	1,856
Default	-	-	-	-	378
Total exposure (2)	999,373	1,740	-	1,001,113	1,010,632
Allowance for credit losses	(699)	(25)	-	(724)	(815)
Securities at FVTOCI					
AAA/R1H	598,086	-	-	598,086	617,069
AA/R1M	74,690	-	-	74,690	73,920
A/R1L	218,461	-	-	218,461	261,636
BBB/R2H	26,367	-	-	26,367	15,477
BB/R2M	-	-	-	-	-
Unrated	4,425	-	-	4,425	4,331
Total exposure	922,029	-	-	922,029	972,433
Impairment reserve (3)	(127)	-	-	(127)	(194)
FVTPL securities					
AAA/R1H	814,786	-	-	814,786	765,993
AA/R1M	459,905	-	-	459,905	437,812
A/R1L	708,662	-	-	708,662	699,514
BBB/R2H	176,302	-	-	176,302	87,737
Unrated	39,759	-	-	39,759	25,159
Total exposure	2,199,414	-	-	2,199,414	2,016,215

(1) *Excludes origination commitments as they are not tied to specific borrowers and therefore do not represent a credit risk exposure. Refer to note 29 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) *Impairment reserves represent the accumulated ECLs which have been reclassified from OCI to net income since inception of the FVOCI debt instruments.*

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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, 2019 69.9% (2018 – 69.5%) 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 date the premium is refunded. These secured loans represented approximately 12.7% (2018 – 12.9%) of SaskCentral's consumer loans at December 31, 2019.

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, 2019 the cash reserve had a balance of $4,760 (2018 - $3,524) providing credit enhancement to $329,207 (2018 - $172,688) of SaskCentral's consumer loans.

(c) Commercial mortgages and loans

Approximately 85.3% (2018 – 91.7%) 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 14.7% (2018 – 8.3%) 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.

	2019 $	2018 $
Agriculture, forestry, fishing & hunting	**128,515**	175,308
Automobile financing	**103,434**	57,300
Banking (Schedule 1)	**918,933**	848,475
Construction	**497,385**	519,974
Credit card issuing/financing	**25,063**	17,393
Diversified holdings	**5,089**	-
Health care and social assistance	**12,759**	20,010
Hospitality	**87,272**	118,799
Information	**61,783**	44,020
Insurance carriers and related activities	**997**	1,797
Local credit union	**649,022**	777,741
Manufacturing	**136,815**	154,433
Master asset vehicles	**179**	350
Mining & oil and gas extraction	**44,758**	18,471
Other non-depository (co-operatives)	**58,643**	77,805
Public administration (federal, provincial, and municipal government)	**1,749,749**	1,808,079
Real estate	**497,692**	649,419
Residential mortgages - conventional	**1,133**	1,095
Retail trade	**57,126**	12,428
Securities, commodity contracts and other FI's	**34,348**	3,034
Transportation and warehousing	**93,600**	83,739
Utilities	**94,201**	44,246
Wholesale trade	**4,527**	1,006
Other	**600,499**	593,824
Total Exposure	**5,863,522**	6,028,746

Counterparty Credit Risk

Counterparty credit risk is the risk that a counterparty to a derivative or FX spot transaction could default before the final settlement of the transaction.

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5. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Counterparty Credit Risk (continued)

In order to reduce counterparty credit risk exposure, SaskCentral uses, where possible, legally enforceable bi-lateral and multi-lateral netting agreements with counterparties. All over-the-counter derivatives are executed under industry standards agreements such as an International Swaps and Derivatives Association (ISDA) agreement (or equivalent). SaskCentral uses legally enforceable collateral arrangements, such as a credit support annex (CSA) where SaskCentral has chosen to adopt an exchange of variation margin.

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, 2018.

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 and foreign exchange risk;
- 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 reporting with those limits to relevant internal stakeholders; and
- Complying with applicable regulatory expectations, regulations and guidelines.

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5. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Concentra Bank (continued)

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

Concentra Bank does not have a trading book and therefore market risk is limited to the banking book only.

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.

The short term risk position of Concentra Bank is assessed by measuring the impact of an immediate 100 bp shock on net interest income. The long term risk position of Concentra Bank is measured by the impact of an immediate 100bp shock 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 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:

	2019		2018	
	Adjusted net interest income	**Economic value of equity**	**Adjusted net interest income**	**Economic value of equity**
Impact of:				
200 bp increase in rates	**42.34%**	**(0.88%)**	29.77%	(0.96%)
200 bp decrease in rates	**(31.78%)**	**1.30%**	(24.14%)	0.86%
Impact of:				
30% rate ramp increase	**6.98%**	**(0.01%)**	6.97%	(0.15%)
30% rate ramp decrease	**(1.40%)**	**0.02%**	(3.99%)	0.19%

The following represents the Concentra Bank market risk position:

	2019 $		2018 $	
	Adjusted net interest income	**Economic value of equity**	**Adjusted net interest income**	**Economic value of equity**
Impact of:				
100 bp increase in rates	**2,954**	**3,940**	2,759	15,568
100 bp decrease in rates [1]	**(2,939)**	**(4,120)**	(2,740)	(16,467)

[1] For 2019 and 2018, the rates have been adjusted to zero where effective rates at December 31 were less than zero after 100 bp decrease in rates.

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5. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

(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 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%.

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:

	2019 $		2018 $	
	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	**9,231**	**(2,632)**	7,901	(2,607)
200 bp decrease in rates	**4,424**	**2,529**	4,619	2,504

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 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 CUDGC Standards of Sound Business Practice – Liquidity Adequacy Requirements (SSBP-LAR) This SSBP does not apply to SaskCentral; however, SaskCentral has incorporated the LAR principles in the LCR.

	2019		2018	
	System-wide LCR	**Stand-alone LCR**	**System-wide LCR**	**Stand-alone LCR**
Policy limit	**120%**	**110%**	120%	110%
Actual	**278%**	**163%**	241%	180%

SaskCentral also evaluates liquidity quality of investments using the liquidity score. The liquidity score is an internal rating system originally 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 3.4 at December 31, 2019 (2018 – 3.5).

SaskCentral's liquidity risk objectives and methodologies have not changed materially from December 31, 2018.

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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 liquidity and funding 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 reporting compliance with those limits to relevant internal stakeholders; 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 the OSFI prescribed LCR which is based on a thirty-day liquidity stress scenario, with assumptions defined in the Liquidity Adequacy Requirements (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 reductions 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 a minimum Net Cumulative Cash Flow that is used to identify potential cash flow shortfalls at different points over a 12-month horizon.

Throughout 2019 and 2018, Concentra Bank has been in compliance with the OSFI prescribed LAR 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.

2019 $	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	178	357,826	172,567	-	-	-	530,571
Securitization liabilities	-	3,978	834,028	2,706,289	-	-	3,544,295
Total exposure	178	361,804	1,006,595	2,706,289	-	-	4,074,866

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

Offsetting financial assets and liabilities

Certain financial assets and financial liabilities are subject to enforceable master netting agreements or similar arrangements. 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.

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5. FINANCIAL RISK MANAGEMENT (continued)

Offsetting financial assets and liabilities (continued)

The following table summarizes the financial assets and liabilities subject to master netting arrangements or similar arrangements and the potential impact of these arrangements on the consolidated balance sheet:

2019
$

	Gross amounts of recognized financial instruments	Gross amounts of recognized financial instruments set off in the balance sheet	Net amounts of financial instruments presented in the balance sheet	Related amounts not set off in the balance sheet: Impact of master netting agreements or similar agreements [(1)]	Related amounts not set off in the balance sheet: Collateral received/ pledged [(2)]	Net amount [(3)]
Financial assets						
Derivative assets	**20,578**	-	**20,578**	**(8,127)**	**(3,030)**	**9,421**
Financial liabilities						
Derivative liabilities	**20,855**	-	**20,855**	**(8,127)**	-	**12,728**
Repurchase payable	**140,344**	-	**140,344**	-	**(139,966)**	**378**
Total financial liabilities	**161,199**	-	**161,199**	**(8,127)**	**(139,966)**	**13,106**

(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.

2018
$

	Gross amounts of recognized financial instruments	Gross amounts of recognized financial instruments set off in the balance sheet	Net amounts of financial instruments presented in the balance sheet	Related amounts not set off in the balance sheet: Impact of master netting agreements or similar agreements [(1)]	Related amounts not set off in the balance sheet: Collateral received/ pledged [(2)]	Net amount [(3)]
Financial assets						
Derivative assets	23,542	-	23,542	(12,342)	-	11,200
Financial liabilities						
Derivative liabilities	24,080	-	24,080	(12,342)	(675)	11,063
Repurchase payable	181,717	-	181,717	-	(181,190)	527
Total financial liabilities	205,797	-	205,797	(12,342)	(181,865)	11,590

(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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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 2019 $	Fair value as at 2018 $	Fair value hierarchy	Valuation technique(s) and key input(s)
Financial assets					
Government	FVTOCI	**733,057**	808,896	Level 2	Market comparable prices using quoted bid prices obtained from Bloomberg, or dealer quoted prices where applicable.
	Designated FVTPL	**1,332,457**	1,265,866	Level 2	
Corporate					
Corporate debt	FVTOCI	**54,680**	51,721	Level 2	Market comparable prices using quoted bid prices obtained from Bloomberg, or dealer quoted prices where applicable.
	FVTPL and designated FVTPL	**557,144**	322,512	Level 2	
Asset-backed securities	FVTOCI	**7,402**	-	Level 2	Market comparable prices using quoted bid prices obtained from Bloomberg, or dealer quoted prices where applicable.
Chartered banks	FVTOCI	**114,553**	99,810	Level 2	Market comparable prices using quoted bid prices obtained from Bloomberg, or dealer quoted prices where applicable.
	FVTPL and designated FVTPL	**275,236**	395,343	Level 2	
Co-operatives (1)	FVTOCI	**10,096**	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%.
	FVTPL	**-**	17	Level 2	Market comparable prices using quoted bid prices obtained from Bloomberg, or dealer quoted prices where applicable.
MAV	FVTPL	**179**	350	Level 2	Market comparable prices using dealer quoted prices.
Derivative assets					
Index-linked term deposits	FVTPL	**8,556**	5,594	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.
Interest rate swaps	FVTPL	**10,042**	15,976	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.

(1) Certain co-operative securities with a carrying value at December 31, 2019 of $26,147 (2018 - $24,793) 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 2019 $	Fair value as at 2018 $	Fair value hierarchy	Valuation technique(s) and key input(s)
Financial assets (continued)					
Derivative assets (continued)					
Forward rate swaps	FVTPL	**1,645**	973	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.
Foreign exchange contracts	FVTPL	**335**	999	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.
Loans	FVTOCI	**748,574**	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. The credit risk adjustment ranges from 2.30% to 3.56% with a change in fair value ranging from $1,680 to ($3,086).
Financial liabilities					
Deposits	Designated FVTPL	**2,141,127**	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.
Derivative liabilities					
Index-linked term deposits	FVTPL	**8,556**	5,594	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.
Interest rate swaps	FVTPL	**11,512**	16,529	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.
Foreign exchange contracts	FVTPL	**331**	990	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.
Forward rate contracts	FVTPL	**456**	967	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.

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

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, 2019:

	2019 $	2018 $
Level 3, beginning of year	**1,112,530**	28,665
Impact of adopting IFRS 9	-	639,762
Realized (losses) gains in profit or loss	-	(1,211)
Unrealized gains in OCI	**1,378**	988
Purchases/issuances	**170,648**	871,120
Sales/settlements	**(535,982)**	(399,340)
Transfer (out) in of Level 3	-	(27,454)
Level 3, end of year	**748,574**	1,112,530
Total (losses) gains for the period included in profit or loss for assets held at the end of the reporting period	-	(1,211)

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

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

	Carrying value as at		Fair value as at			
	2019 $	2018 $	2019 $	2018 $	Fair value hierarchy	Valuation technique
Financial assets						
Loans	**27,895**	8,614	**27,892**	8,597	Level 2	Discounted cash flows based on current market rates of interest for similar lending.
	6,836,434	7,212,075	**6,795,537**	7,149,727	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	**6,908**	6,834	Level 2	Discounted cash flows based on current market rates of interest for similar lending.

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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) (continued)

	Carrying value as at 2019 $	Carrying value as at 2018 $	Fair value as at 2019 $	Fair value as at 2018 $	Fair value hierarchy	Valuation technique
Financial liabilities						
Deposits [1]	**4,466,253**	5,020,390	**4,478,776**	5,015,250	Level 2	Discounted cash flows based on current market rates of interest for similar maturities.
Loans and notes payable	**530,571**	375,626	**530,542**	375,612	Level 2	
Securitization liabilities	**3,544,295**	3,971,890	**3,528,942**	3,928,081	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.

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 three-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 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.

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7. CAPITAL MANAGEMENT (continued)

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

	2019 $	2018 $
Capital		
Tier 1 and Tier 2 regulatory capital	**574,878**	550,370
Less deductions:		
Substantial investments	**392,173**	372,550
Assets of little value	**7,504**	8,071
Total borrowing multiple capital	**175,201**	169,749
Borrowing multiple	**13.4:1**	13.5:1

Concentra Bank

Concentra Bank manages and monitors capital from several perspectives, including regulatory and ICAAP capital. 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 general allowances (eligible stage 1 and stage 2 allowances) less deductions as prescribed by OSFI. Total regulatory capital is defined as the sum of Tier 1 and Tier 2 regulatory capital.

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 limits for deposit-taking institutions. Currently OSFI limits 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 2019 and 2018, Concentra Bank has been in compliance with OSFI prescribed capital adequacy requirements.

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7. CAPITAL MANAGEMENT (continued)

	2019 $	2018 $
Capital		
Common Equity Tier 1 regulatory capital	**366,513**	346,147
Tier 1 regulatory capital	**477,500**	457,134
Total regulatory capital	**494,006**	472,015
Risk-weighted assets		
Credit risk	**2,555,408**	2,731,068
Market risk	**-**	-
Operational risk	**208,452**	195,810
Total risk-weighted assets	**2,763,860**	2,926,878
Capital ratios		
Common Equity Tier 1 regulatory capital to risk-weighted assets	**13.33%**	11.8%
Tier 1 regulatory capital to risk-weighted assets	**17.3%**	15.6%
Total regulatory capital to risk-weighted assets	**17.9%**	16.1%
Leverage ratio	**5.2%**	4.6%

Concentra Bank's subsidiary, Concentra Trust, is also required to meet these regulatory capital requirements. Throughout 2019 and 2018, Concentra Trust has been in compliance with OSFI's prescribed capital adequacy requirements.

	2019 $	2018 $
Capital		
Common Equity Tier 1 regulatory capital	**15,481**	14,589
Tier 1 regulatory capital	**15,481**	14,589
Total regulatory capital	**15,494**	14,598
Risk-weighted assets		
Credit risk	**4,715**	4,085
Market risk	**-**	-
Operational risk	**17,582**	16,198
Total risk-weighted assets	**22,297**	20,283
Capital ratios		
Common Equity Tier 1 regulatory capital to risk-weighted assets	**69.4%**	71.9%
Tier 1 regulatory capital to risk-weighted assets	**69.4%**	71.9%
Total regulatory capital to risk-weighted assets	**69.5%**	72.0%
Leverage ratio	**82.6%**	88.6%

8. CASH AND CASH EQUIVALENTS

	2019 $	2018 $
Cash and balances with Central 1	**2,847**	119,702
Cash and balances with banks	**392,474**	157,667
Cash equivalents	**194,081**	377,681
	589,402	655,050

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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 80% (2018 – 76%) 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:

	2019 $						
		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	1.71%	20,341	34,139	316,210	-	-	370,690
Amortized cost		20,334	34,127	317,459	-	-	371,920
Government – securitized							
Fair value	1.86%	112,955	91,543	157,869	-	-	362,367
Amortized cost		112,951	91,417	157,184	-	-	361,552
Corporate debt (2)							
Fair value	2.45%	14,989	22,147	17,544	-	-	54,680
Amortized cost		14,987	22,113	17,350	-	-	54,450
Chartered banks							
Fair value	2.35%	33,449	5,004	76,100	-	-	114,553
Amortized cost		33,454	4,990	75,388	-	-	113,832
Asset-Backed							
Fair value	2.01%	7,402	-	-	-	-	7,402
Amortized cost		7,403	-	-	-	-	7,403
Co-operatives (3)							
Fair value	2.13%	-	-	-	5,671	4,425	10,096
Amortized cost		-	-	-	5,500	944	6,444
Total FVTOCI fair value		189,136	152,833	567,723	5,671	4,425	919,788
Total FVTOCI amortized cost		189,129	152,647	567,381	5,500	944	915,601
Designated FVTPL							
Government							
Fair value	1.94%	300,095	275,252	722,422	34,688	-	1,332,457
Amortized cost		300,187	275,292	718,696	33,920	-	1,328,095
Corporate debt (2)							
Fair value	2.38%	43,913	184,711	316,700	-	-	545,324
Amortized cost		43,915	184,469	314,484	-	-	542,868
Chartered banks							
Fair value	1.93%	15,457	111,275	132,380	-	-	259,112
Amortized cost		15,462	111,324	132,355	-	-	259,141
Total designated FVTPL fair value		359,465	571,238	1,171,502	34,688	-	2,136,893
Total designated FVTPL amortized cost		359,564	571,085	1,165,535	33,920	-	2,130,104

(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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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9. SECURITIES (continued)

	2019 (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							
Corporate debt [2]							
Fair value		-	-	5,000	6,820	-	11,820
Amortized cost		-	-	5,000	6,699	-	11,699
Chartered banks							
Fair value	3.81%	-	-	-	1,613	14,511	16,124
Amortized cost		-	-	-	1,582	14,408	15,990
Co-operatives							
Fair value		-	-	-	-	26,147	26,147
Amortized cost		-	-	-	-	26,147	26,147
MAV							
Fair value		-	-	-	179	-	179
Total FVPTL fair value		-	-	5,000	8,612	40,658	54,270
Total FVTPL amortized cost		-	-	5,000	8,281	40,555	53,836
Amortized cost							
Central 1 subordinated debentures							
Amortized cost	2.18%	-	-	-	7,000	-	7,000
Total carrying value of securities							3,117,951
Accrued interest							10,492
Allowance for credit losses [note 12]							(7)
							3,128,436

[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)

		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*

Unrealized gains and losses on securities

	2019 $			
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
FVTOCI securities				
Government	371,920	216	(1,446)	370,690
Corporate	174,726	4,610	(7)	179,329
Asset-backed	7,403	-	(1)	7,402
Securitized portfolio	361,552	815	-	362,367
	915,601	5,641	(1,454)	919,788
Designated FVTPL securities				
Government	1,328,095	4,979	(617)	1,332,457
Corporate	802,009	3,062	(635)	804,436
	2,130,104	8,041	(1,252)	2,136,893
FVTPL securities				
Corporate	53,836	434	-	54,270
	53,836	434	-	54,270
	3,099,541	14,116	(2,706)	3,110,951

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9. SECURITIES (continued)

Unrealized gains and losses on securities (continued)

	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

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 $111 (2018 - $86) of principal and interest payments on the MAV notes held.

There were no credit impaired (Stage 3) securities in either 2019 or 2018.

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.

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.

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10. DERIVATIVE ASSETS AND LIABILITIES (continued)

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

	2019 $						
	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	-	384,913	63,162	-	448,075	2,297	3,954
	-	384,913	63,162	-	448,075	2,297	3,954
Designated in fair value hedges							
Interest rate swaps	-	-	10,000	5,500	15,500	43	185
	-	-	10,000	5,500	15,500	43	185
Designated in cash flow hedges							
Forward rate contracts	71,933	-	-	-	71,933	1,160	-
	71,933	-	-	-	71,933	1,160	-
As intermediary							
Interest rate swaps	180,000	292,236	776,064	62,725	1,311,025	7,702	7,373
Forward rate contracts	10,000	-	11,078	10,590	31,668	485	456
Foreign exchange contracts	11,427	23,522	-	-	34,949	335	331
Index-linked term deposits	10,977	17,037	51,416	-	79,430	8,556	8,556
	212,404	332,795	838,558	73,315	1,457,072	17,078	16,716
	284,337	717,708	911,720	78,815	1,992,580	20,578	20,855

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10. DERIVATIVE ASSETS AND LIABILITIES (continued)

	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

Amounts expected to be recovered or settled

	2019 $		2018 $	
	Asset	Liability	Asset	Liability
Within 12 months	**11,746**	**11,631**	16,932	16,438
After 12 months	**8,832**	**9,224**	6,610	7,642
	20,578	**20,855**	23,542	24,080

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 $599 (2018 - $1,096) 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*.

2019 $	Interest rate contracts	Foreign exchange contracts	Total
Notional amounts	**1,878,201**	**34,949**	**1,913,150**
Positive replacement cost	**11,687**	**335**	**12,022**
Potential credit risk exposure	**7,842**	**564**	**8,406**
Credit equivalent amount	**30,194**	**824**	**31,018**
Risk-weighted equivalent	**6,039**	**165**	**6,204**

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

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 and 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 as the ineffective portion of fair value hedges in gain on financial instruments in the consolidated statement of profit or loss.

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10. DERIVATIVE ASSETS AND LIABILITIES (continued)

SaskCentral is also exposed to interest rate risk through certain fixed rate deposits. 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 fixed rate deposits 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 fixed rate deposits is recorded as the ineffective portion of fair value hedges in gain on financial instruments in the statement of income.

	2019 $	2018 $
Cash flow hedges		
Effective portion – net gains (losses) recorded in OCI during the year	**804**	(227)
Reclassification of gains to profit or loss during the year	**(779)**	(985)
Fair value hedges		
Ineffective portion recorded in gain on financial instruments [note 27]	**8**	(5)
Reclassification of gains on hedged risk components from OCI to profit or loss	**144**	6
Unrealized losses on derivatives related to hedged risk components	**(138)**	(9)

11. LOANS

	2019 $		
	Gross carrying value	**Allowance for credit losses**	**Total**
Loans at amortized cost			
Residential mortgages [(1)]	**5,196,728**	**(2,988)**	**5,193,740**
Consumer loans	**526,545**	**(6,272)**	**520,273**
Commercial mortgages and loans (includes credit union loans)	**945,829**	**(15,971)**	**929,858**
Commercial leases	**182,296**	**(1,520)**	**180,776**
Loans at FVTOCI			
Residential mortgages	**748,574**	**-**	**748,574**
	7,599,972	**(26,751)**	**7,573,221**
Accrued interest			**12,931**
			7,586,152

[(1)] *Residential mortgages include $478 of property held for resale.*

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11. LOANS (continued)

	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.*

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

For residential mortgages, SaskCentral holds two separately identifiable sub-portfolios within which it both sells and holds a significant portion of newly originated assets. As the business model for these portfolios are 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 policy creates 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 sales occur prior to funding, SaskCentral does not 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 29]
- 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 and losses for SaskCentral's loans measured at fair value:

	2019 $			
Loans at FVTOCI	**Amortized cost**	**Unrealized gains**	**Unrealized losses**	**Fair value**
Residential mortgages	**747,987**	**1,954**	**(1,367)**	**748,574**

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

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11. LOANS (continued)

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

2019 $	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	3.04%	282,068	1,258,200	3,653,748	2,712	5,196,728
Consumer loans	8.03%	9,704	61,761	294,971	160,109	526,545
Commercial mortgages and loans (includes credit union loans)	4.53%	116,327	200,034	602,760	26,708	945,829
Commercial leases	4.56%	2,086	11,563	154,799	13,848	182,296
Loans at FVTOCI						
Residential mortgages	4.59%	50,004	524,229	174,341	-	748,574
		460,189	2,055,787	4,880,619	203,377	7,599,972
Accrued interest						12,931
Total gross carrying value						7,612,903

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)

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 insured and collection efforts are reasonably expected to result in full repayment:

	2019 $			
	1 – 29 days	30 – 89 days	90 days and greater	Total
Loans at amortized cost				
Residential mortgages	33,979	12,034	8,887	54,900
Consumer loans	2,382	2,220	-	4,602
Commercial mortgages and loans (includes credit union loans)	1,233	2,066	-	3,299
Commercial leases	3,150	1,424	-	4,574
Loans at FVTOCI				
Residential mortgages	16,772	5,629	-	22,401
	57,516	23,373	8,887	89,776

	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

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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:

2019 $	Gross impaired loans	Allowance for credit losses	Net
Loans at amortized cost			
Residential mortgages	1,919	(588)	1,331
Consumer loans	227	(195)	32
Commercial mortgages and loans (includes credit union loans)	43,801	(9,358)	34,443
Commercial leases	3,100	(822)	2,278
Loans at FVTOCI			
Residential mortgages[1]	2,621	-	2,621
	51,668	(10,963)	40,705

(1) For credit impaired loans measured at FVOCI, no separate allowance for credit losses is recognized in the consolidated balance sheet as their carrying value will already reflect the ECLs. Instead, lifetime ECLs of $372 have been reclassified from OCI to net income representing the loss allowance that would have otherwise been recognized had these instruments been measured at amortized.

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 (includes credit union loans)	27,205	(6,559)	20,646
Commercial leases	1,370	(263)	1,107
Loans at FVTOCI			
Residential mortgages [1]	4,789	-	4,789
	35,096	(7,534)	27,562

(1) For credit impaired loans measured at FVOCI, no separate allowance for credit losses is recognized in the consolidated balance sheet as their carrying value will already reflect the ECLs. Instead, lifetime ECLs of $718 have been reclassified from OCI to net income representing the loss allowance that would have otherwise been recognized had these instruments been measured at amortized.

There were no credit impaired (Stage 3) securities in either 2019 or 2018.

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11. LOANS (continued)

Commercial leases

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

	2019 $	2018 $
Minimum lease payments receivable:		
Not later than one year	**13,919**	13,210
Between one and five years	**167,518**	213,461
Later than five years	**16,788**	27,234
	198,225	253,905
Unearned finance income on commercial leases	**(15,929)**	(21,600)
Gross commercial leases receivable	**182,296**	232,305

12. ALLOWANCE AND PROVISION FOR CREDIT LOSSES

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

	2019 $	2018 $
Debt instruments at amortized cost		
Residential mortgages	**1,279**	336
Consumer loans	**7,184**	4,223
Commercial mortgage and loans (includes credit union loans)	**1,917**	(10,624)
Commercial leases	**451**	(230)
	10,831	(6,295)
Debt instruments at FVTOCI		
Residential mortgages	**460**	676
Securities	**(70)**	102
	390	778
Gross provision for credit (recoveries) losses	**11,221**	(5,517)
Impact of financial guarantees	**(4,321)**	(2,095)
Net provision for credit losses (recoveries)	**6,900**	(7,612)

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.

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12. ALLOWANCE AND PROVISION FOR CREDIT LOSSES (continued)

The following tables summarize the allowance for credit losses for each of the SaskCentral's loan portfolios and the changes to the allowance for credit losses for the SaskCentral's loans and undrawn commitments on a total portfolio basis:

	2019				2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Residential mortgages	1,798	602	588	2,988	1,446	147	436	2,029
Consumer loans	4,496	1,581	195	6,272	3,565	837	276	4,678
Commercial mortgages and loans	1,505	5,108	9,358	15,971	1,824	5,398	6,559	13,781
Commercial leases	291	407	822	1,520	473	393	263	1,129
	8,090	7,698	10,963	26,751	7,300	6,775	7,534	21,617

	2019 $			
	Stage 1	Stage 2	Stage 3	Total
Residential mortgages				
Balance, beginning of the year	1,446	147	436	2,029
Net provision for credit losses				
Re-measurement	507	144	1,262	1,913
Newly originated or purchased assets	469	-	-	469
Derecognized financial assets and maturities	(253)	(183)	(918)	(1,354)
Changes in models and methodologies	105	146	-	251
Transfer to (from):				
Stage 1	(493)	444	49	-
Stage 2	17	(115)	98	-
Stage 3	-	19	(19)	-
Total net provision for credit losses (recoveries)	352	455	472	1,279
Write-offs	-	-	(404)	(404)
Recoveries	-	-	84	84
Balance, end of year	1,798	602	588	2,988
Consumer loans				
Balance, beginning of the year	3,655	839	276	4,770
Net provision for credit losses				
Re-measurement	2,883	4,248	(957)	6,174
Newly originated or purchased assets	2,228	-	-	2,228
Derecognized financial assets and maturities	(611)	(692)	(289)	(1,592)
Changes in models and methodologies	839	(465)	-	374
Transfer to (from):				
Stage 1	(4,307)	1,022	3,285	-
Stage 2	14	(3,364)	3,350	-
Stage 3	-	9	(9)	-
Total net provision for credit losses (recoveries)	1,046	758	5,380	7,184
Write-offs	-	-	(7,689)	(7,689)
Recoveries	-	-	2,228	2,228
Total allowance for credit losses	4,701	1,597	195	6,493
Less: allowance for undrawn commitments	(205)	(16)	-	(221)
Balance, end of year	4,496	1,581	195	6,272

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12. ALLOWANCE AND PROVISION FOR CREDIT LOSSES (continued)

	2019 (continued) $			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Commercial mortgages and loans (including credit union loans)				
Balance, beginning of the year	2,475	5,470	6,559	14,504
Net provision for credit losses				
Re-measurement	1,111	111	1,983	3,205
Newly originated or purchased assets	604	-	-	604
Derecognized financial assets and maturities	(637)	(834)	-	(1,471)
Changes in models and methodologies	(55)	(366)	-	(421)
Transfer to (from):				
Stage 1	(1,829)	1,829	-	-
Stage 2	272	(366)	94	-
Stage 3	58	(727)	669	-
Total net provision for credit losses (recoveries)	(476)	(353)	2,746	1,917
Write-offs	-	-	(21)	(21)
Recoveries	-	-	74	74
Total allowance for credit losses	1,999	5,117	9,358	16,474
Less: allowance for undrawn commitments	(494)	(9)	-	(503)
Balance, end of year	1,505	5,108	9,358	15,971
Commercial leases				
Balance, beginning of the year	473	393	263	1,129
Net provision for credit losses				
Re-measurement	(40)	93	689	742
Newly originated or purchased assets	121	-	-	121
Derecognized financial assets and maturities	(45)	(116)	(89)	(250)
Changes in models and methodologies	(66)	(96)	-	(162)
Transfer to (from):				
Stage 1	(156)	154	2	-
Stage 2	4	(23)	19	-
Stage 3	-	2	(2)	-
Total net provision for credit losses (recoveries)	(182)	14	619	451
Write-offs	-	-	(314)	(314)
Recoveries	-	-	254	254
Balance, end of year	291	407	822	1,520
Total allowance for credit losses on loans				26,751

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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 loans:

	2018 $			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Residential mortgages				
Balance, beginning of the year	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	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	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	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

13. TRANSFER OF FINANCIAL ASSETS

Financial asset transfers not qualifying for derecognition

(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).

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13. TRANSFER OF FINANCIAL ASSETS (continued)

Financial asset transfers not qualifying for derecognition (continued)

(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.

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.

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13. TRANSFER OF FINANCIAL ASSETS (continued)

Financial asset transfers not qualifying for derecognition (continued)

(b) Asset securitizations (continued)

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.

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:

	2019 $		2018 $	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Securitized assets				
Cash reserve related to Multi-Seller Conduit	**4,255**	**4,255**	5,463	5,463
Securities – securitized portfolio [note 9]	**362,870**	**362,870**	344,290	344,290
Residential mortgages – securitized [note 11]	**3,500,254**	**3,477,063**	3,904,797	3,870,042
	3,867,379	**3,844,188**	4,254,550	4,219,795
Securitization liabilities				
Securitization obligations under the CMB program (1)	**1,526,705**	**1,513,666**	1,879,694	1,850,947
Securitization obligations under the NHA MBS program (2)	**1,932,773**	**1,931,191**	1,983,286	1,969,863
Securitization obligations to multi-seller conduit (3)	**84,817**	**84,469**	108,910	107,271
	3,544,295	**3,529,326**	3,971,890	3,928,081
Net position	**323,084**	**314,862**	282,660	291,714

(1) *Securitization obligations under the CMB program have a weighted average interest rate of 1.40% (2018 - 1.51%) 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 1.79% (2018 - 1.77%) 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, 2019, residential mortgages of $331,701 (2018 - $268,742) with a fair value of $332,703 (2018 - $268,203) were assigned to NHA MBS certificates and retained by SaskCentral. These unsold NHA MBS certificates are included in loans on the consolidated balance sheet.

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13. TRANSFER OF FINANCIAL ASSETS (continued)

Derecognized financial asset transfers

(a) Loan sales and syndications

SaskCentral sells co-ownership interests from selected portfolios of on-balance sheet loans and syndicates certain commercial loan commitments 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.

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

	2019 $		
	Consumer loans and residential mortgages	**Commercial mortgages and loans**	**Total mortgages and loans**
Sales/syndication activity			
Notional amount of undrawn commitments syndicated during the year	-	**112,945**	**112,945**
Carrying value of loans sold and derecognized during the year	**335,297**	-	**335,297**
Gain on loans sold and derecognized during the year	**1,665**	-	**1,665**
Continuing involvement			
Outstanding principal balance of derecognized loans subject to servicing arrangements at year end	**208,094**	**844,495**	**1,052,589**
Cumulative income earned on derecognized loans during the year(1)	**1,023**	**943**	**1,966**

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

	2018 $		
	Consumer loans and residential mortgages	**Commercial mortgages and loans**	**Total mortgages and loans**
Sales/syndication activity			
Notional amount of undrawn commitments syndicated during the year	-	254,364	254,364
Carrying value of loans sold and derecognized during the year	145,477	39,000	184,477
Gain on loans sold and derecognized during the year	750	-	750
Continuing involvement			
Outstanding principal balance of derecognized loans subject to servicing arrangements at year end	208,962	1,022,431	1,231,393
Cumulative income earned on derecognized loans during the year(2)	770	913	1,683

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

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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 by 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:

	2019 $	2018 $
Securitization activity		
Carrying value of underlying mortgages derecognized in year	**620,660**	771,914
Gain on sale of mortgages during the year	**3,945**	4,342
Continuing involvement		
Carrying value of deferred installments receivable [1]	**160**	431
Carrying value of retained interests	**76,126**	60,444
Total other securitization assets	**76,286**	60,875
Carrying value of servicing liabilities [note 21]	**12,360**	10,022
Outstanding principal balance of derecognized mortgages at year end	**2,259,239**	1,692,503
Cumulative income earned on derecognized mortgages during the year	**1,243**	1,108

[1] *The effective rate of outstanding deferred installments is 1.25% (2018 - 1.25%).*

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13. TRANSFER OF FINANCIAL ASSETS (continued)

Derecognized financial asset transfers (continued)

(b) Asset securitizations (continued)

The following table provides the expected undiscounted cash flows payable to the MBS holders on SaskCentral's securitization activities and transfers that are derecognized in their entirety:

	$
2020	**62,158**
2021	**82,517**
2022	**59,625**
2023	**95,420**
2024	**255,991**
Thereafter	**1,703,528**
	2,259,239

14. INVESTMENTS IN ASSOCIATES

Celero Solutions

At December 31, 2019, SaskCentral has a 33.33% (2018 – 33.33%) 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, 2019 SaskCentral has a 10.92% (2018 – 10.92%) 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 was recorded in 2018 in (loss) gain on financial instruments in the separate statement of profit or loss.

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14. INVESTMENTS IN ASSOCIATES (continued)

SEF JV

At December 31, 2019, SaskCentral has a 45.45% (2018 – 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 28.

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

	2019 $					
	Assets	**Liabilities**	**Revenue**	**Profit (loss)**	**Other comprehensive income**	**Total comprehensive income (loss)**
Celero Solutions	**58,793**	**38,390**	**65,727**	**8,019**	**-**	**8,019**
CUC Wealth	**122,804**	**8,245**	**18,208**	**16,287**	**412**	**16,699**
SEF JV	**625**	**95**	**4**	**(4)**	**-**	**(4)**
	182,222	**46,730**	**83,939**	**24,302**	**412**	**24,714**

	2018 $					
	Assets	**Liabilities**	**Revenue**	**Profit**	**Other comprehensive loss**	**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)

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

	2019 $		
	Celero Solutions	**CUC Wealth**	**SEF JV**
Net assets of the associate	20,403	114,559	530
Proportion of SaskCentral's ownership interest	33.33%	10.92%	45.45%
	6,801	12,510	241
Fair value differential upon acquisition	-	18,530	-
Amortization of fair value differential	-	(925)	-
Other adjustments	20	857	-
Carrying amount of SaskCentral's interest in associates	6,821	30,972	241

	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

SaskCentral received the following distributions from its investments in associates:

	2019 $	2018 $
Celero Solutions	1,317	644
CUC Wealth	26	-
SEF JV	-	1,049
	1,343	1,693

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15. PROPERTY, PLANT AND EQUIPMENT

2019
$

	Land	Building	Furniture and equipment	Right of use asset	Total
Cost					
Balance as at January 1	1,376	34,343	4,844	-	40,563
Impact of adopting IFRS 16 [note 3]	-	-	-	655	655
Additions	-	200	188	-	388
Disposals	-	(5)	(275)	-	(280)
Ending balance as at December 31	1,376	34,538	4,757	655	41,326
Accumulated depreciation					
Balance as at January 1	-	10,379	3,748	-	14,127
Depreciation charges	-	1,188	424	201	1,813
Disposals	-	(5)	(248)	-	(253)
Ending balance as at December 31	-	11,562	3,924	201	15,687
Carrying value as at December 31	1,376	22,976	833	454	25,639

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

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16. INVESTMENT PROPERTY

Investment property consists of the portion of the office building not occupied by SaskCentral. SaskCentral uses the cost model to account for its investment properties.

Details of SaskCentral's investment property are as follows:

	2019 $	2018 $
Cost		
Balance as at January 1	**8,370**	23,770
Additions	**-**	1,564
Transfer to held for sale [note 32]	**-**	(16,964)
Ending balance as at December 31	**8,370**	8,370
Accumulated depreciation		
Balance as at January 1	**1,943**	2,183
Depreciation charges	**137**	564
Reclassification of accumulated impairment to assets held for sale [note 32]	-	(804)
Ending balance as at December 31	**2,080**	1,943
Carrying value as at December 31	**6,290**	6,427

Regina commercial office building

The fair value of SaskCentral's Regina investment property at December 31, 2019 is $18,881 (2018 - $19,384). 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	**2019**	**2018**
Rent per square foot (in actual Canadian dollars)	$11 - $17	$11 - $18
Parking rate per month (in actual Canadian dollars)	$195.94	$198.55
Vacancy rate	8.44%	9.49%
Capitalization rate	7.5%	7.5%

In 2019, the investment property generated rental income of $2,429 (2018 - $2,453). Direct operating expenses recognized in the consolidated statement of profit or loss were $1,232 (2018 - $1,115).

Ottawa commercial office building

In November 2018, SaskCentral entered into an agreement with a third party to dispose of its Ottawa investment property along with the associated assets and liabilities. The Ottawa investment property was held as a consequence of SaskCentral enforcing its security interest over certain commercial mortgages. Consequently, the affected assets and liabilities were reclassified and presented separately in the consolidated balance sheet as held for sale. Refer to note 32 for further details on the disposal of the Ottawa investment property in 2019.

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17. INTANGIBLE ASSETS

2019 $	Computer software	Intangible assets under development	Total
Cost			
Balance as at January 1	6,300	1,218	7,518
Additions	1,702	3,174	4,876
Disposals	(111)	(1,834)	(1,945)
Ending balance as at December 31	7,891	2,558	10,449
Accumulated amortization			
Balance as at January 1	4,646	-	4,646
Amortization charges	692	-	692
Disposals	(111)	-	(111)
Ending balance as at December 31	5,227	-	5,227
Carrying value as at December 31	2,664	2,558	5,222

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

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18. INCOME TAXES

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

	2019 $	2018 $
Current income tax expense		
Current tax on income for current year	**14,333**	15,047
Current tax from adjustments for prior years	**230**	297
	14,563	15,344
Deferred income tax (recovery) expense		
Origination and reversal of temporary differences	**(3,221)**	2,937
Deferred tax from adjustments for prior years	**560**	(296)
Impact of tax rate changes	**8**	1
	(2,653)	2,642
	11,910	17,986

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

	2019 $	2018 $
Current income tax expense (recovery)		
Net unrealized gains on FVTOCI securities	**1,270**	844
Reclassification of gains on FVTOCI securities to profit or loss	**(112)**	(253)
Reclassification of impairment (recoveries) losses on FVTOCI securities to profit or loss	**(23)**	32
Net unrealized gains on FVTOCI loans	**370**	267
Reclassification of gains on FVTOCI loans to profit or loss	**(449)**	(205)
Reclassification of impairment losses on FVTOCI loans to profit or loss	**71**	95
Net gains (losses) on derivatives designated as cash flow hedges	**216**	(61)
Reclassification of gains on derivatives designated as cash flow hedges to profit or loss	**(210)**	(266)
	1,133	453
Deferred income tax expense (recovery)		
Net unrealized gains (losses) on FVTOCI securities	**274**	(152)
Reclassification of (losses) gains on FVTOCI securities to profit or loss	**(6)**	31
Own credit risk reserve	**477**	(2,233)
	745	(2,354)
	1,878	(1,901)

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

	2019 $	2018 $
Reduction in income taxes due to payment of dividends		
Deferred income tax recovery	-	(8,262)
	-	(8,262)

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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 profit and loss. Prior to January 1, 2019 the reduction was recorded in retained earnings. For further details on the amendment of IAS 12, refer to note 3.

Total income tax reported in the consolidated financial statements:

	2019 $	2018 $
Income tax expense	**13,788**	7,823

Reconciliation of income tax expense from continuing operations:

	2019 $	2018 $
Combined federal and provincial income tax rate applied to income from operations (2019 – 27%; 2018 – 27%)	**15,476**	17,148
Income tax expense adjusted for the effect of:		
Impact of change in tax rates	**8**	166
Non-taxable dividend income	**(136)**	(144)
Expenses not deductible for tax purposes	**147**	194
Adjustments related to prior periods	**294**	963
Reduction in income tax due to payment of dividends	**(2,902)**	-
Amounts taxed at other than general income tax rate	**(317)**	(27)
Other	**(660)**	(314)
	11,910	17,986

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 21% (2018 - 21%) for SaskCentral and 27% (2018 - 27%) for Concentra Bank. The movement in deferred income tax asset (liability) is as follows:

	2019 $	2018 $
Balance, beginning of year	**7,958**	1,521
Impact of adopting IFRS 9	-	(1,539)
Recognized in profit or loss	**2,653**	(2,642)
Recognized in OCI:		
FVTOCI securities:		
Fair value measurement	**(274)**	152
Transfer to profit or loss	**6**	(31)
Own credit risk reserve	**(477)**	2,233
Recognized in retained earnings	-	8,262
Other adjustments	**1**	2
Balance, end of year	**9,867**	7,958

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18. INCOME TAXES (continued)

The components of deferred income taxes are as follows:

	2019 $	2018 $
Deferred income tax assets		
Non capital loss carryforward	**11,911**	11,956
Loans	**14,343**	12,808
Deposits	**868**	2,616
Accounts payable and deferred revenue	**120**	(284)
Losses not yet deductible for tax purposes	**90**	110
Other	**502**	930
	27,834	28,136
Deferred income tax liabilities		
Securities	**(4,235)**	(3,737)
Securitization liabilities	**(10,923)**	(13,888)
Property, plant and equipment	**(2,359)**	(2,532)
Other	**(450)**	(21)
	(17,967)	(20,178)
Net deferred income tax asset (liability)	**9,867**	7,958

Net deferred income taxes are anticipated to be realized as follows:

	2019 $	2018 $
Net deferred income taxes recoverable (payable):		
Within 12 months	**1,065**	(1,536)
After more than 12 months	**8,802**	9,494
Net deferred income tax asset (liability)	**9,867**	7,958

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 $44,114 (2018 - $44,281) which are available to offset future taxable income. The balance of these loss carryforwards will expire in the years 2030 ($6,702), 2032 ($1,447), 2037 ($17,958) and 2038 ($18,007). The benefit of the tax losses has been recognized in SaskCentral's financial statements as realization of the related tax benefit is probable.

19. DEPOSITS

Provincial Liquidity Program

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

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19. DEPOSITS (continued)

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

2019
$

	Effective rate (1)	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
Amortized cost								
Capital market deposits	2.57%	-	-	149,931	-	-	-	149,931
Commercial deposits	1.77%	121,111	2,078	87,460	10,214	-	-	220,863
Consumer deposits	1.74%	489,204	270,465	225,621	130,688	-	-	1,115,978
Personal deposits	2.54%	96,874	144,376	932,468	1,761,674	-	-	2,935,392
		707,189	416,919	1,395,480	1,902,576	-	-	4,422,164
Designated at FVTPL								
Provincial liquidity program (2)	2.00%	-	159,580	374,948	849,330	-	757,269	2,141,127
		707,189	576,499	1,770,428	2,751,906	-	757,269	6,563,291
Accrued interest								44,089
								6,607,380

(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, 2019 is equal to $2,135,643 resulting in cumulative unrealized losses on these deposits of $5,483.*

2018
$

	Effective rate (1)	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
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.*

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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 (2018 – twelve months) and have a weighted average effective interest rate of 1.83% (2018 – 1.93%).

Lines of credit

SaskCentral has a credit facility with Central 1 for $100,000 (2018 - $100,000) for which SaskCentral has pledged securities with the Bank of Canada to support the group clearing agreement (note 29). 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 (2018 - $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% (2018 – banker's acceptance rate plus 0.45%).

SaskCentral also has a secured credit facility with a major Schedule 1 Canadian bank for $500,000 (2018 - $500,000). The facility bears interest at the banker's acceptance rate plus 0.50% (2018 - 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 (2018 - $600,000) under a commercial paper and the Bearer Deposit Note (BDN) program. Outstanding notes payable matures within twelve months (2018 – twelve months).

	Loans and notes payable		Collateral			
			Securities pledged			
			Fair value		Carrying value	
	2019	2018	2019	2018	2019	2018
	$	$	$	$	$	$
Repurchase payable	**140,344**	181,717	**139,966**	181,190	**139,901**	181,024
Lines of credit	**37,825**	141	**179,717**	257,545	**176,855**	259,015
Notes payable	**352,402**	193,768	-	-	-	-
	530,571	375,626	**319,683**	438,735	**316,756**	440,039

21. OTHER LIABILITIES

	2019 $	2018 $
Servicing liabilities [note 13]	**12,360**	10,022
Deferred revenue	**134**	128
Allowance for undrawn commitments [note 12]	**724**	815
Lease liabilities [note 3]	**461**	N/A
	13,679	10,965

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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 a minimum of 0.60% and a maximum of 1% of their previous year's assets. During 2019, SaskCentral repatriated $608 of Class A membership shares as a result of credit unions holding more than the maximum 1% of their previous year assets.

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 except in circumstances where a representative vote is requested, in which case voting is conducted on a representative basis using a formula calculated by the Board. 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, 2019, 16,542,424 Class A membership shares (2018 – membership shares of 16,283,238) 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 2019, dividends of $15,260 (2018 - $35,112) were declared, as approved by the Board. Of the amount recognized in 2019, on December 11, 2019, the Board approved payment of a dividend of $1,128 to be paid to credit unions on January 17, 2020.

24. NET INTEREST INCOME

	2019 $	2018 $
Interest income		
Financial assets measured at amortized cost	**232,642**	197,837
Financial assets measured at FVTOCI	**67,267**	72,395
Financial assets measured at FVTPL	**968**	947
Financial assets designated at FVTPL	**43,293**	35,847
	344,170	307,026
Interest expense		
Financial liabilities measured at amortized cost	**198,312**	172,033
Financial liabilities designated at FVTPL	**42,134**	34,084
	240,446	206,117
Net interest income	**103,724**	100,909

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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.

	2019 $	2018 $
Dues		
Services transferred over time	**2,276**	2,791
Fee for service revenue		
Services transferred at a point in time		
Deposit and lending education	**405**	344
Clearing and settlement	**12,978**	12,426
Estate fees	**1,469**	1,137
Banking fees	**1,587**	1,528
	16,439	15,435
Services transferred over time		
Liquidity management assessment	**6,433**	5,000
Consulting	**5,322**	4,963
Management oversight	**1,433**	1,772
Syndication and servicing fees	**5,331**	5,284
Professional fees	**1,304**	1,089
Trust fees	**7,968**	7,228
Other revenue		
Tenant revenue	**4,130**	4,200
Parking revenue	**259**	264
Foreign exchange revenue	**18**	130
Miscellaneous revenue	**7**	52
	32,205	29,982
	48,644	45,417

26. SALARY AND EMPLOYEE BENEFITS

SaskCentral contributes annually to a defined contribution pension plan for employees. During the year, SaskCentral contributed $2,216 (2018 - $2,096) 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. GAIN ON FINANCIAL INSTRUMENTS

	2019 $	2018 $
Realized gains arising on financial assets measured as at FVTOCI	**2,133**	1,662
Unrealized and realized gains (losses) arising on financial assets measured at FVTPL	**1,439**	(1,546)
Unrealized and realized gains arising on financial assets designated as at FVTPL	**12,484**	263
Unrealized losses arising on financial liabilities designated as at FVTPL	**(11,598)**	(10,329)
Realized gains on loans at amortized cost	**163**	308
Gains on derecognized securitizations	**4,139**	4,536
Reclassification of net change in fair value on financial liabilities designated as at FVTPL from profit or loss to OCI (own credit risk reserve)	**(1,767)**	8,270
Unrealized and realized losses on derivatives	**(733)**	(52)
Ineffective portion of fair value hedges	**8**	(5)
	6,268	3,107

28. 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.

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:

	2019 $	2018 $
Celero Solutions		
Loan receivable from (amount drawn on line of credit)	**2,261**	2,711
Due from included in trade and other receivables	**97**	166
Due to included in trade and other payables	**1,589**	1,520
Interest received from	**107**	98
Fee for service revenue received from	**1,373**	1,123
Technology services paid to	**15,694**	14,737
Sale of line of business to [1]	-	200

[1] During 2018, CUPS sold the Doxim line of business to Celero Solutions for proceeds and gain of $400. SaskCentral's portion of the gain was $200.

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28. RELATED PARTY TRANSACTIONS (continued)

Key management compensation

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

	2019 $	2018 $
Directors		
Salaries and other short-term employee benefits	**864**	646
Post-employment and other long term benefits	**7**	6
	871	652
Key management personnel		
Salaries and other short-term employee benefits	**8,544**	8,113
Post-employment and other long term benefits	**871**	853
Termination benefits	**228**	760
	9,643	9,726
	10,514	10,378

29. 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.

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29. COMMITMENTS (continued)

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

	2019 $	2018 $
Lines of credit and loan commitments		
Loans at amortized cost		
Original term to maturity of one year or less	**691,335**	753,942
Original term to maturity of more than one year	**207,038**	187,635
Loans at FVTPL		
Original term to maturity of more than one year	**63,750**	20,500
	962,123	962,077
Letters of credit and guarantees		
Original term to maturity of one year or less	**32,031**	38,055
Original term to maturity of more than one year	**6,959**	10,500
	38,990	48,555
Origination commitments	**8,500**	8,500
	1,009,613	1,019,132

Contractual commitments

As of December 31, 2019, 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 $8,636 (2018 – $12,537). Actual amounts incurred may differ from the estimates calculated.

	2019 $	2018 $
CRI Canada – Data Services	**862**	1,382
Jack Henry & Associates – ProfitStars	**49**	46
Hyland Software - ECM Solution	**207**	300
SaskTel – Telecommunication Services	**3,495**	4,975
SaskTel – Technology Management	**72**	180
Celero Solutions – Support Services	**1,834**	3,596
Celero Solutions – Technology Management	**365**	1,042
WBM – Technology Management	**6**	-
Everlink – Card Issuance Services	**307**	401
Everlink – Risk Management Services	**342**	483
Brinks – Amoured Tranportation	**1,010**	-
Central 1 – Risk Management Services	**87**	132
	8,636	12,537

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29. COMMITMENTS (continued)

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. The established legal provisions represent SaskCentral's 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.

30. SUBSIDIARIES

CUVentures LP

SaskCentral owns 100% (2018 – 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.

Concentra Bank

SaskCentral owns 84.02% (2018 – 84.02%) 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:

	2019 $	
	CUVentures LP	**Concentra Bank**
Assets	241	8,944,702
Liabilities	-	8,442,814
Revenue	(2)	321,908
Profit (loss)	(2)	30,082
Other comprehensive income	-	3,079
Total comprehensive income (loss)	(2)	33,161

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30. SUBSIDIARIES (continued)

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

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

	2019 $	2018 $
Balance at beginning of year	**174,407**	170,675
Impact of adopting IFRS 9	**-**	(1,447)
Comprehensive income attributable to non-controlling interest for the year	**10,015**	11,142
Dividends	**(5,963)**	(5,963)
Balance at end of year	**178,459**	174,407

31. 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.

In December 2019, SaskCentral, Credit Union Central Alberta Limited (Alberta Central), and Credit Union Central of Manitoba (Manitoba Central) (the prairie centrals) received requisite board approvals and executed agreements with IBM Canada Ltd. (IBM) to outsource certain payments processing capabilities currently performed by CUPS. The prairie centrals will administer the IBM contracts and the current payments processing capabilities through a new three-way joint venture structure commencing in 2020, with each prairie central having a one-third interest. SaskCentral is currently assessing the impact on its financial reporting and disclosure for the fiscal year ending December 31, 2020. SaskCentral will be liable in proportion to its ownership interest in the joint venture for the joint venture's covenants and obligations.

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32. ASSETS AND LIABILITIES HELD FOR SALE

	2019 $	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 were 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 2019, the investment property generated rental income of $669 (2018 - $2,555). Direct operating expenses recognized in the consolidated statement of profit or loss were $528 (2018 - $2,146).

Completion of the sale was originally expected to occur in January 2019, however the closing date was delayed until April 24, 2019. The sale resulted in a gain of $2,986 recognized in the consolidated statement of profit and loss.

33. SUBSEQUENT EVENT

In January 2020, SaskCentral entered into negotiations to sell a sub-portfolio of the retail loans portfolio with a carrying value at December 31, 2019 of $67,800. The agreements have yet to be signed and the transaction still has to be approved by the counterparty's governance committee. Due to the early stage of the transaction, an estimate of the financial effect of this transaction cannot be made reliably, however the anticipated gain will approximate the foregone net interest income had SaskCentral held and collected the loans remaining contractual payments.

SASKCENTRAL®
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