Concentra®

CONCENTRA BANK

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying Consolidated Financial Statements of Concentra Bank ("Concentra") were prepared by management who is responsible for the integrity and fairness of the information presented and for ensuring that all the information in the Management's Discussion and Analysis is consistent with the Consolidated Financial Statements. This responsibility includes the selection of appropriate accounting policies and making objective judgements and estimates in accordance with International Financial Reporting Standards, in accordance with the requirements of the *Bank Act (Canada)*, and the related rules and regulations issued by the Office of the Superintendent of Financial Institutions Canada.

In discharging this responsibility for the integrity and fairness of the Consolidated Financial Statements and for the accounting systems from which they are derived, management maintains the necessary systems of internal control to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. This control is augmented by written policies and procedures, the careful selection and training of qualified staff, the creation of organizational structures that provide a well-defined division of responsibilities and accountability for performance, and the written communication of policies and guidelines for business conduct throughout Concentra. This system of internal controls is supported by a compliance function which is designed to ensure compliance with all regulatory requirements and by an internal audit function which carries out periodic audits of the operations of Concentra.

The Board of Directors carries out its responsibilities for reviewing the Consolidated Financial Statements through its Audit and Conduct Review Committee which is composed entirely of directors who are neither officers nor employees of Concentra. The Audit and Conduct Review Committee reviews the Consolidated Financial Statements and recommends approval to the Board of Directors. Other responsibilities of the Audit and Conduct Review Committee include meeting regularly with management, internal audit and the Banks's external auditors, to discuss the effectiveness of internal controls over the financial reporting process as well as the planning and results of the external audit. Both the external and internal auditors have full and free access to the Audit and Conduct Review Committee.

The Office of the Superintendent of Financial Institutions Canada examines and inquires into the business affairs of Concentra as deemed necessary to determine whether the provisions of the *Bank Act (Canada)*, having reference to the safety of the depositors, are being duly observed and that Concentra is in a sound financial condition.

KPMG LLP, the external auditors are appointed by the shareholders of Concentra, upon the recommendation of the Audit and Conduct Review Committee, to perform an independent audit of the Consolidated Financial Statements and provide an opinion thereon; their report is presented separately.

Don Coulter,
President and Chief Executive Officer

Paul Masterson,
Chief Financial Officer

Regina, Canada

February 27, 2019

KPMG LLP
Hill Centre Tower II
1881 Scarth Street, 20th Floor
Regina Saskatchewan S4P 4K9
Canada
Telephone (306) 791-1200
Fax (306) 757-4703

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Concentra Bank

Opinion

We have audited the consolidated financial statements of Concentra Bank (the Entity), which comprise:

- the consolidated statement of financial position as at December 31, 2018
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity 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.

Other Information

Management is responsible for the other information. Other information comprises:

- Management's Discussion and Analysis

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with

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the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained Management's Discussion and Analysis as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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 International Financial Reporting Standards (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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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 auditors' 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 generally accepted auditing standards 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 the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Entity 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.
- 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.

Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity 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.

KPMG LLP

Chartered Professional Accountants

February 27, 2019
Regina, Canada

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KPMG Canada provides services to KPMG LLP.

CONSOLIDATED BALANCE SHEET

As at December 31

(In Thousands of Canadian Dollars)

	Note	2018[1]	2017
ASSETS			
Cash		**$ 174,170**	$ 425,245
Securities	4	**1,060,493**	904,716
Loans Receivable			
Retail loans		**7,003,662**	6,449,392
Commercial loans		**1,295,189**	1,228,608
	7	**8,298,851**	7,678,000
Other			
Derivative assets	6	**17,948**	18,576
Other securitization assets	5	**62,377**	38,195
Investment property	9	**-**	16,980
Goodwill		**19,248**	19,248
Other assets	10	**26,631**	25,712
		126,204	118,711
Assets Held for Sale	24	**19,691**	-
		$ 9,679,409	$ 9,126,672
LIABILITIES			
Deposits	12	**$ 4,827,159**	$ 3,752,766
Securitization Liabilities	5	**3,983,129**	4,339,989
Loans and Notes Payable	13	**314,456**	453,811
Other			
Derivative liabilities	6	**18,486**	18,733
Accounts payable		**32,494**	69,997
Other liabilities	14	**24,265**	34,433
		75,245	123,163
Liabilities Held for Sale	24	**218**	-
		9,200,207	8,669,729
SHAREHOLDERS' EQUITY			
Share capital	15	**245,239**	245,239
Retained earnings		**233,807**	213,127
Accumulated other comprehensive income (loss)		**156**	(1,423)
		479,202	456,943
		$ 9,679,409	$ 9,126,672

[1] *The amounts as at December 31, 2018 have been prepared in accordance with IFRS 9 and IFRS 15; prior year amounts have not been restated (refer to Note 3).*

The accompanying notes form an integral part of these consolidated financial statements.

Don Coulter
President and Chief Executive Officer

Glen Dyrda
Director and Chair, Audit and Conduct Review Committee

CONSOLIDATED STATEMENT OF INCOME

For the Year Ended December 31

(In Thousands of Canadian Dollars)

	Note	2018[1]	2017
INTEREST INCOME			
Loans receivable		**$ 251,198**	$ 223,107
Securities		**21,151**	21,557
		272,349	244,664
INTEREST EXPENSE			
Deposits		**95,018**	73,345
Securitization liabilities		**73,990**	79,053
Loans and notes payable		**6,335**	4,280
Subordinated debentures		**-**	918
Other direct expenses		**6,599**	3,571
		181,942	161,167
NET INTEREST INCOME		**90,407**	83,497
Provision for credit (recoveries) losses	8	**(7,598)**	618
		98,005	82,879
NON-INTEREST INCOME			
Fee for service income	16	**17,475**	16,219
Gain on financial instruments	17	**6,257**	4,639
Investment property income	18	**740**	2,254
		24,472	23,112
		122,477	105,991
NON-INTEREST EXPENSE			
Salaries and employee benefits		**40,109**	37,284
Other operating		**8,095**	7,228
Information technology		**7,431**	6,587
Professional and advisory services		**4,031**	3,678
Capital and excise taxes		**4,314**	2,921
Occupancy		**2,472**	2,339
		66,452	60,037
INCOME BEFORE INCOME TAXES		**56,025**	45,954
Income tax expense	11	**15,470**	12,307
NET INCOME		**$ 40,555**	$ 33,647

[1] *The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9 and IFRS 15; prior year amounts have not been restated (refer to Note 3).*

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended December 31

(In Thousands of Canadian Dollars)

	Note	2018[1]	2017
NET INCOME		**$ 40,555**	$ 33,647
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will be reclassified subsequently to net income:			
Available-for-sale securities			
Net unrealized losses on available-for-sale securities, before tax		**NA**	(4,769)
Reclassification of gains on available-for-sale securities to net income, before tax		**NA**	(684)
Securities at fair value through OCI			
Net unrealized gains on FVOCI securities, before tax		**3,126**	NA
Reclassification of gains on FVOCI securities to net income, before tax		**(935)**	NA
Reclassification of impairment losses on FVOCI securities to net income, before tax		**117**	NA
Loans at fair value through OCI			
Net unrealized gains on FVOCI loans, before tax		**988**	NA
Reclassification of gains on FVOCI loans to net income, before tax		**(750)**	NA
Reclassification of impairment losses on FVOCI loans to net income, before tax		**353**	NA
Cash flow hedges			
Net (losses) gains on derivatives designated as cash flow hedges, before tax	6	**(227)**	3,760
Reclassification of gains on derivatives designated as cash flow hedges to net income, before tax	6	**(985)**	(715)
Income tax relating to components of other comprehensive income that will be reclassified subsequently to net income	11	**(453)**	644
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX		**1,234**	(1,764)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**$ 41,789**	$ 31,883

[1] The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (refer to Note 3.1).

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended December 31

(In Thousands of Canadian Dollars)

	Note	2018[1]	2017
SHARE CAPITAL			
Balance, beginning of year		**$ 245,239**	$ 245,239
Balance, end of year		**245,239**	245,239
RETAINED EARNINGS			
Balance, beginning of year		**213,127**	188,613
Impact of adopting IFRS 9	3	**(9,400)**	NA
Net income		**40,555**	33,647
Preferred dividends	15	**(5,105)**	(5,105)
Common dividends	15	**(5,370)**	(4,028)
Balance, end of year		**233,807**	213,127
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)			
Available-for-sale securities, net of taxes			
Balance, beginning of year		**(4,679)**	(685)
Impact of adopting IFRS 9	3	**4,679**	NA
Other comprehensive loss		**-**	(3,994)
Balance, end of year		**-**	(4,679)
Securities at fair value through OCI, net of taxes			
Balance, beginning of year		**-**	NA
Impact of adopting IFRS 9	3	**(4,636)**	NA
Other comprehensive income		**1,685**	NA
Balance, end of year		**(2,951)**	NA
Loans at fair value through OCI, net of taxes			
Balance, beginning of year		**-**	NA
Impact of adopting IFRS 9	3	**302**	NA
Other comprehensive income		**434**	NA
Balance, end of year		**736**	NA
Cash flow hedges, net of taxes			
Balance, beginning of year		**3,256**	1,026
Other comprehensive (loss) income		**(885)**	2,230
Balance, end of year		**2,371**	3,256
TOTAL ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		**156**	(1,423)
TOTAL SHAREHOLDERS' EQUITY		**$ 479,202**	$ 456,943

[1] The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9 and IFRS 15; prior year amounts have not been restated (refer to Note 3).

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31

(In Thousands of Canadian Dollars)

	Note	**2018**[1]	2017
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Net income		**$ 40,555**	$ 33,647
Adjustments to determine net cash from (used in) operating activities:			
Net interest income		**(90,407)**	(83,497)
Provision for credit (recoveries) losses	8	**(7,598)**	618
Gain on financial instruments	17	**(6,257)**	(4,639)
Increase in fair value of investment property	18	**(331)**	(1,820)
Amortization of premises and equipment	10	**611**	507
Amortization of other intangible assets	10	**672**	537
Income tax expense	11	**15,470**	12,307
Changes in operating assets and liabilities:			
Loans receivable, net of repayments and sales		**(665,552)**	7,025
Other assets		**(278)**	8,182
Deposits, net of withdrawals		**1,052,238**	(454,325)
Securitization liabilities, net of repayments		**(397,048)**	69,353
Loans and notes payable, net of repayments		**(139,860)**	71,611
Accounts payable		**(37,285)**	25,569
Interest received		**294,544**	257,201
Interest paid		**(154,865)**	(156,137)
Net realized gains (losses) from derivatives		**555**	(1,244)
Net realized (losses) gains from derivatives designated as cash flow hedges		**(227)**	3,760
Income taxes (paid) recovered		**(25,847)**	4,081
Net cash used in operating activities		**(120,910)**	(207,264)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Proceeds from sales and maturities of securities		**1,316,291**	1,024,104
Purchase of securities		**(1,431,855)**	(549,230)
Premises and equipment purchases, net of disposals		**(781)**	(689)
Intangible asset additions, net of disposals		**(1,005)**	(900)
Investment property additions	9	**(1,804)**	(522)
Net cash (used in) from investing activities		**(119,154)**	472,763
CASH FLOWS USED IN FINANCING ACTIVITIES			
Redemption of subordinated debentures		**-**	(25,500)
Dividends paid	15	**(10,475)**	(9,133)
Net cash used in financing activities		**(10,475)**	(34,633)
NET (DECREASE) INCREASE IN CASH		**(250,539)**	230,866
Cash, beginning of year		**425,245**	194,379
Less: cash reclassified to assets held for sale	24	**(536)**	-
CASH, END OF YEAR		**$ 174,170**	$ 425,245

[1] The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9 and IFRS 15; prior year amounts have not been restated (refer to Note 3).

The accompanying notes form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

Concentra Bank ("the Bank") is a Schedule 1 chartered bank domiciled in Canada that carries on business pursuant to the *Bank Act (Canada)* and is regulated by The Office of the Superintendent of Financial Institutions Canada ("OSFI"). The Bank's registered head office is located at 333 – Third Avenue North, Saskatoon, Saskatchewan, Canada, S7K 2M2. The Bank provides commercial and retail banking and trust services to Canadian credit unions and retail and commercial clients. The Bank's trust services are provided through its federally regulated subsidiary, Concentra Trust.

Credit Union Central of Saskatchewan ("SaskCentral") holds 84.0% of the voting rights and is the controlling shareholder of the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Presentation

(a) Statement of compliance

The consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements of the Bank have been prepared in accordance with subsection 308(1) of the *Bank Act (Canada)* which states that, except as otherwise specified by the OSFI, the consolidated financial statements are to be prepared in accordance with Canadian generally accepted accounting principles which require publicly accountable enterprises to report using IFRS. The significant accounting policies followed in the preparation of these consolidated financial statements, including the accounting requirements of OSFI, are summarized below. These policies have been consistently applied to all years presented and conform in all material respects to IFRS.

The consolidated financial statements for the year ended December 31, 2018, were approved for issue by the Board of Directors on February 27, 2019.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for: (1) assets/liabilities held for sale, which are measured at the lower of fair value less costs to sell and the previous carrying value of the assets/liabilities prior to being classified as held for sale; and (2) the following items which are measured at fair value:

- Financial assets at fair value through other comprehensive income ("FVOCI")
- Financial assets at fair value through profit or loss ("FVTPL")
- Financial liabilities at FVTPL
- Investment property
- Available-for-sale financial assets

(c) Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is the Bank'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 judgement

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could materially differ from those estimates thereby impacting the consolidated financial statements. Management believes that the underlying assumptions are appropriate and that the Bank'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 estimates and critical judgements are described in Note 2.19.

2.2 Basis of Consolidation

The Bank conducts business through various corporate structures including subsidiaries and other investments. The consolidated financial statements include the Bank's assets, liabilities and results of operations, after the elimination of intercompany transactions and balances, of all subsidiaries for which the Bank has concluded it controls. Control is achieved when the Bank has: (1) power over the investee; (2) exposure, or rights, to variable returns from its involvement with the investee; and (3) the ability to use its power over the investee to affect the amount of the

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Bank's returns. The Bank reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of these three elements of control.

Structured entities are entities that are created to accomplish a narrow and well-defined objective such as the securitization of particular assets or the execution of a specific borrowing or lending transaction. A structured entity is consolidated, if based on an evaluation of the substance of its relationship with the Bank and the structured entity's risks and rewards, the Bank concludes that it controls the entity. The Bank's activities have not resulted in any circumstances that would require a structured entity to be consolidated within these consolidated financial statements.

The consolidated financial statements have been prepared using consistent accounting policies and valuation methods for like transactions and other events in similar circumstances.

The following entity is included in the consolidated financial statements of the Bank:

Concentra Trust – the Bank owns 100% of the common shares of Concentra Trust. As such, these consolidated financial statements include the assets and liabilities and results of operations of this wholly owned subsidiary, net of intercompany eliminations.

2.3 Financial Instruments

2.3.1 Recognition and Initial Measurement

The initial measurement of a financial instrument is at fair value plus transaction costs that are directly attributable to its purchase or issuance. For instruments measured at fair value through profit or loss, transaction costs are recognized immediately in profit or loss.

Regular-way purchases and sales of financial assets are recognized on the settlement date. All other financial assets and financial liabilities, including derivatives, are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

2.3.2 Classification and Subsequent Measurement

(a) Financial assets: debt instruments (IFRS 9) – *for the year ended December 31, 2018*

Financial assets which meet the definition of debt, including loans and debt securities, are classified into one of the following measurement categories:

- Amortized cost;
- FVOCI; or
- FVTPL

Debt instruments may be designated at FVTPL upon initial recognition if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise. For all other debt instruments, classification is determined based on an assessment of: (i) the business model under which the asset is held; and (ii) the contractual cash flow characteristics of the instrument.

(i) Business model assessment

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 the financial assets, or both. The Bank assesses business models at a portfolio level reflective of how groups of assets are managed together to achieve a particular business objective. For the assessment of business models the Bank takes into consideration the following factors:

- How the performance of assets in a portfolio is evaluated and reported to key decision makers within the Bank's business lines;
- The risks that affect the performance of assets held within a business model and how those risks are managed;
- Whether the assets are held for trading purposes (i.e., assets that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking);
- How management compensation is determined for those responsible for managing the assets; and
- The frequency, reason for sales, and volume of sales in prior periods and expectations about future sales activity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Cash flow characteristics assessment

The 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 ("SPPI") on the principal amount outstanding.

Principal is defined as the fair value of the instrument at 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 and for liquidity risk and administrative costs, as well as a profit margin.

In performing this assessment, the Bank 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 the Bank 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

Debt instruments are measured at amortized cost if they are held within a business model whose objective is to hold for collection of contractual cash flows where those cash flows represent SPPI. After initial measurement, debt instruments in this category are carried at amortized cost using the effective interest rate 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.

Impairment of debt instruments measured at amortized cost is calculated using the expected credit loss ("ECL") approach. Debt instruments, including loans and securities are presented net of the related allowance for impairments on the consolidated balance sheet.

Debt instruments measured at FVOCI

Debt instruments are measured at FVOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the assets' cash flows represent payments that are SPPI. Subsequent to initial recognition, unrealized gains and losses on debt instruments measured at FVOCI are recorded in other comprehensive income ("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 income. Premiums, discounts and related transaction costs are amortized over the expected life of the instrument to interest income in the consolidated statement of income using the effective interest rate method.

Impairment of debt instruments measured at FVOCI is calculated using the ECL approach. An allowance for credit losses is not recognized in the consolidated balance sheet for FVOCI debt instruments as the carrying value of these instruments is equal to fair value and therefore should not be reduced. Instead, an impairment reserve equal to the calculated allowance is recognized in OCI with a corresponding charge to net provision for credit losses in the consolidated statement of income. Upon derecognition of a FVOCI debt instrument the accumulated unrealized fair value gains and losses, together with the impairment reserve, are recycled from OCI to the consolidated statement of income.

Debt instruments measured at FVTPL

Debt instruments measured at FVTPL include assets held for trading purposes, assets held as part of a portfolio managed on a fair value basis, assets whose cash flows do not represent payments that are SPPI, and assets which are designated as such at initial recognition. These instruments are measured at fair value in the consolidated balance sheet, with transaction costs recognized immediately in the consolidated statement of income as part of gain on financial instruments in the consolidated statement of income. Realized and unrealized gains and losses are recognized as part of gain on financial instruments in the consolidated statement of income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial assets: equity instruments (IFRS 9) – *for the year ended December 31, 2018*

Financial assets which meet the definition of equity are measured at FVTPL, unless an election is made to designate them at FVOCI upon purchase.

For equity instruments measured at FVTPL, changes in fair value are recognized as part of gain on financial instruments in the consolidated statement of income.

The Bank can elect to classify non-trading equity instruments at FVOCI. This election will be used for certain equity investments for strategic or longer term investment purposes. The FVOCI 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 income. Dividends received are recorded in interest income in the consolidated statement of income. 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 income on sale of the security.

(c) Financial assets (IAS 39) – *for the year ended December 31, 2017*

The Bank classifies its financial assets into the following categories:

Fair value through profit or loss – comprises two sub-categories: financial assets classified as held-for-trading and financial assets designated as FVTPL upon initial recognition.

A financial asset is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held-for-trading unless they are designated and effective as hedging instruments.

FVTPL financial assets are measured at fair value in the consolidated balance sheet with changes in fair value being recognized within gain on financial instruments in the consolidated statement of income.

Held-to-maturity – non-derivative financial assets with fixed or determinable payments that the Bank has a positive intention to hold to maturity other than: (1) those which have been designated as FVTPL or available-for-sale at initial recognition; and (2) those which meet the definition of loans and receivables.

Held-to-maturity financial assets are measured at amortized cost using the effective interest method in the consolidated balance sheet, net of any allowances for impairment.

Loans and receivables – non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (1) those which are classified as held-for-trading; (2) those which upon initial recognition are designated as fair value through profit or loss or available-for-sale; and (3) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available-for-sale.

Loans and receivables are measured at amortized cost using the effective interest method in the consolidated balance sheet, net of any allowances for impairment.

Available-for-sale – non-derivative financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are measured in the consolidated balance sheet at fair value with gains and losses being recognized in OCI, except for impairment losses and foreign exchange gains/losses which are recognized in the consolidated statement of income. Gains and losses realized on the disposal of available-for-sale financial assets are included in gain on financial instruments.

(d) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities may be designated at FVTPL when one of the following criteria is met:

- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- The financial liability contains one or more embedded derivatives which significantly modify the cash flows otherwise required.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities at FVTPL are measured at fair value with changes in fair value being recognized in the consolidated statement of income. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

With the exception of its derivative financial instruments which are FVTPL, the Bank's holdings in financial liabilities are classified as measured at amortized cost.

2.3.3 Derecognition

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or when the Bank has transferred substantially all the risks and rewards of ownership of the assets.

Where substantially all of the risks and rewards of ownership of the financial asset are neither retained nor transferred, the Bank derecognizes the transferred asset only if it no longer controls the asset. Control is represented by the practical ability to sell the transferred asset without the need to impose additional restrictions. If the Bank retains control over the asset, it will continue to recognize the asset to the extent of its continuing involvement. When a financial asset is derecognized in full, a gain or loss is recognized in net income for an amount equal to the difference between the carrying amount of the asset and the value of the consideration received, including any new assets and/or liabilities recognized.

Financial liabilities are derecognized when the associated obligation has been discharged, cancelled or otherwise extinguished.

2.3.4 Derivative Financial Instruments and Hedge Accounting

The Bank enters into derivative transactions to hedge interest rate and foreign currency risks, and for economic and asset/liability management purposes. The Bank also enters into derivative transactions on an intermediary basis on behalf of its clients. The Bank 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 income within gain on financial instruments unless they are designated in a qualifying hedge accounting relationship.

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. The Bank 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 hedges

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 income. 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 income and are recorded in gain on financial instruments.

Fair value hedges

In a fair value hedging relationship, changes in the fair value of the hedging derivative are offset in the consolidated statement of income 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.

2.3.5 Offsetting

Financial assets and liabilities are offset and the net amount 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Impairment

(a) Financial assets (IFRS 9) – *for the year ended December 31, 2018*

The Bank 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 FVOCI (excluding equity instruments);
- Undrawn lending commitments;
- Commercial leases; and
- Financial guarantee contracts

Expected credit loss impairment model

The Bank uses an ECL methodology to measure impairment of its financial instruments. ECLs reflect the present value of all cash shortfalls related to default events which may occur over a specified period of time. Consequently, the Bank's allowance for credit losses are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The allowances reflect an unbiased, probability-weighted outcome which considers multiple scenarios, based on reasonable and supportable forecasts.

The Bank's ECL impairment model measures loss allowances using a three-stage approach based on the change in credit risk since origination:

- Stage 1 – Where there has not been a significant increase in credit risk ("SICR") since initial recognition of a financial instrument, an amount equal to 12 month ECLs is recorded. The ECL is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.
- Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of ECL based on the probability of default over the remaining estimated life of the financial instrument.
- Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime ECLs.

Financial assets may migrate forward or backward through the three stages as their credit risk deteriorates or improves. When measuring ECLs, the Bank 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.

Model parameters

The following variables represent the key inputs in the Bank's ECLs:

- Probability of Default ("PD") – an estimate of the likelihood of default over a given time horizon.
- Loss Given Default ("LGD") – an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the exposure at default.
- Exposure at Default ("EAD") – an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, and expected drawdowns on committed facilities.

These parameters are generally derived from internally developed statistical models utilizing the Bank'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, the Bank 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, the Bank 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.

The common assessments for SICR on retail and non-retail portfolios include macroeconomic outlook, management judgement, and delinquency and monitoring. Quantitative models may not always be able to capture

(In Thousands of Canadian Dollars Unless Otherwise Indicated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. The Bank currently does not rebut this presumption.

For retail and small commercial exposures, the Bank considers past delinquency history for individual loans as the primary indicator of SICR. Additionally, the Bank assess SICR at the portfolio level using historical correlations between macroeconomic factors and past default rates within the portfolio.

For its other commercial exposures, the Bank 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.

Forward-looking information

The measurement of ECLs for each stage and the assessment of significant increases in credit risk considers 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 judgement.

In its models, the Bank relies on forward-looking macroeconomic factors, such as the Canadian equity index, unemployment rates, and oil prices. Where available, the Bank will utilize geographic specific macroeconomic factors. Due to a limited loss history, the Bank 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 relationships between macroeconomic variables, credit risk and credit losses.

The Bank utilizes multiple probability-weighted scenarios to estimate the forward-looking macroeconomic factors. The Bank considers both internal and external sources of information in order to achieve an unbiased measure of the scenarios used. The Bank relies upon forecasts 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 the Bank using judgement.

Typically the Bank will probability-weight the “base case” scenario most heavily as it represents the most likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes.

The economic scenarios used in the determination of ECLs as at December 31, 2018 include the following ranges of macroeconomic factors:

	12 Month Forecast			**5 Year Forecast**		
% change(1)	**Base Case**	**Optimistic**	**Pessimistic**	**Base Case**	**Optimistic**	**Pessimistic**
Canadian equity index	**(5.4%)**	**4.3%**	**(6.2%)**	**13.3%**	**17.8%**	**9.1%**
Canadian unemployment						
National	**3.0%**	**(11.1%)**	**5.5%**	**10.9%**	**7.1%**	**14.6%**
Regional(2)	**0.2%**	**(9.8%)**	**3.2%**	**4.3%**	**0.4%**	**7.6%**
Oil price	**(3.3%)**	**20.7%**	**(7.2%)**	**(5.2%)**	**18.4%**	**(9.0%)**

(1) The % change represents the change in the marcro economic factor as a percentage difference from the most recent publicly available actual result reported as of December 31, 2018.
(2) Represents a weighted average based on the credit concentration % for each region.

Presentation of allowance for credit losses

The Bank presents its allowance for credit losses in the consolidated financial statements as follows:

- For financial assets measured at amortized cost and commercial leases, as a deduction from the gross carrying amount;
- For debt instruments measured at FVOCI, no allowance is recognized in the consolidated balance sheet because the carrying value of these assets is their fair value. However, the amount of impairment that would otherwise have been recognized had the instrument been measured at amortized cost is reclassified from accumulated other comprehensive income (“AOCI”) to the consolidated statement of income; and
- For undrawn lending commitments, as a provision in other liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Modified financial assets

If the terms of a financial asset are modified or an existing financial asset is replaced with a new one, an assessment is made to determine if the financial asset should be derecognized. Where the modification does not result in derecognition, the date of origination continues to be used to determine SICR. 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.

Definition of default

The Bank considers a financial instrument to be in default (Stage 3) as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. This includes events that indicate:

- Significant financial difficulty of the borrower;
- High probability of the borrower entering a phase of bankruptcy or a financial reorganization;
- Measurable decrease in the estimated future cash flows from the loan or value of the underlying collateral.

In addition to these observable indicators, there is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due. The Bank 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.

Write-off policy

The Bank 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 financial assets are secured, write-off is generally after receipt of any proceeds from the realization of 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 consolidated statement of income.

(b) Financial assets (IAS 39) – *for the year ended December 31, 2017*

The Bank maintains specific and collective allowances to reflect credit-related losses in portfolios of on-balance sheet items. Allowances are reviewed by management on an ongoing basis and are deducted from the carrying value of the related asset category.

Loans and receivables

Loans are classified as credit impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the loan that can be reliably estimated. The criteria that the Bank uses to determine that there is objective evidence of impairment include:

- Delinquency in contractual payments of principal or interest
- Cash flow difficulties experienced by the borrower
- Breach of loan covenants or conditions
- Initiation of bankruptcy proceedings
- Deterioration of the borrower's competitive position
- Deterioration in the value of collateral

The Bank first assesses whether objective evidence of impairment exists individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognized through the use of a specific allowance are not included in a collective assessment of impairment.

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

The amount of the impairment loss is measured as the difference between the loan's carrying value and the present value of estimated future cash flows discounted at the loan's original effective interest rate. The carrying

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

value of the loan is reduced through the use of an allowance account and the amount of the loss is recognized within provision for credit losses in the consolidated statement of income.

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

In subsequent periods, if the impairment loss decreases and the decrease can be related objectively to an event occurring after the loss was recognized, the allowance is adjusted and the increase in the carrying value of the loan is credited to provision for credit losses in the consolidated statement of income. An impairment loss is reversed only to the extent that the loan's carrying value does not exceed the carrying value that would have been determined if no impairment had been recognized.

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

Available-for-sale

The Bank assesses at the end of each reporting period whether there is objective evidence that its available-for-sale financial assets are impaired. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss on that financial asset previously recognized in net income – is removed from AOCI, and recognized in the consolidated statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in net income, the impairment loss is reversed through the consolidated statement of income. Impairment losses recognized in the consolidated statement of income on available-for-sale equity instruments are not reversed.

(c) 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.

(d) 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 income to offset the associated impairment loss. Reimbursement assets are included in other assets as an accounts receivable.

The Bank 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 5.1.2.

(e) Non-financial assets

At each reporting date, the Bank reviews its non-financial assets (other than investment property and deferred income tax assets) to determine whether there are any indicators of impairment. If such indicators exist, an impairment test is performed to compare the carrying value of the assets to their recoverable amount. Goodwill is tested for impairment annually regardless of whether an impairment indicator exists.

For impairment testing, assets are grouped together into the smallest possible group that generates cash inflows from the continuing use ("cash-generating unit") that are largely independent of the cash inflows of other assets or cash-generating units. Goodwill arising from a business combination is allocated to the cash-generating unit or groups of cash-generating units that are expected to benefit from the synergies of the combination.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The recoverable amount is then determined as the greater of the present value of the cash flows expected to be generated by an asset/cash-generating unit ("value-in-use") or the fair value less costs of disposal, if determinable.

If the carrying value of an asset/cash-generating unit exceeds the recoverable amount, an impairment loss equal to the difference is recognized in the consolidated statement of income. Impairment losses on goodwill are never reversed. For other non-financial assets, an impairment loss may be reversed in subsequent periods only to the extent that the asset's carrying value does not exceed what it would have been, net of amortization, had no impairment loss occurred.

2.5 Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The Bank follows a fair value hierarchy to categorize the inputs used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Valuation techniques used to measure fair value maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. Fair values are determined by reference to quoted bid or asking prices, as appropriate, in the principal market or most advantageous market for that asset or liability to which the Bank has immediate access (Level 1).

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. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active; (c) inputs other than quoted prices that are observable for the asset or liability such as interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spreads; and (d) market-corroborated inputs.

Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. In determining those assumptions, the Bank looks primarily to external readily observable market inputs including factors such as interest rate yield curves, currency rates, and price and rate volatilities, as applicable (Level 2). In certain circumstances, the Bank uses one or more input parameters that are not based on observable market data or uses observable inputs that require significant adjustment based on unobservable inputs (Level 3). The impact on net income of valuations reflecting non-market observable inputs (Level 3 valuations) is disclosed in Note 22. The Bank believes that using possible alternative assumptions will not result in significantly different fair values.

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 the Bank'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 the Bank holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risks, liquidity risk and counterparty credit risk.

2.6 Interest Income and Expense

Interest for all interest-bearing financial assets and liabilities is recognized within interest income and interest expense respectively in the consolidated statement of income. Transaction costs and premiums/discounts incurred in the acquisition of financial assets or issuance of financial liabilities are amortized to interest income or expense using the effective interest method. Dividends on equity instruments are recognized in the consolidated statement of income in securities interest income when the Bank's right to receive payment is established.

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 at the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Revenue from Contracts with Customers

Under IFRS 15 for the year ended December 31, 2018

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Bank recognises revenue when it transfers control over a product or service to a customer.

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. The Bank utilizes a practical expedient and expenses these costs as they are incurred when the expected recognition period is one year or less.

The following is a description of the principal activities, by reporting segment, from which the Bank generates revenue including the nature of performance obligations, the timing of when these obligations are satisfied and significant payment terms:

(a) Commercial and Retail Banking

The Commercial and Retail Banking segment primarily generates revenue through its syndication and asset/liability servicing, professional services and banking services:

Syndication and servicing fees – represents fees earned by the Bank from syndication activities and ongoing asset/liability administration and servicing. Syndication fees are paid upon funding of the asset and recognized as revenue when the Bank transfers control of the syndicated interest to the co-owner. Servicing fees are paid monthly and are recognized as the related services are performed.

Professional fees – represents financial management consulting and other support services which the Bank provides to its parent SaskCentral (Note 23) and other commercial clients. Revenue is recognized as the services are performed. Fees are billed and paid at the same frequency at which the services are provided.

Banking fees – consists 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.

(b) Trust

The Trust segment, a wholly owned subsidiary of the Bank, generates revenue through acting as trustee for personal/corporate trust arrangements and providing estate related services:

Trust fees – primarily consists of fees paid to the Bank to act as trustee for a registered plan, custodianship, escrow or other trust arrangement. These arrangements often cover an indefinite term. The 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 the 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 – represents fees earned by the Bank for administering estates either as an executor/administrator or through the provision of specific services to a third party executor/administrator. When the 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, the Bank is entitled to deduct its fee from the estate. When the 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.

Under IAS 18 for the year ended December 31, 2017

Fees for services except for estate administration fees are recognized over the period in which the related service is rendered. Estate administration fees are recognized as income when the Bank has rendered all services and is entitled to collect the fee.

2.8 Leases

The Bank 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 lessor

The Bank leases certain commercial equipment to customers which are classified as finance leases. When assets

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

are held subject to a finance lease, the Bank recognizes a 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.

(b) As lessee

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

2.9 Premises, Equipment and Other Intangible Assets

Premises and equipment are measured at cost less accumulated amortization and accumulated impairment losses. As no finite useful life for land can be determined, its carrying amount is not amortized. Buildings, building components, building improvements and equipment are carried at acquisition cost less subsequent amortization and impairment losses.

Amortization is recognized on a straight-line basis over the estimated useful life of the item of premises or equipment.

The applicable amortization periods are as follows:

Buildings	40 years
Building components	20 years
Building improvements	5 years
Equipment	3 – 10 years

Amortization methods, residual values and estimates of useful lives are reassessed at each financial year end and adjusted if appropriate.

Other intangible assets consist of acquired and internally developed software. Other intangible assets are carried at cost less accumulated amortization and accumulated impairment losses.

The useful lives of intangible assets are assessed to be finite. Amortization is recognized on a straight-line basis over their estimated useful lives of 3 – 5 years.

2.10 Goodwill

Goodwill represents the excess of the purchase price over the fair value of the Bank's share of the net identifiable assets acquired in business combinations. The Bank's goodwill is fully attributable to the Commercial and Retail Banking segment.

2.11 Investment Property

The Bank holds investment property as a consequence of enforcing its security interest over certain commercial mortgages. Investment property is measured initially at cost and is subsequently carried at fair value with changes in the fair value being included in other income within the consolidated statement of income.

The Bank engages, as appropriate, external real estate experts to determine the fair value of the investment property by using recognized valuation techniques.

2.12 Income Taxes

Income tax expense comprises current and deferred tax. Current income tax and deferred income tax are recognized in net income except to the extent that it relates to items recognized directly in equity or in OCI. In these cases, the tax impact is also charged directly to equity or OCI.

(a) Current income tax

Current income tax is calculated for taxable earnings on the basis of the applicable tax law in the respective jurisdictions in the current year.

(b) Deferred income tax

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The principal temporary differences arise from lease receivables, allowances for credit losses, amortization of premises and equipment, accrued expenses, the effective interest method, and carry-forward amounts.

A deferred income 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. Deferred income 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.

2.13 Employee Benefits

(a) Pension benefits

The Bank has a defined contribution pension plan which is a post-employment benefit plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligation to the plan beyond the payment of these contributions.

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 12 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) Termination benefits

Termination benefits are employee benefits provided when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts an offer of benefits in exchange for the termination of employment. The Bank recognizes termination benefits at the earlier of the date when the Bank can no longer withdraw the offer of those benefits and the date the Bank recognizes costs for a restructuring provision which involves the payment of termination benefits. Benefits falling due more than 12 months after the date of the consolidated balance sheet are discounted to present value.

2.14 Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

2.15 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Bank has identified its executive leadership team as the chief operating decision-maker.

All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated. Income and expenses directly associated with each segment are included in determining business segment performance.

The Bank has two primary lines of business: (1) Commercial and Retail Banking; and (2) Trust. The Commercial and Retail Banking segment includes residential mortgages, consumer loans, commercial lending, and equipment financing/leasing activities. Additionally the Commercial and Retail Banking segment accepts retail and corporate deposits, and provides consulting and treasury services. The Trust segment consists of personal, corporate, and registered plans trust products and services delivered through a wholly owned subsidiary of the Bank.

The Trust segment before the elimination of intercompany transactions and balances has total revenue of $9,340 (2017 - $8,333), net income of $600 (2017 - $446) and total assets of $16,649 (2017 - $15,733). The Trust segment does not meet the quantitative thresholds to require separate disclosure.

2.16 Assets Under Administration

Assets administered by the Bank on behalf of its clients are recorded separately from the Bank's assets and are not included on the consolidated balance sheet.

2.17 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:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- ***IFRS 9*** – as permitted by the standard, the Bank has used an exemption to not restate the comparative period for changes arising from the new classification and measurement (including impairment) requirements (see Note 3.1).
- ***IFRS 15*** – as permitted by the standard, the Bank has applied IFRS 15 using the cumulative effect method, under which comparative information is not restated (see Note 3.2).

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.

2.18 Standards, Amendments and Interpretations Issued But Not Yet Adopted

The following standards, amendments and interpretations have been issued and are mandatory for the Bank's accounting periods beginning January 1, 2019, or later periods and are expected to be relevant to the Bank:

IFRS 16 Leases

Beginning January 1, 2019 the Bank is required to adopt the new lease accounting standard *IFRS 16 Leases* ("IFRS 16") which supersedes the previous standard *IAS 17 Leases* ("IAS 17") 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, all leases are "capitalised" by recognising the present value of the minimum lease payments as a liability in the consolidated balance sheet with a corresponding right-of-use asset, subject to recognition exemptions for certain short-term and low-value leases. IFRS 16 substantially carries forward the lessor accounting requirements from IAS 17.

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

- As lessee, certain leases which are currently classified as operating leases under IAS 17 will now be recognized in the consolidated balance sheet as assets and liabilities. The nature of the expenses related to these leases will also change as the Bank will no longer recognize its lease payments as an expense in the consolidated statement of income. Instead the lease payments shall reduce the corresponding lease liability and the Bank shall recognize amortization expense for its right-of-use assets and interest expense on the lease liabilities. The Bank estimates that it will recognize $1.5 million of additional assets and liabilities for these leases on the transition date.
- As lessor, the Bank anticipates that there will be no impact on the transition date.

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

2.19 Critical Accounting Estimates and Judgements

The Bank's financial statements are influenced by accounting policies, assumptions, material estimates and management judgement which necessarily have to be made in the course of preparation of these consolidated financial statements. The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events. Accounting policies and management's judgements for certain items are especially critical for the Bank's results and financial position due to their materiality.

The following accounting estimates and judgements represent key sources of estimation uncertainty to the financial statements:

- Fair value of financial instruments – determining the appropriate credit risk adjustments (unobservable input) for financial instruments measured at fair value.
- Derecognized securitizations – assessing whether substantially all of the risks and rewards have been transferred and/or whether the Bank continues to control the transferred assets.
- Goodwill impairment testing – determining the appropriate discount rate and forecasting cash flows used to determine the recoverable amount of a cash-generating unit.
- Income taxes – determining the amounts payable or recoverable for transactions where the ultimate tax determination is uncertain.
- Litigation and other contingencies – determining the probability of a loss arising and reliably estimating the expenditure required to settle current and pending claims

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the year ended December 31, 2018

- Classification of financial assets – assessment of the business model within which assets are held and assessment of whether the contractual cash flows are SPPI.
- Impairment of financial assets – determining inputs into the ECL model (PD/LGD/EAD), determining when there has been a SICR, and the incorporation of forward-looking financial information into the impairment model (including the selection and forecast of macroeconomic variables).

For the year ended December 31, 2017

- Fair value of investment property – determining the appropriate discount rate and forecasting cash flows used to calculate the fair value.
- Impairment of financial assets – determining if objective evidence of impairment exists and estimating the amount and timing of recoverable cash flows

3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The Bank adopted *IFRS 9 Financial Instruments* ("IFRS 9") and *IFRS 15 Revenue from Contracts with Customers* ("IFRS 15") effective January 1, 2018. A number of other interpretations and amendments were effective January 1, 2018 however they did not impact the Bank's consolidated financial statements.

3.1 IFRS 9 Financial Instruments

The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities as compared to the previous *IAS 39 Financial Instruments: Recognition and Measurement* ("IAS 39"). The requirements of IFRS 9 have been applied in full retrospectively from the date of adoption except as described below:

- Comparative periods have not been restated. Differences in carrying values of financial instruments resulting from the adoption of IFRS 9 are recognized in retained earnings and/or AOCI as at January 1, 2018.
- The determination of the business model within which financial assets are held was based on the facts and circumstances that existed at the date of initial application.
- The Bank has deferred the adoption of the hedge accounting under IFRS 9 and continues to apply the hedge accounting requirements of IAS 39.

The key changes to the Bank's accounting policies resulting from the adoption of IFRS 9 are as follows:

Classification – IFRS 9 eliminates the definitions based approach to classification of financial assets under IAS 39 and the associated classification groups of loans and receivables, available-for-sale and held-to-maturity. Under IFRS 9 all financial assets are now classified as either amortized cost, FVOCI or FVTPL based on an assessment of: (1) the business model within which the assets are held; and (2) the cash flow characteristics of the financial asset. As a further consequence of the new classification requirements, embedded derivatives are deemed to form part of the cash flow characteristics of a financial asset and are no longer bifurcated from the host contract. As a result of these changes, the Bank has reclassified certain financial assets previously measured at amortized cost to FVOCI.

IFRS 9 largely retains the existing requirements for the classification and measurement of financial liabilities under IAS 39 with the exception of liabilities designated at FVTPL. Previously changes in fair value of designated liabilities were recognized in profit and loss however IFRS 9 now requires the change in fair value attributable to the Bank's own credit risk to be recognized separately in OCI. The changes to financial liability classification had no impact on the Bank at the date of initial application.

Impairment – IFRS 9 replaces the incurred loss model under IAS 39, which measured impairment based on evidence of past loss events, with a new ECL model which takes into account both past loss events and potential future losses which may occur over the life of a financial instrument. IFRS 9 also introduces a new concept of "staging" whereby the loss allowance is equal to the 12 month or lifetime expected losses based on the relative change in credit quality of the financial instrument since its inception. Consequently credit losses are recognized sooner than under the previous IAS 39 standard resulting in an increase to the allowance for credit losses at transition.

Reconciliation of consolidated balance sheet from IAS 39 to IFRS 9

The following table provides the impact from the transition to IFRS 9 on the consolidated balance sheet as at the January 1, 2018 transition date showing separately the carrying values reclassified as a result of changes in classification ("reclassified") and the changes in carrying values resulting from applying the measurement requirements of IFRS 9, including impairment ("remeasured"):

(In Thousands of Canadian Dollars Unless Otherwise Indicated)

3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

	IAS 39 Classification	IFRS 9 Classification	IAS 39 Carrying Amount	Reclassified	Remeasured	IFRS 9 Carrying Amount
FINANCIAL ASSETS						
Cash	Loans & Receivables	Amortized Cost	**$ 425,245**	**$ -**	**$ -**	**$ 425,245**
Securities	Available-for-Sale	FVOCI	**904,716**	**-**	**-**	**904,716**
Retail loans						
Residential mortgages	Loans & Receivables	Amortized Cost	**6,083,937**	**(640,561)**	**350**	**5,443,726**
Residential mortgages[1]	Loans & Receivables	FVOCI	**-**	**640,561**	**(799)**	**639,762**
Consumer loans	Loans & Receivables	Amortized Cost	**365,455**	**-**	**(2,353)**	**363,102**
Commercial loans	Loans & Receivables	Amortized Cost	**1,228,608**	**-**	**(9,273)**	**1,219,335**
Other securitization assets	Loans & Receivables	Amortized Cost	**38,195**	**-**	**-**	**38,195**
Derivative assets	Held-for-Trading	FVTPL	**18,576**	**-**	**-**	**18,576**
Accounts receivable[2]	Loans & Receivables	Amortized Cost	**2,633**	**-**	**340**	**2,973**
FINANCIAL LIABILITIES						
Deposits	Amortized Cost	Amortized Cost	**3,752,766**	**-**	**-**	**3,752,766**
Securitization liabilities	Amortized Cost	Amortized Cost	**4,339,989**	**-**	**-**	**4,339,989**
Loans and notes payable	Amortized Cost	Amortized Cost	**453,811**	**-**	**-**	**453,811**
Derivative liabilities	Held-for-trading	FVTPL	**18,733**	**-**	**-**	**18,733**
Accounts payable	Amortized Cost	Amortized Cost	**69,997**	**-**	**-**	**69,997**
NON-FINANCIAL LIABILITIES						
Allowance for undrawn commitments[3]			**-**	**-**	**(665)**	**(665)**
Total pre-tax impact of IFRS 9 adoption				**$ -**	**$ (12,400)**	
Attributable to:						
Residential mortgages remeasured to fair value					**(799)**	
Allowance for credit losses remeasured under ECL methodology					**(11,941)**	
Financial guarantee assets remeasured under ECL methodology					**340**	
					$ (12,400)	
SHAREHOLDERS' EQUITY						
Retained earnings			**$ 213,127**	**$ -**	**$ (9,400)**	**$ 203,727**
Accumulated other comprehensive loss[4]			**(1,423)**	**-**	**345**	**(1,078)**
Total after-tax impact of IFRS 9 adoption				**$ -**	**$ (9,055)**	

[1] *A sub-portfolio within the residential mortgages asset class has been reclassified to FVOCI due to the results of the business model assessment of the sub-portfolio which included consideration of the high frequency of sales that typically occur.*

[2] *Accounts receivable are included within other assets in the consolidated balance sheet. Remeasurement impact is due to an increase in the receivables related to the limited financial guarantees on certain consumer loans, offsetting the increased ECL allowance related to those specific loans.*

[3] *ECLs for undrawn commitments are recorded in other liabilities within the consolidated balance sheet.*

[4] *ECLs of $1,268 ($925 net of taxes) representing the impairment reserve on FVOCI instruments have been reclassified from AOCI to retained earnings.*

(In Thousands of Canadian Dollars Unless Otherwise Indicated)

3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

Reconciliation of allowance for credit losses from IAS 39 to IFRS 9

The following table reconciles the closing loss allowances for financial assets in accordance with IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with *IAS 37 Provisions, Contingent Liabilities and Contingent Assets* as at December 31, 2017 to the opening allowance for credit losses as at January 1, 2018. The amounts presented below are included in the figures presented in the previous table:

	Allowance Under IAS 39/IAS 37	Remeasured	Allowance Under IFRS 9
Loans Receivable and Undrawn Commitments			
Retail Loans			
Residential mortgages	$ 2,363	$ (350)	$ 2,013
Consumer loans	2,025	2,353	4,378
Commercial Loans			
Commercial mortgages and loans	15,036	10,642	25,678
Commercial leases	2,637	(704)	1,933
Total Allowance For Credit Losses	$ 22,061	$ 11,941	$ 34,002

3.2 IFRS 15 Revenue from Contracts with Customers

The new standard establishes a comprehensive framework for determining the timing and amount of revenue recognition replacing the previous standards *IAS 18 Revenue* ("IAS 18"*)* and *IAS 11 Construction Contracts* ("IAS 11") and the related interpretations. The core principle of IFRS 15 is that revenue should be recognized at an amount which reflects the transfer of control of the goods/services to the customer – either at a point in time or over time. Although this is similar to the principles of the previous IAS 18 and IAS 11, the guidance provided by IFRS 15 is more extensive which could impact the timing of revenue recognition for areas which required significant judgement under the previous standards.

The Bank has applied IFRS 15 retrospectively from the date of adoption using the cumulative effect method. Accordingly, comparative information has not been restated for the requirements of IFRS 15. Additionally, the disclosure requirements of IFRS 15 have generally not been applied to the comparative information.

The application of IFRS 15 had no impact on the timing or amount of the Bank's revenue recognition and consequently no transition adjustment was recognized on January 1, 2018.

4. SECURITIES

The Bank's debt securities are held within two distinct portfolios. The corporate portfolio consists of debt securities with a variety of terms and conditions held for liquidity management and yield purposes. The securitized portfolio consists of qualified debt securities held in segregated reinvestment accounts to satisfy obligations under certain securitization programs (see Note 5.1.2). In 2018, the Bank also created a small portfolio of equity securities representing longer-term, strategic investments which are measured at FVTPL.

Government securities are comprised of debt securities issued or guaranteed by Canadian federal, provincial and municipal governments. Corporate securities are comprised primarily of commercial paper and medium term notes. Asset-backed debt securities are comprised primarily of short-term paper backed by specifically pledged assets.

(In Thousands of Canadian Dollars Unless Otherwise Indicated)

4. SECURITIES (continued)

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

2018[(1)]	Effective Rate	Within 3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	No Fixed Maturity	Total
Securities at FVOCI							
Corporate Portfolio							
Government							
Federal	**2.03%**	**$ 1,096**	**$ 25,995**	**$ 202,438**	**$ -**	**$ -**	**$ 229,529**
Provincial	**1.64%**	**-**	**15,031**	**186,394**	**-**	**-**	**201,425**
Corporate	**2.37%**	**61,457**	**2,502**	**10,063**	**5,393**	**-**	**79,415**
Asset-backed	**2.20%**	**181,793**	**-**	**-**	**-**	**-**	**181,793**
Securitized Portfolio							
Government							
Federal	**1.67%**	**1,210**	**92,592**	**250,061**	**-**	**-**	**343,863**
		$ 245,556	**$ 136,120**	**$ 648,956**	**$ 5,393**	**$ -**	**$ 1,036,025**
Accrued interest							**1,590**
Total securities at FVOCI							**$ 1,037,615**
Securities at FVTPL							
Equities	**-**	**-**	**-**	**-**	**-**	**22,878**	**22,878**
							$1,060,493

[(1)] *The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (refer to Note 3.1).*

2017	Effective Rate	Within 3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	No Fixed Maturity	Total
Available-for-Sale Securities							
Corporate Portfolio							
Government							
Federal	1.64%	$ -	$ 9,695	$ 258,587	$ -	$ -	$ 268,282
Provincial	1.54%	10,077	1,002	201,807	-	-	212,886
Corporate	2.43%	8,277	-	15,718	5,459	2,831	32,285
Asset-backed	1.46%	73,444	-	10,524	-	-	83,968
Securitized Portfolio							
Government							
Federal	1.56%	-	116,453	189,079	-	-	305,532
		$ 91,798	$ 127,150	$ 675,715	$ 5,459	$ 2,831	$ 902,953
Accrued interest							1,763
							$ 904,716

The following table provides a summary of the unrealized gains and losses of the Bank's securities:

	2018[(1)]				2017			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
		Securities at FVOCI				Available-for-Sale Securities		
Corporate Portfolio								
Government	**$ 437,395**	**$ 327**	**$ (5,689)**	**$ 432,033**	$ 488,205	$ 509	$ (6,368)	$ 482,346
Corporate	**79,618**	**1**	**(120)**	**79,499**	32,558	95	(158)	32,495
Asset-backed	**181,787**	**9**	**(3)**	**181,793**	84,103	3	(117)	83,989
Securitized Portfolio								
Government	**343,432**	**1,354**	**(496)**	**344,290**	306,685	259	(1,058)	305,886
	1,042,232	**1,691**	**(6,308)**	**1,037,615**	911,551	866	(7,701)	904,716
Securities at FVTPL								
Equities	**22,878**	**-**	**-**	**22,878**	-	-	-	-
	$ 1,065,110	**$ 1,691**	**$ (6,308)**	**$ 1,060,493**	$ 911,551	$ 866	$ (7,701)	$ 904,716

[(1)] *The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (refer to Note 3.1).*

5. TRANSFERS OF FINANCIAL ASSETS

5.1 Financial Asset Transfers Not Qualifying for Derecognition

5.1.1 Securities Sale and Repurchase Agreements

The Bank 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 the Bank 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. A corresponding liability equal to the sales proceeds received is then recognized within loans and notes payable (see Note 13).

5.1.2 Asset Securitizations

The Bank periodically securitizes groups of assets by selling them to independent structured entities. As part of these transactions, the Bank generally retains an interest in the securitized assets, such as servicing rights and various forms of recourse including rights to excess spread 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 the Bank. 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 the Bank's major on-balance sheet securitization programs:

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

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

Subsequently the Bank may sell its NHA MBS certificates to third parties or under the Canada Mortgage Bond ("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. The Bank 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, the Bank 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 the Bank. The total return swaps are not recognized at fair value in the Bank'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 income.

Securitization obligations under the CMB program where the Bank 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 the Bank's own issued NHA MBS certificates, the investments are recognized on the Bank'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 the Bank has not entered into a total return swap, as scheduled and unscheduled payments are received the cash flows are ultimately transferred to the holders of the NHA MBS certificates and the securitization liabilities are reduced accordingly.

Multi-Seller Conduit

The Bank 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 the Bank has transferred all legal right, title and interest in the mortgages to the structured entity, the Bank also provides a limited financial guarantee in the

(In Thousands of Canadian Dollars Unless Otherwise Indicated)

5. TRANSFERS OF FINANCIAL ASSETS (continued)

form of a cash reserve. Through this credit enhancement, the bank 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 the Bank 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 the Bank under these programs that have not been derecognized and the related securitization obligations recognized on the consolidated balance sheet:

	2018[1]		2017	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Securitized Assets				
Cash reserve related to Multi-Seller Conduit	**$ 5,463**	**$ 5,463**	$ 6,660	$ 6,660
Securities – securitized portfolio (Note 4)	**344,290**	**344,290**	305,886	305,886
Residential mortgages	**3,904,797**	**3,870,042**	4,526,780	4,472,170
	4,254,550	**4,219,795**	4,839,326	4,784,716
Securitization Liabilities				
Securitization obligations under the CMB program[2]	**1,879,662**	**1,850,947**	2,152,227	2,109,659
Securitization obligations under the NHA MBS program[3]	**1,994,557**	**1,969,863**	2,054,913	2,009,835
Securitization obligations to Multi-Seller Conduit[4]	**108,910**	**107,271**	132,849	131,131
	3,983,129	**3,928,081**	4,339,989	4,250,625
Net position	**$ 271,421**	**$ 291,714**	$ 499,337	$ 534,091

[1] The amounts as at December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (refer to Note 3.1).
[2] Securitization obligations under the CMB program have a weighted average interest rate of 1.51% (2017 – 1.58%) and include only those CMB securitizations subject to a total return swap.
[3] Securitization obligations under the NHA MBS program have a weighted average interest rate of 1.77% (2017 – 1.65%) and include CMB securitizations which are not subject to a total return swap
[4] 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.

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

5.2 Derecognized Financial Asset Transfers

5.2.1 Loan Sales and Syndications

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

Under the servicing arrangements, the Bank 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 the Bank adequately for servicing the related assets. Consequently, the Bank 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 income on the consolidated statement of income net of direct servicing costs incurred.

(In Thousands of Canadian Dollars Unless Otherwise Indicated)

5. TRANSFERS OF FINANCIAL ASSETS (continued)

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

	2018[1]		
	Retail Loans	**Commercial Loans**	**Total**
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**

(1) The amounts as at December 31, 2018 have been prepared in accordance with IFRS 9 and IFRS 15; prior year amounts have not been restated (refer to Note 3).
(2) Consists of net servicing fees included in fee for service income on the consolidated income statement.

	2017		
	Retail Loans	**Commercial Loans**	**Total**
Sales/Syndication Activity			
Notional amount of commitments syndicated during the year	$ -	$ 361,096	$ 361,096
Carrying value of loans sold and derecognized during the year	176,152	72,225	248,377
Gain on loans sold and derecognized during the year	1,397	610	2,007
Continuing Involvement			
Outstanding principal balance of derecognized loans subject to servicing arrangements at year end	301,877	1,157,173	1,459,050
Cumulative income earned on derecognized loans during the year[2]	939	764	1,703

(1) Consists of net servicing fees included in fee for service income on the consolidated income statement.

In 2017, the Bank also transferred and derecognized commercial mortgages of $30,217 to third parties which resulted in a total loss of $40 being recorded within gain on financial instruments in the consolidated statement of income. As part of these transactions, the Bank retained no servicing rights or other form of continuing involvement and thus the impacts of these sales are excluded from the tables above. The Bank had no such sales in 2018.

5.2.2 Asset Securitizations

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

- The Bank subsequently enters into an agreement to transfer its right to the excess spread to a third party;
- The Bank 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 the Bank has transferred control of these assets.

When the Bank 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, the Bank'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.

(In Thousands of Canadian Dollars Unless Otherwise Indicated)

5. TRANSFERS OF FINANCIAL ASSETS (continued)

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

	2018[(1)]	2017
Securitization Activity		
Carrying value of mortgages derecognized during the year	**$ 771,914**	$ 184,961
Gain on sale of mortgages during the year	**4,342**	1,145
Continuing Involvement		
Carrying value of deferred installments receivable[(2)]	**431**	726
Carrying value of retained interests	**61,946**	37,469
Total other securitization assets	**62,377**	38,195
Carrying value of servicing liabilities (Note 14)	**10,020**	6,652
Outstanding principal balance of derecognized loans at year end	**1,692,503**	969,400
Cumulative income earned on derecognized loans during the year	**1,108**	794

(1) The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9 and IFRS 15; prior year amounts have not been restated (refer to Note 3).

(2) The effective rate of outstanding deferred installments is 1.25% (2017 – 1.25%).

6. 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 the Bank'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 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.

	2018[(1)]						
	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**
Designated in Fair Value Hedges							
Interest rate swaps	**-**	**-**	**-**	**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**
	384,319	**790,164**	**815,361**	**63,684**	**2,053,528**	**16,008**	**15,547**
	$ 403,421	**$ 949,821**	**$ 999,017**	**$ 95,899**	**$ 2,448,158**	**$ 17,948**	**$ 18,486**

(1) The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (refer to Note 3.1).

(In Thousands of Canadian Dollars Unless Otherwise Indicated)

6. DERIVATIVE ASSETS AND LIABILITIES (continued)

2017							
	Notional Amount by Term to Maturity					**Fair Value**	
	Within 3 Months	**Over 3 Months to 1 Year**	**Over 1 Year to 5 Years**	**Over 5 Years**	**Total**	**Asset**	**Liability**
Asset / Liability Management							
Interest rate swaps	$ 11,780	$ 179,356	$ 321,866	$ 27,731	$ 540,733	$ 3,161	$ 3,785
Designated in Fair Value Hedges							
Interest rate swaps	-	-	-	5,500	5,500	3	6
As Intermediary							
Interest rate swaps	-	124,500	1,352,408	32,904	1,509,812	14,259	13,811
Forward rate contracts	120,200	-	-	11,078	131,278	482	474
Foreign exchange contracts	24,986	14,107	-	-	39,093	671	657
	145,186	138,607	1,352,408	43,982	1,680,183	15,412	14,942
	$ 156,966	$ 317,963	$ 1,674,274	$ 77,213	$ 2,226,416	$ 18,576	$ 18,733

Derivative assets and liabilities are expected to be realized in the following periods:

	2018(1)		**2017**	
	Asset	**Liability**	**Asset**	**Liability**
Within 12 months	**$ 15,430**	**$ 14,936**	$ 10,041	$ 9,689
After 12 months	**2,518**	**3,550**	8,535	9,044
	$ 17,948	**$ 18,486**	$ 18,576	$ 18,733

(1) *The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (refer to Note 3.1).*

Results of hedge activities

The Bank uses forward rate agreements to hedge the variability in cash flows related to the issuance of obligations under the CMB and 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. The Bank has designated this hedging relationship as a cash flow hedge and the realized gains and losses are reclassified from OCI to net income over the period of the obligation under the securitization program.

The Bank 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 the Bank 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. The Bank has designated this hedging relationship as a fair value hedge and the net difference between the fair value changes of the hedging instrument and the hedged risk component of long-term securities is recorded in gain on financial instruments in the statement of income.

	2018	**2017**
Cash Flow Hedges		
Ineffective portion – recorded in gain on financial instruments (Note 17)	**$ -**	$ -
Effective portion – net (losses) gains recorded in OCI during the year	**(227)**	3,760
Reclassification of gains to net income during the year	**(985)**	(715)
Fair Value Hedges		
Ineffective portion recorded in gain on financial instruments (Note 17)	**(5)**	(12)
Reclassification of gains on hedged risk components from OCI to net income	**6**	(24)
Unrealized losses on derivatives related to hedged risk components	**(9)**	26

(In Thousands of Canadian Dollars Unless Otherwise Indicated)

7. LOANS RECEIVABLE

	2018[1]			2017		
	Gross Carrying Value	**Allowance for Credit Losses**	**Total**	**Gross Carrying Value**	**Allowance for Credit Losses**	**Total**
Loans at Amortized Cost						
Retail Loans						
Residential mortgages[2]	**$ 5,488,228**	**$ (2,029)**	**$ 5,486,199**	$ 6,086,300	$ (2,363)	$ 6,083,937
Consumer loans	**407,637**	**(4,678)**	**402,959**	367,480	(2,025)	365,455
Commercial Loans						
Commercial mortgages and loans	**1,077,771**	**(13,764)**	**1,064,007**	1,064,486	(15,036)	1,049,450
Commercial leases	**232,311**	**(1,129)**	**231,182**	181,795	(2,637)	179,158
Total loans at amortized cost	**$ 7,205,947**	**$ (21,600)**	**$ 7,184,347**	$ 7,700,061	$ (22,061)	$ 7,678,000
Loans at FVOCI						
Retail Loans						
Residential mortgages			**1,114,504**			NA
			$ 8,298,851			$ 7,678,000

(1) The amounts as at December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (refer to Note 3.1).
(2) Residential mortgages include $210 (2017 - $992) of property held for resale.

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

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

For commercial mortgages and loans, the Bank'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. The Bank'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 the Bank intends to sell which are measured at FVTPL. As these sales occur prior to funding, the Bank does not recognize loans at FVTPL in its consolidated balance sheet. Instead the portion of the commitment designated for sale is measured at FVTPL up to the date of transfer (Note 20); and
- A sub-portfolio which contains the portion of loans the Bank intends to hold on-balance sheet which are measured at amortized cost.

The following table provides information on the unrealized gains and losses for the Bank's loans measured at fair value:

	2018[1]				2017			
	Amortized	**Unrealized**		**Fair**	**Amortized**	**Unrealized**		**Fair**
	Cost	**Gains**	**Losses**	**Value**	**Cost**	**Gains**	**Losses**	**Value**
Loans at FVOCI								
Residential mortgages	**$ 1,114,809**	**$ 1,790**	**$ (2,095)**	**$ 1,114,504**	NA	NA	NA	NA

(1) The amounts as at December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (refer to Note 3.1).

(In Thousands of Canadian Dollars Unless Otherwise Indicated)

7. LOANS RECEIVABLE (continued)

The maturity dates and weighted average effective interest rate information for the loans portfolio are as follows:

	2018[1]					
	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**	**$ 1,036,795**	**$ 4,212,844**	**$ 2,535**	**$ 5,482,041**
Consumer loans	**7.63%**	**11,222**	**50,528**	**218,368**	**126,169**	**406,287**
Commercial mortgages and loans	**4.37%**	**137,179**	**256,436**	**636,960**	**42,681**	**1,073,256**
Commercial leases	**4.32%**	**403**	**12,495**	**196,885**	**22,528**	**232,311**
Loans at FVOCI						
Residential mortgages	**4.16%**	**160,578**	**792,229**	**159,719**	**-**	**1,112,526**
		$ 539,249	**$ 2,148,483**	**$ 5,424,776**	**$ 193,913**	**$ 8,306,421**
Accrued interest						**14,030**
Total gross carrying value						**$ 8,320,451**

[1] *The amounts as at December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (refer to Note 3.1).*

	2017					
	Effective Rate	**Within 3 Months**	**Over 3 Months to 1 Year**	**Over 1 Year to 5 Years**	**Over 5 Years**	**Total**
Residential mortgages	2.85%	$ 203,447	$ 893,815	$ 4,979,112	$ 3,166	$ 6,079,540
Consumer loans	7.39%	5,823	37,109	192,261	131,104	366,297
Commercial mortgages and loans	4.17%	131,496	214,518	634,119	79,757	1,059,890
Commercial leases	4.00%	471	5,692	162,310	13,322	181,795
		$ 341,237	$ 1,151,134	$ 5,967,802	$ 227,349	$ 7,687,522
Accrued interest						12,539
Total gross carrying value						$ 7,700,061

Commercial leases

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

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

(In Thousands of Canadian Dollars Unless Otherwise Indicated)

8. ALLOWANCE AND NET PROVISION FOR CREDIT LOSSES

The following tables present the changes to the allowance for credit losses for the Bank's loans and undrawn commitments:

	IFRS 9 2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Residential Mortgages				
Balance, beginning of year	**$ 847**	**$ 456**	**$ 710**	**$ 2,013**
Provision for credit losses (recoveries)				
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 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 year	**$ 3,554**	**$ 768**	**$ 56**	**$ 4,378**
Provision for credit losses (recoveries)				
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 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**
Commercial Mortgages and Loans				
Balance, beginning of year	**$ 2,232**	**$ 19,946**	**$ 3,500**	**$ 25,678**
Provision for credit losses (recoveries)				
Re-measurement	**608**	**(9,764)**	**566**	**(8,590)**
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**	**-**
Stage 3	**-**	**-**	**-**	**-**
Total provision for credit losses (recoveries)	**226**	**(14,476)**	**3,625**	**(10,625)**
Write-offs	**-**	**-**	**(645)**	**(645)**
Recoveries	**-**	**-**	**79**	**79**
Total allowance for credit losses	**2,458**	**5,470**	**6,559**	**14,487**
Less: allowance for undrawn commitments	**(651)**	**(72)**	**-**	**(723)**
Balance, end of year	**$ 1,807**	**$ 5,398**	**$ 6,559**	**$ 13,764**

(In Thousands of Canadian Dollars Unless Otherwise Indicated)

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

IFRS 9
2018

	Stage 1	Stage 2	Stage 3	Total
Commercial Leases				
Balance, beginning of year	**$ 386**	**$ 669**	**$ 878**	**$ 1,933**
Provision for credit losses (recoveries)				
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 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**

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2017

	Residential Mortgages	Consumer Loans	Commercial Mortgages & Loans	Commercial Leases	Total
Specific Allowance					
Balance, beginning of year	$ 866	$ 583	$ 5,715	$ 2,117	$ 9,281
Increase in allowance	207	578	-	1,825	2,610
Reversal of allowance	(46)	(107)	(2,215)	(101)	(2,469)
Write-offs applied to allowance	(567)	(994)	-	(2,963)	(4,524)
Balance, end of year	460	60	3,500	878	4,898
Collective Allowance					
Balance, beginning of year	2,514	2,297	12,011	2,668	19,490
Increase in allowance	-	-	-	-	-
Reversal of allowance	(611)	(332)	(475)	(909)	(2,327)
Balance, end of year	1,903	1,965	11,536	1,759	17,163
Total allowance	$ 2,363	$ 2,025	$ 15,036	$ 2,637	$ 22,061

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

	2018(1)	2017
Debt Instruments at Amortized Cost		
Residential mortgages	**$ 336**	$ (349)
Consumer loans	**4,223**	4,159
Commercial mortgages and loans	**(10,625)**	(3,091)
Commercial leases	**(230)**	730
Debt Instruments at FVOCI		
Residential mortgages	**676**	NA
Securities	**117**	NA
Gross provision for credit (recoveries) losses	**(5,503)**	1,449
Impact of financial guarantees	**(2,095)**	(831)
Net provision for credit (recoveries) losses	**$ (7,598)**	$ 618

(1) *The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (refer to Note 3.1).*

(In Thousands of Canadian Dollars Unless Otherwise Indicated)

9. INVESTMENT PROPERTY

The following table presents a continuity of the Bank's investment property:

		2018		2017
Balance, beginning of year	**$**	**16,980**	$	14,638
Improvements		**1,804**		522
Increase in fair value		**331**		1,820
Reclassification to assets held for sale (Note 24)		**(19,115)**		-
Balance, end of year	**$**	**-**	$	16,980

10. OTHER ASSETS

		2018[1]		2017
Accounts receivable	**$**	**4,112**	$	2,633
Prepaid and deferred costs		**972**		954
Premises and equipment		**3,894**		3,724
Other intangible assets		**2,821**		2,488
Current income tax assets		**-**		128
Deferred income tax assets (Note 11)		**14,832**		15,785
	$	**26,631**	$	25,712

[1] *The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9 and IFRS 15; prior year amounts have not been restated (refer to Note 3).*

Amortization recorded on premises and equipment for the year was $611 (2017- $507). Amortization recorded on other intangible assets for the year was $672 (2017- $537).

11. INCOME TAXES

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

		2018[1]		2017
Current income tax expense				
Current tax on income for current year	**$**	**15,047**	$	13,733
Current tax from adjustments for prior years		**297**		(615)
		15,344		13,118
Deferred income tax (recovery) expense				
Origination and reversal of temporary differences		**421**		(1,327)
Deferred tax from adjustments for prior years		**(296)**		528
Impact of tax rate changes		**1**		(12)
		126		(811)
	$	**15,470**	$	12,307

[1] *The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9 and IFRS 15; prior year amounts have not been restated (refer to Note 3).*

(In Thousands of Canadian Dollars Unless Otherwise Indicated)

11. INCOME TAXES (continued)

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

		2018[(1)]		2017
Other comprehensive income				
Current income tax recovery				
Net unrealized losses on available-for-sale securities	**$**	**NA**	$	(1,276)
Reclassification of gains on available-for-sale securities to net income		**NA**		(183)
Net unrealized gains on FVOCI securities		**844**		NA
Reclassification of gains on FVOCI securities to net income		**(253)**		NA
Reclassification of impairment losses on FVOCI securities to net income		**32**		NA
Net unrealized gains on FVOCI loans		**267**		NA
Reclassification of gains on FVOCI loans to net income		**(205)**		NA
Reclassification of impairment losses on FVOCI loans to net income		**95**		NA
Net (losses) gains on derivatives designated as cash flow hedges		**(61)**		1,006
Reclassification of gains on derivatives designated as cash flow hedges to net income		**(266)**		(191)
	$	**453**	$	(644)

[(1)] The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (refer to Note 3.1).

Reconciliation of income tax expense from operations:

		2018[(1)]		2017
Combined federal and provincial income tax rate applied to income from operations (2018 – 27.0%; 2017 – 26.8%)	**$**	**15,128**	$	12,288
Income tax expense adjusted for the effect of:				
Adjustments related to prior periods		**2**		(87)
Expenses not deductible for tax purposes		**155**		46
Impact of change in tax rates		**1**		(12)
Other		**184**		72
	$	**15,470**	$	12,307

[(1)] The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9 and IFRS 15; prior year amounts have not been restated (refer to Note 3).

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 27.0% (2017 – 27.0%). The movement in deferred income taxes is as follows:

		2018[(1)]		2017
Balance, beginning of year	**$**	**329**	$	(448)
Recognized in net income		**(126)**		811
Impact of adopting IFRS 9		**3,345**		NA
Other adjustments		**2**		(34)
Balance, end of year	**$**	**3,550**	$	329

[(1)] The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9 and IFRS 15; prior year amounts have not been restated (refer to Note 3.1).

(In Thousands of Canadian Dollars Unless Otherwise Indicated)

11. INCOME TAXES (continued)

The components of deferred income taxes are as follows:

	2018[1]	2017
Deferred income tax assets		
Loans	**$ 13,929**	$ 14,971
Other	**903**	814
	14,832	15,785
Deferred income tax liabilities		
Securitization activities	**(11,261)**	(15,456)
Other	**(21)**	-
	(11,282)	(15,456)
Net deferred income taxes	**$ 3,550**	$ 329

[1] *The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9 and IFRS 15; prior year amounts have not been restated (refer to Note 3.1).*

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

	2018[1]	2017
Net deferred income taxes (payable) recoverable		
Within 12 months	**$ (1,499)**	$ (1,273)
After more than 12 months	**5,049**	1,602
	$ 3,550	$ 329

[1] *The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9 and IFRS 15; prior year amounts have not been restated (refer to Note 3.1).*

12. DEPOSITS

	2018[1]	2017
Retail deposits	**$ 3,437,209**	$ 2,602,138
Credit union deposits	**1,052,564**	985,671
Commercial deposits	**187,018**	164,957
Capital market deposits	**150,368**	-
	$ 4,827,159	$ 3,752,766

[1] *The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (refer to Note 3.1).*

All deposits are recorded at amortized cost. The maturity dates and weighted average interest rates for the Bank's deposits are as follows:

2018[1]	Effective Rate	On Demand/ Notice	Within 3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	Total
Retail deposits	**2.50%**	**$ 96,494**	**$ 242,571**	**$ 993,523**	**$ 2,064,755**	**$ 5**	**$ 3,397,348**
Credit Union deposits	**1.95%**	**334,350**	**288,037**	**324,596**	**102,100**	**-**	**1,049,083**
Commercial deposits	**1.24%**	**166,178**	**20,063**	**411**	**203**	**-**	**186,855**
Capital market deposits	**2.81%**	**-**	**-**	**-**	**149,733**	**-**	**149,733**
		$ 597,022	**$ 550,671**	**$ 1,318,530**	**$ 2,316,791**	**$ 5**	**$ 4,783,019**
Accrued interest							**44,140**
							$ 4,827,159

[1] *The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (refer to Note 3.1).*

(In Thousands of Canadian Dollars Unless Otherwise Indicated)

12. DEPOSITS (continued)

	2017						
	Effective Rate	**On Demand/ Notice**	**Within 3 Months**	**Over 3 Months to 1 Year**	**Over 1 Year to 5 Years**	**Over 5 Years**	**Total**
Retail deposits	2.09%	$ 181,646	$ 130,714	$ 685,424	$ 1,579,486	$ -	$ 2,577,270
Credit Union deposits	1.34%	364,447	276,013	237,861	104,450	-	982,771
Commercial deposits	0.89%	164,317	62	427	147	-	164,953
Capital market deposits	-	-	-	-	-	-	-
		$ 710,410	$ 406,789	$ 923,712	$ 1,684,083	$ -	$ 3,724,994
Accrued interest							27,772
							$ 3,752,766

13. LOANS AND NOTES PAYABLE

	2018[(1)]	2017
Lines of credit	**$ 4,049**	$ 649
Notes payable	**151,840**	227,974
Repurchase agreements (Note 5.1.1)	**158,567**	225,188
	$ 314,456	$ 453,811

(1) *The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (refer to Note 3.1).*

All loans and notes payable are due within 12 months (2017 – within 12 months).

Lines of credit

The Bank maintains a $100,000 (2017 - $100,000) line of credit facility with SaskCentral. The line of credit bears interest at prime less 0.50% (2017 – prime less 0.50%) with an effective interest rate at December 31, 2018 of 3.45% (2017 – 2.70%). The line of credit is partially secured by securities or other assets that meet the minimum quality acceptable by SaskCentral. In accordance with the *Clearing and Settlement Agreement* with SaskCentral, SaskCentral may at its sole discretion make advances in excess of the line of credit as an overdraft. Overdrafts bear interest at prime plus 4.00% (2017 – prime plus 4.00%) with an effective interest rate at December 31, 2018 of 7.95% (2017 – 7.20%).

The Bank maintains a $500,000 (2017 - $500,000) Secured Credit Facility with a major Schedule 1 Canadian bank. The facility bears interest at the banker's acceptance rate plus 0.50% (2017 – banker's acceptance rate plus 0.50%) and is secured by insured residential mortgages or other qualified securities.

Notes payable

Notes payable consists of short-term instruments issued under the Bank's Bearer Deposit Note ("BDN") program. The weighted average effective interest rate of these items is 2.22% at year end (2017 – 1.46%).

Repurchase agreements

Repurchase agreements represent obligations of the Bank under its various securities sale and repurchase agreements (see Note 5.1.1) utilized for ongoing liquidity management. The outstanding repurchase agreements at year end have a weighted average effective interest rate of 1.93% (2017 – 1.13%).

14. OTHER LIABILITIES

	2018[(1)]	2017
Servicing liabilities (Note 5.2.2)	**$ 10,020**	$ 6,652
Current income tax liabilities	**2,148**	12,325
Deferred income tax liabilities (Note 11)	**11,282**	15,456
Allowance for undrawn commitments (Note 8)	**815**	NA
	$ 24,265	$ 34,433

(1) *The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (refer to Note 3.1).*

15. SHARE CAPITAL

The Bank is authorized to issue the following classes of shares:

- An unlimited number of voting common shares without par value
- An unlimited number of non-voting Class A preferred shares without par value issuable in series
- An unlimited number of non-voting Class B preferred shares without par value issuable in series

Common shares

Common shares are non-redeemable and represent the residual claim to the Bank's property upon dissolution. Common shares are entitled to receive dividends as and when declared by the Board subject to the rights of the Class A and Class B preferred shares. Voting privileges are determined on the basis of one vote per share. As a requirement of the bylaws, subject to the requirements of the *Bank Act (Canada)*, common shares may only be issued to or transferred between cooperative corporations and other associated entities unless: (1) a special resolution is passed by a two-thirds majority shareholder vote (provided that if a shareholder owns, directly or indirectly, greater than 50% of the common shares of the Bank, such shareholder may only exercise up to 50% of the total votes cast); (2) a non-viability contingent capital ("NVCC") trigger event occurs; or (3) OSFI orders a directive under section 485 of the *Bank Act (Canada)* for the Bank to increase its capital.

Class A preferred shares

Class A preferred shares are entitled to preferential dividends as and when declared by the Board. The Class A preferred shares may be issued at any time or from time to time in one or more series provided each series of Class A preferred shares ranks in parity with every other series of Class A preferred shares with respect to dividends and return of capital. Before issuance of a series, the Board shall fix the number of shares that will form such series and determine the designation, rights, privileges, restrictions and conditions specific to that series, subject to any limitations set out in the *Bank Act (Canada)* and the approval of OSFI. The Board has currently approved for issuance two series of Class A preferred shares: Series 1 and Series 2.

Class A - Series 1 preferred shares entitle the holders to an annual, non-cumulative fixed dividend of $1.15 per share for an initial period expiring on January 31, 2021. Upon expiration of this initial period, and every five years thereafter, the annual, non-cumulative fixed dividend rate of the Class A – Series 1 preferred shares will reset to an amount equal to the Government of Canada five-year bond yield plus 3.59%.

Class A – Series 2 preferred shares are entitled to a non-cumulative floating quarterly dividend at a rate equal to the 90-day Canadian treasury bill rate plus 3.59%.

Subject to a minimum amount of shares remaining outstanding in each series, upon expiration of the initial period and every five years thereafter, holders of the Class A – Series 1 preferred shares will have the right to exchange their shares for an equal amount of Class A – Series 2 preferred shares, or vice-versa.

The Class A – Series 1 and Series 2 preferred shares are redeemable at the option of the Bank for Twenty Five Dollars ($25.00) per share no earlier than January 31, 2021 subject to the approval of OSFI and the requirements of the *Bank Act (Canada)*.

Upon the occurrence of a NVCC trigger event, the Class A – Series 1 and Series 2 preferred shares will be immediately cancelled for no consideration and the stated capital in respect of these classes of shares will immediately be reduced to $nil. From and after such date, the Class A – Series 1 and Series 2 shareholders shall have no right to receive, or assert a claim for any amount in respect of dividends or any payment upon a distribution of assets in the event of the liquidation, dissolution or winding-up of the Bank.

Class B preferred shares

Class B preferred shares are entitled to preferential dividends as and when declared by the Board. The Class B preferred shares may be issued at any time or from time to time in one or more series provided each series of Class B preferred shares ranks in parity with every other series of Class B preferred shares with respect to dividends and return of capital. Before issuance of a series, the Board shall fix the number of shares that will form such series and determine the designation, rights, privileges, restrictions and conditions specific to that series, subject to any limitations set out in the *Bank Act (Canada)* and the approval of OSFI. There are currently no series of Class B preferred shares approved for issuance.

(In Thousands of Canadian Dollars Unless Otherwise Indicated)

15. SHARE CAPITAL (continued)

The following tables summarize the Bank's share capital at year end including total dividends declared during the year:

	2018			
	Share Capital		Dividends Declared	
	# of Shares	Amount	$/Share	Total
Common shares	**9,621,114**	**$ 134,252**	**$ 0.56**	**$ 5,370**
Class A preferred shares				
Series 1	**4,439,500**	**110,987**	**$ 1.15**	**5,105**
		$ 245,239		**$ 10,475**

	2017			
	Share Capital		Dividends Declared	
	# of Shares	Amount	$/Share	Total
Common shares	9,621,114	$ 134,252	$ 0.42	$ 4,028
Class A preferred shares				
Series 1	4,439,500	110,987	$ 1.15	5,105
		$ 245,239		$ 9,133

All of the outstanding share capital of the Bank was issued on January 1, 2017 as part of a continuance transaction under the *Bank Act (Canada)*. The Bank had no further share capital transactions in 2018 and 2017.

16. FEE FOR SERVICE INCOME

	2018[1]	2017
Commercial and Retail Banking		
Syndication and servicing fees	**$ 5,284**	$ 4,823
Professional fees	**1,694**	1,624
Banking fees	**1,528**	1,663
Trust		
Trust fees	**7,228**	6,336
Estate fees	**1,137**	1,103
Total revenue from contracts with customers	**16,871**	15,549
Rental income	**604**	670
Total fee for service income	**$ 17,475**	$ 16,219

[1] *The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 15; prior year amounts have not been restated (refer to Note 3.2).*

17. GAIN ON FINANCIAL INSTRUMENTS

	2018[1]	2017
Securities		
Realized gains on available-for-sale securities	**$ NA**	$ 716
Realized gains on securities at FVOCI	**914**	NA
Loans Receivable		
Realized gains on loans at amortized cost	**308**	1,893
Realized gains on loans at FVOCI	**750**	NA
Gain on derecognized securitizations	**4,342**	1,145
Derivatives and Hedging Activities		
Unrealized and realized gains (losses) on derivatives	**(52)**	897
Ineffective portion of fair value hedges	**(5)**	(12)
Total gain on financial instruments	**$ 6,257**	$ 4,639

[1] *The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (refer to Note 3.1).*

(In Thousands of Canadian Dollars Unless Otherwise Indicated)

18. INVESTMENT PROPERTY INCOME

	2018	2017
Rental income from investment property	**$ 2,555**	$ 2,504
Operating expenses of investment property	**(2,146)**	(2,070)
Increase in fair value of investment property	**331**	1,820
Total investment property income	**$ 740**	$ 2,254

19. SALARIES AND EMPLOYEE BENEFITS EXPENSE

The Bank provides pension benefits to qualified employees. During the year the Bank contributed $1,654 (2017 - $1,559) to defined contribution and supplementary employee retirement plans. These costs are included in salaries and employee benefits. As a defined contribution pension plan, the Bank has no future liability or obligation for future contributions to fund benefits to plan members.

20. COMMITMENTS AND CONTINGENCIES

20.1 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 the Bank. If applicable, the maximum credit exposure to the Bank under certain letters of credit includes amounts for which the Bank has recourse to a third party lender.

Origination commitments consist of agreements committing the Bank to fund a specified amount of qualifying consumer loans originated by third party brokers. As the commitments are not tied to specific borrowers, 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 the Bank over the term of the underlying agreements and the actual amount funded may be lower than the disclosed commitment.

The Bank earns minimal fees from its credit commitments. The following tables summarize the contractual maturities of the financial assets underlying the Bank's credit commitments:

	2018(1)	2017
Undrawn commitments for:		
Loans at amortized cost	**$ 515,016**	$ 598,946
Loans at FVTPL(2)	**20,500**	NA
Letters of credit	**48,555**	64,629
Total loan commitments	**584,071**	663,575
Origination commitments	**8,500**	43,332
Total credit commitments	**$ 592,571**	$ 706,907

(1) *The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (refer to Note 3.1).*
(2) *Undrawn commitments for loans at FVTPL are priced at the date of funding based on the relevant market index. Consequently, the fair value of these instruments is $nil as at December 31, 2018.*

20.2 LITIGATION AND OTHER CONTINGENCIES

The Bank is subject to various claims and litigation arising from time to time in the ordinary course of business. The Bank records a provision for litigation and other contingencies when it becomes probable that the Bank will incur a loss and the amount can be reliably estimated. The established provisions represent the Bank's best estimate of the expenditure required to settle current and pending claims and proceedings, including 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.

21. RISK MANAGEMENT

The following note presents information about the Bank's exposure to risks as a result of holding financial instruments and the management of its capital.

The Board is responsible for approving the Risk Appetite Statement; entity level strategy for credit risk; and credit risk, market risk, and funding and liquidity risk corporate policy limits and tolerances. Operating risk policies, under the authority of the Chief Risk Officer, are also in place to manage credit risk, market risk, and funding and liquidity risk exposures in operations. Compliance with all policies is monitored on a monthly basis.

21. RISK MANAGEMENT (continued)

Management has established a formal committee structure to provide a structured and disciplined approach to risk management, including oversight of credit risks, market risks, and funding and liquidity risks. Credit risk is monitored by the Bank's Risk Management Committee (chaired by the Chief Risk Officer) and market risk and funding and liquidity risk is monitored by the Asset Liability Committee (chaired by the Chief Financial Officer). Both of these committees report/escalate to the Enterprise Risk and Strategy Committee (chaired by the President and Chief Executive Officer).

The Concentra Risk Dashboard report, which reflects risk profiles for credit risk, market risk, and funding and liquidity risk levels, is provided to the Board by the Chief Risk Officer on a quarterly basis.

The objectives and methodologies related to the management of credit risk, market risk and funding and liquidity risk have not changed significantly since December 31, 2017 other than with respect to the measurement of impairment due to the adoption of IFRS 9. The following is a description of these risks and how the exposures are managed.

21.1 Credit Risk

Credit risk is the risk of financial loss due to a borrower, guarantor or counterparty's inability or unwillingness to fulfill contractual payment obligations.

Objectives, policies, and methodologies

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

The Bank mitigates credit risk by taking collateral for funds advanced or other credit enhancements such as financial guarantees. The 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 premises, inventory and accounts receivable, other registered security interests 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.

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

Risk measurement

The overall credit risk position is monitored for risk appetite and policy purposes in reference to impairment, risk rating, issuer group, issuer, geographic region and industry concentration limits. Any contraventions to risk appetite or corporate policy are reported to the Board.

For its securities portfolio, the Bank supplements internal credit analysis with industry recognized rating agency data (DBRS Limited, Standard and Poor's, and Moody's Investors Service). The Bank uses the most conservative rating from the rating agency data available. For its loan portfolios, the Bank's primary reliance is on internal risk ratings based on a comprehensive review of the credit worthiness of the borrower and the quality of the collateral underlying the loan.

For regulatory purposes, the Bank measures credit risk under Basel III using the standardized approach. Under this approach, risk weights prescribed by 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.

(In Thousands of Canadian Dollars Unless Otherwise Indicated)

21. RISK MANAGEMENT (continued)

21.1.1 Credit Quality Overview

The following table sets out the information about the credit quality of the Bank's non-derivative financial assets and undrawn commitments by risk rating category:

	2018[1]				2017
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
Retail Loans at Amortized Cost					
Low risk	**$ 4,836,448**	**$ 38,850**	**$ -**	**$ 4,875,298**	$ 5,436,731
Standard monitoring	**991,677**	**2,583**	**-**	**994,260**	983,072
Special monitoring	**-**	**24,575**	**-**	**24,575**	20,583
Default	**-**	**-**	**1,732**	**1,732**	13,394
Total exposure	**5,828,125**	**66,008**	**1,732**	**5,895,865**	6,453,780
Allowance for credit losses	**(5,011)**	**(984)**	**(712)**	**(6,707)**	(4,388)
Commercial Loans at Amortized Cost					
Low risk	**$ 128,263**	**$ 6,284**	**$ -**	**$ 134,547**	$ 102,597
Standard monitoring	**1,029,620**	**79,725**	**-**	**1,109,345**	1,020,081
Special monitoring	**-**	**37,609**	**-**	**37,609**	110,050
Default	**-**	**-**	**28,581**	**28,581**	13,553
Total exposure	**1,157,883**	**123,618**	**28,581**	**1,310,082**	1,246,281
Allowance for credit losses	**(2,280)**	**(5,791)**	**(6,822)**	**(14,893)**	(17,673)
Undrawn Commitments[2]					
Low risk	**$ 289,790**	**$ -**	**$ -**	**$ 289,790**	$ 311,363
Standard monitoring	**283,580**	**8,467**	**-**	**292,047**	351,003
Special monitoring	**-**	**1,856**	**-**	**1,856**	-
Default	**-**	**-**	**378**	**378**	1,209
Total exposure[3]	**573,370**	**10,323**	**378**	**584,071**	663,575
Allowance for credit losses	**(741)**	**(74)**	**-**	**(815)**	-
Retail Loans at FVOCI					
Low risk	**$ -**	**$ -**	**$ -**	**$ -**	NA
Standard monitoring	**1,095,753**	**7,828**	**-**	**1,103,581**	NA
Special monitoring	**-**	**6,134**	**-**	**6,134**	NA
Default	**-**	**-**	**4,789**	**4,789**	NA
Total exposure	**1,095,753**	**13,962**	**4,789**	**1,114,504**	NA
Impairment reserve[4]	**(803)**	**(44)**	**(718)**	**(1,565)**	NA
Securities at FVOCI					
AAA/R1H	**$ 755,944**	**$ -**	**$ -**	**$ 755,944**	$ 657,647
AA/R1M	**53,797**	**-**	**-**	**53,797**	27,109
A/R1L	**219,966**	**-**	**-**	**219,966**	201,027
BBB/R2H	**7,908**	**-**	**-**	**7,908**	13,063
BB	**-**	**-**	**-**	**-**	3,039
Unrated	**-**	**-**	**-**	**-**	2,831
Total exposure	**1,037,615**	**-**	**-**	**1,037,615**	904,716
Impairment reserve[4]	**(173)**	**-**	**-**	**(173)**	NA

(1) The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (refer to Note 3.1).
(2) Excludes origination commitments as they are not tied to specific borrowers and therefore do not represent a credit risk exposure. See Note 20.1 for more information
(3) The total exposure for undrawn commitments represents the maximum amount the Bank is contractually committed to fund. Many of these contracts will expire without being drawn upon and thereby reduce the Bank's credit risk from the maximum commitment.
(4) Impairment reserves represent the accumulated ECLs which have been reclassified from OCI to net income since inception of the FVOCI debt instruments.

Additionally, the Bank holds cash of $174,170 (2017 - $425,245) on deposit with various highly rated financial institutions that maintain investment grade credit ratings.

(In Thousands of Canadian Dollars Unless Otherwise Indicated)

21. RISK MANAGEMENT (continued)

For derivative financial instruments, credit risk 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. The Bank 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 the Bank'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.

The following table provides information in relation to the Bank's credit risk exposure for derivative financial transactions. 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 ("CAR"):

	2018[1]			2017		
	Interest Rate Contracts	**Foreign Exchange Contracts**	**Total**	**Interest Rate Contracts**	**Foreign Exchange Contracts**	**Total**
Notional amounts	**$ 2,394,511**	**$ 53,647**	**$ 2,448,158**	$ 2,187,323	$ 39,093	$ 2,226,416
Positive replacement cost	**16,949**	**999**	**17,948**	17,905	671	18,576
Potential credit risk exposure	**6,434**	**536**	**6,970**	9,530	390	9,920
Credit equivalent amount	**23,382**	**1,536**	**24,918**	27,435	1,061	28,496
Risk-weighted equivalent	**4,676**	**307**	**4,983**	5,487	212	5,699

(1) The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (refer to Note 3.1).

21.1.2 Collateral and Other Credit Enhancements

Residential mortgages

All of the Bank's residential mortgages are secured by a first charge mortgage against the underlying property. The Bank 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, the Bank will obtain an additional credit enhancement in the form of default insurance. Default insurance is issued either by the government backed CMHC or another highly rated financial institution and covers shortfalls in the realized value of collateral relative to the principal balance of a defaulted loan upon completion of foreclosure procedures.

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

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 the Bank 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 the Bank's credit risk exposure is limited to the loss of interest income between the date the borrower defaults and the premium is refunded. These secured loans represented approximately 12.9% (2017 – 8.6%) of the Bank's consumer loans at December 31, 2018.

The remainder of the Bank'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, the Bank 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 the Bank and the Bank 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 the Bank has no further recourse against the originator should actual losses exceed the reserve amount. As at December 31, 2018 the cash reserve had a balance of $3,524 (2017 - $2,282) providing credit enhancement to $172,688 (2017 - $101,282) of the Bank's consumer loans.

(In Thousands of Canadian Dollars Unless Otherwise Indicated)

21. RISK MANAGEMENT (continued)

Commercial mortgages and loans

Approximately 91.7% (2017 – 88.3%) of the Bank's commercial portfolio consists of real estate and construction lending which are secured by a first charge mortgage over the underlying property. The Bank 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. The Bank 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.

Debt securities

Asset-backed debt securities totaling $181,793 (2017 – $83,989) consist of short-term paper backed by specifically pledged assets, which may include trade receivables, residential mortgages, auto loans and/or commercial leases. The issuers of these securities provide additional credit enhancement to the underlying asset pools such as cash reserves, overcollateralization and/or other limited financial guarantees. The Bank relies upon assessments of the collateral/credit enhancements performed by external rating agencies and only holds instruments which have received the highest possible credit rating of AAA/R1H.

The remaining debt securities held by the Bank are either senior unsecured obligations or guaranteed by the Government of Canada. Consequently, for these instruments the creditworthiness of the issuer/guarantor is considered to be the most relevant indicator of credit quality with the underlying collateral, if any, having a limited impact on the Bank's credit risk assessment.

21.1.3 Impaired Financial Assets

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

	2018[(1)]				2017			
	1 – 29 Days	**30 – 89 Days**	**90 Days and Greater**	**Total**	**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**	$ 44,525	$ 10,919	$ 11,060	$ 66,504
Consumer loans	**1,767**	**1,770**	**-**	**3,537**	1,676	1,027	-	2,703
Commercial mortgages and loans	**1,787**	**3,799**	**-**	**5,586**	346	-	-	346
Commercial leases	**1,603**	**5,372**	**-**	**6,975**	1,914	218	-	2,132
Loans at FVOCI								
Residential mortgages	**22,461**	**6,084**	**-**	**28,545**	NA	NA	NA	NA
	$ 61,340	**$ 30,339**	**$ 9,491**	**$ 101,170**	$ 48,461	$ 12,164	$ 11,060	$ 71,685

(1) The amounts as at December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (refer to Note 3.1).

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21. RISK MANAGEMENT (continued)

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

	2018[(1)]			2017		
	Gross Impaired Loans	**Allowance for Credit Losses**	**Net Carrying Value**	**Gross Impaired Loans**	**Allowance for Credit Losses**	**Net Carrying Value**
Loans at Amortized Cost						
Residential mortgages	**$ 1,424**	**$ (436)**	**$ 988**	$ 733	$ (460)	$ 273
Consumer loans	**308**	**(276)**	**32**	60	(60)	-
Commercial mortgages and loans	**27,205**	**(6,559)**	**20,646**	10,504	(3,500)	7,004
Commercial leases	**1,370**	**(263)**	**1,107**	2,193	(878)	1,315
Loans at FVOCI						
Residential mortgages[(2)]	**4,789**	**-**	**4,789**	NA	NA	NA
	$ 35,096	**$ (7,534)**	**$ 27,562**	$ 13,490	$ (4,898)	$ 8,592
By geography:						
British Columbia	**$ 35**			$ 2		
Alberta	**10,431**			1,479		
Saskatchewan	**5,445**			227		
Ontario	**7,011**			1,230		
Other	**12,174**			10,552		
	$ 35,096			$ 13,490		

(1) The amounts as at December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (refer to Note 3.1).
(2) 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 otherwiose been reocgnized had these instruments been measured at amortized.

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

21.1.4 Credit Risk Concentrations

The following tables summarize the credit exposures by industry for the Bank's loans and leases:

	2018[(1)]		
	Gross Carrying Value	**Undrawn Commitments[(2)]**	**Total**
Commercial Customers			
Agriculture and forestry	**$ 151,297**	**$ 24,011**	**$ 175,308**
Construction	**230,163**	**289,811**	**519,974**
Commercial real estate	**565,651**	**1,663**	**567,314**
Credit union	**7,000**	**232,057**	**239,057**
Health care	**19,010**	**1,000**	**20,010**
Hospitality	**115,305**	**3,494**	**118,799**
Manufacturing	**71,309**	**-**	**71,309**
Public administration	**18,013**	**7,250**	**25,263**
Transportation and warehousing	**47,123**	**-**	**47,123**
Utilities	**14,072**	**-**	**14,072**
Other	**71,139**	**13,388**	**84,527**
Retail Customers			
Residential mortgages – insured	**4,590,398**	**385**	**4,590,783**
Residential mortgages – uninsured	**2,012,334**	**1,190**	**2,013,524**
Consumer loans	**407,637**	**9,822**	**417,459**
Total exposure	**$ 8,320,451**	**$ 584,071**	**$ 8,904,522**

(1) The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (refer to Note 3.1).
(2) Excludes origination commitments as they are not tied to specific assets. See Note 20.1 for more information.

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21. RISK MANAGEMENT (continued)

	2017		
	Gross Carrying Value	Undrawn Commitments[1]	Total
Commercial Customers			
Agriculture and forestry	$ 76,230	$ 19,136	$ 95,366
Construction	222,928	322,061	544,989
Commercial real estate	529,005	13,245	542,250
Credit union	984	267,136	268,120
Health care	46,781	6,000	52,781
Hospitality	144,119	-	144,119
Manufacturing	76,142	2,330	78,472
Public administration	19,920	12,000	31,920
Transportation and warehousing	34,300	-	34,300
Utilities	20,331	-	20,331
Other	75,541	16,473	92,014
Retail Customers			
Residential mortgages – insured	5,060,080	3,840	5,063,920
Residential mortgages – uninsured	1,026,220	1,354	1,027,574
Consumer loans	367,480	-	367,480
Total exposure	$ 7,700,061	$ 663,575	$ 8,363,636

[1] *Excludes origination commitments as they are not tied to specific assets. See Note 20.1 for more information.*

The following tables summarize the credit exposures by geographic region for the Bank's loans and leases:

	2018[1]					
	British Columbia	Alberta	Saskatchewan	Ontario	Other	Total
Outstanding	**$ 1,099,477**	**$ 1,833,110**	**$ 581,893**	**$ 4,132,500**	**$ 673,471**	**$ 8,320,451**
Undrawn commitments[1]	**148,915**	**35,049**	**235,417**	**148,302**	**16,388**	**584,071**
Total exposure	**$ 1,248,392**	**$ 1,868,159**	**$ 817,310**	**$ 4,280,802**	**$ 689,859**	**$ 8,904,522**

[1] *The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (refer to Note 3.1).*
[2] *Excludes origination commitments as they are not tied to specific assets. See Note 20.1 for more information.*

	2017					
	British Columbia	Alberta	Saskatchewan	Ontario	Other	Total
Outstanding	$ 1,004,070	$ 1,926,053	$ 648,209	$ 3,433,006	$ 688,723	$ 7,700,061
Undrawn commitments[1]	183,792	19,536	242,986	192,648	24,613	663,575
Total exposure	$ 1,187,862	$ 1,945,589	$ 891,195	$ 3,625,654	$ 713,336	$ 8,363,636

[1] *Excludes origination commitments as they are not tied to specific assets. See Note 20.1 for more information.*

21.2 Market Risk

Market risk is the risk of financial loss in value of the Bank due to changes in interest rates, credit spreads, foreign exchange rates, and market prices of financial instruments.

Objectives, policies, and methodologies

- 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
- Complying with applicable regulatory expectations, regulations and guidelines

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21. RISK MANAGEMENT (continued)

The Bank has established policies that outline maximum 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.

The Bank is not exposed to significant currency risk as its net foreign currency positions are not significant.

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

Risk measurement

The market risk position is monitored in relation to policy limits on a regular basis. Measurement of market risk for policy purposes is based upon key assumptions such as future interest rate movements, asset growth, and funding mix. The short-term (next 12 months) market risk position is assessed by measuring both the impact of an immediate 100 basis point (bp) shock and a rate ramp scenario on net interest income. The long-term market risk position is measured by both the impact of an immediate 100 bp shock and a steepening or inverted yield curve on the economic value of equity. The information presented is a measurement of interest rate sensitivity gaps at a specific point in time, and there is potential for these gaps to change significantly over a short period. The impact on earnings from changes in market interest rates will depend 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 those positions over time.

	2018[1]		2017	
	Net Income	Economic Value of Equity	Net Income	Economic Value of Equity
Impact of:				
100 bp increase in rates	**5.6%**	**3.2%**	1.3%	(0.1%)
100 bp decrease in rates[2]	**(5.6%)**	**(3.4%)**	(1.2%)	0.1%
Impact of:				
Steepening yield curve	**4.5%**	**3.2%**	1.1%	0.0%
Inverted yield curve	**2.0%**	**(0.2%)**	(1.0%)	(0.4%)

[1] The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (refer to Note 3).
[2] For 2018 and 2017, the rates have been adjusted to zero where effective rates at December 31 were less than 100 bp.

In measuring market risk for ICAAP purposes, internal models are used to quantify capital required to cover market risk exposures. In addition, internal capital is set aside for stress testing market risk exposures under extreme but plausible conditions.

Interest rate risk

Within market risk, the Bank's exposure to interest rate risk can be measured 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.

Repricing dates are based on the earlier of maturity or the contractual repricing date and effective interest rates, where applicable, represent the weighted average effective yield. The tables below show the Bank's gap position as at December 31:

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21. RISK MANAGEMENT (continued)

2018[1]	Floating and on Demand	Within 3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	Non-Interest Sensitive	Total
Assets							
Cash	**$ 174,170**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 174,170**
Securities	**-**	**391,875**	**108,727**	**530,030**	**5,393**	**24,468**	**1,060,493**
Loans receivable	**646,746**	**390,888**	**2,005,264**	**5,168,930**	**92,750**	**(5,727)**	**8,298,851**
Other securitization assets	**-**	**-**	**-**	**431**	**-**	**61,946**	**62,377**
Other non-sensitive assets	**-**	**-**	**-**	**-**	**-**	**83,518**	**83,518**
Total assets	**820,916**	**782,763**	**2,113,991**	**5,699,391**	**98,143**	**164,205**	**9,679,409**
Liabilities and Shareholders' Equity							
Deposits	**597,022**	**700,404**	**1,318,530**	**2,167,058**	**5**	**44,140**	**4,827,159**
Securitization liabilities	**-**	**-**	**523,341**	**3,455,626**	**-**	**4,162**	**3,983,129**
Loans and notes payable	**4,049**	**221,245**	**88,114**	**-**	**-**	**1,048**	**314,456**
Other non-sensitive liabilities	**-**	**-**	**-**	**-**	**-**	**75,463**	**75,463**
Shareholders' equity	**-**	**-**	**-**	**-**	**-**	**479,202**	**479,202**
Total liabilities and Shareholders' equity	**601,071**	**921,649**	**1,929,985**	**5,622,684**	**5**	**604,015**	**9,679,409**
On-balance sheet gap	**219,845**	**(138,886)**	**184,006**	**76,707**	**98,138**	**(439,810)**	**-**
Notional Amount of Derivative Financial Instruments							
Pay side instruments	**-**	**(1,371,895)**	**(455,456)**	**(503,103)**	**(64,057)**	**(53,647)**	**(2,448,158)**
Receive side instruments	**-**	**1,402,118**	**464,637**	**495,914**	**31,842**	**53,647**	**2,448,158**
Derivative financial instruments gap	**-**	**30,223**	**9,181**	**(7,189)**	**(32,215)**	**-**	**-**
Total gap	**219,845**	**(108,663)**	**193,187**	**69,518**	**65,923**	**(439,810)**	**$ -**
Total cumulative gap	**$ 219,845**	**$ 111,182**	**$ 304,369**	**$ 373,887**	**$ 439,810**	**$ -**	

[1] *The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (refer to Note 3).*

2017	Floating and on Demand	Within 3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	Non-Interest Sensitive	Total
Assets							
Cash	$ 425,245	$ -	$ -	$ -	$ -	$ -	$ 425,245
Securities	65,386	84,493	137,241	610,372	5,459	1,765	904,716
Loans	635,431	250,053	1,001,523	5,678,330	115,658	(2,995)	7,678,000
Other securitization assets	-	-	-	726	-	37,469	38,195
Other non-sensitive assets	-	-	-	-	-	80,516	80,516
Total assets	1,126,062	334,546	1,138,764	6,289,428	121,117	116,755	9,126,672
Liabilities and Shareholders' Equity							
Deposits	710,410	406,789	923,712	1,684,083	-	27,772	3,752,766
Securitization liabilities	-	-	346,641	3,988,971	-	4,377	4,339,989
Loans and notes payable	649	338,933	113,686	-	-	543	453,811
Subordinated debentures	-	-	-	-	-	-	-
Other non-sensitive liabilities	-	-	-	-	-	123,163	123,163
Shareholders' equity	-	-	-	-	-	456,943	456,943
Total liabilities and Shareholders' equity	711,059	745,722	1,384,039	5,673,054	-	612,798	9,126,672
On-balance sheet gap	415,003	(411,176)	(245,275)	616,374	121,117	(496,043)	-
Notional Amount of Derivative Financial Instruments							
Pay side instruments	-	(1,111,105)	(147,745)	(873,251)	(55,222)	(39,093)	(2,226,416)
Receive side instruments	-	1,208,197	156,111	801,024	21,991	39,093	2,226,416
Derivative financial instruments gap	-	97,092	8,366	(72,227)	(33,231)	-	-
Total gap	415,003	(314,084)	(236,909)	544,147	87,886	(496,043)	$ -
Total cumulative gap	$ 415,003	$ 100,919	$ (135,990)	$ 408,157	$ 496,043	$ -	

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21. RISK MANAGEMENT (continued)

The weighted average interest rates of the financial instruments from the tables above are as follows:

	2018[1]					
	Floating and on Demand	**Within 3 Months**	**Over 3 Months to 1 Year**	**Over 1 Year to 5 Years**	**Over 5 Years**	**Total**
Assets and receive side instruments	**4.02%**	**2.29%**	**3.47%**	**2.94%**	**4.60%**	**3.03%**
Liabilities and pay side instruments	**1.26%**	**2.02%**	**2.18%**	**1.98%**	**2.53%**	**2.00%**

[1] *The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (refer to Note 3.1).*

	2017					
	Floating and on Demand	**Within 3 Months**	**Over 3 Months to 1 Year**	**Over 1 Year to 5 Years**	**Over 5 Years**	**Total**
Assets and receive side instruments	2.65%	1.60%	3.24%	2.73%	4.71%	2.65%
Liabilities and pay side instruments	0.95%	1.24%	1.90%	1.77%	2.51%	1.64%

21.3 Funding and Liquidity Risk

Funding and liquidity risk is the risk of financial loss due to an inability to access sources of funds or to generate sufficient cash or cash equivalents in a timely manner to meet all commitments as they become due, without raising funds at adverse rates or selling on a forced basis.

Objectives, policies, and methodologies

- 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 sources
- Maintaining external credit facilities, including lines of credit, to support daily liquidity and business needs and unforeseen liquidity events
- Maintaining an investment grade market rating
- Maintaining a liquidity plan, including a liquidity contingency plan, and funding strategy to ensure there is sufficient cash and high quality cash equivalents to support daily liquidity needs
- Undertaking regular stress testing to assist in identifying, measuring and controlling funding and liquidity risks, assessing the adequacy of liquidity buffers in case of both internal and market-wide stress events, and developing treatment plans
- Establishing aggregate tolerances and limits to manage funding and liquidity risk
- Complying with applicable regulatory expectations, regulations and guidelines

Risk measurement

The assessment of the liquidity position reflects management’s estimates, assumptions, and judgements relative to current and future company specific operations and market conditions. The 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 the Bank’s portfolio of high quality liquid assets (“HQLA”) and back stop liquidity facilities (see Note 13) to ensure liquidity access during constrained liquidity conditions.

The liquidity position is monitored for policy purposes in reference to the OSFI prescribed Liquidity Coverage Ratio (“LCR”) which is based on a 30 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 30 days. HQLA are defined in the LAR Guideline, and are grouped into three main categories, with varying haircuts applied to arrive at the amount included in the table that follows. The total weighted values for net cash outflows for the next 30 days are derived by applying the assumptions specified in the LAR Guideline to specific items, including loans. The 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 twelve month horizon.

Throughout 2018 and 2017 the Bank has been in compliance with the OSFI prescribed LAR Guideline.

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21. RISK MANAGEMENT (continued)

In October 2014, the Basel Committee on Banking Supervision ("BCBS") released its final document on the Net Stable Funding Ratio ("NSFR"). In December of 2018, notification was issued to domestic deposit taking institutions that OSFI is targeting implementation of the NSFR for January 1, 2020 for Domestic Systemically Important Banks. The application of NSFR to small and medium-sized institutions will be addressed by OSFI at a later date. The Bank continues to monitor developments related to liquidity requirements.

Contractual obligations and commitments

The following tables provide a summary of the primary future contractual maturities for the Bank's funding liabilities and loan commitments which affect liquidity:

	2018[(1)]					
	On Demand	**Within 3 months**	**Over 3 months to 1 year**	**Over 1 year to 5 years**	**Over 5 years**	**Total**
Deposits	**$ 597,123**	**$ 564,507**	**$ 1,347,571**	**$ 2,317,953**	**$ 5**	**$ 4,827,159**
Securitization liabilities	**-**	**4,145**	**523,361**	**3,455,623**	**-**	**3,983,129**
Loans and notes payable	**4,049**	**222,293**	**88,114**	**-**	**-**	**314,456**
Loan commitments	**246,441**	**27,125**	**91,870**	**218,635**	**-**	**584,071**
	$ 847,613	**$ 818,070**	**$ 2,050,916**	**$ 5,992,211**	**$ 5**	**$ 9,708,815**

[(1)] The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (refer to Note 3.1).

	2017					
	On Demand	**Within 3 months**	**Over 3 months to 1 year**	**Over 1 year to 5 years**	**Over 5 years**	**Total**
Deposits	$ 710,947	$ 418,390	$ 938,850	$ 1,684,579	$ -	$ 3,752,766
Securitization liabilities	-	4,377	346,641	3,988,971	-	4,339,989
Loans and notes payable	671	339,093	114,047	-	-	453,811
Loan commitments	456,106	23,935	3,245	5,937	-	663,575
	$ 1,167,724	$ 785,795	$ 1,402,783	$ 5,679,487	$ -	$ 9,210,141

Collateral pledged

The Bank is required to pledge or hold collateral in segregated safekeeping accounts to support its lines of credit and repurchase agreements. The Bank is also 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. The following table summarizes the fair value and type of collateral pledged by the Bank to support its various obligations:

		2018[(1)]			2017		
	Note	**Securities**	**Residential Mortgages**	**Total Pledged**	**Securities**	**Residential Mortgages**	**Total Pledged**
Derivative liabilities	6	**$ 1,096**	**$ -**	**$ 1,096**	$ 2,157	$ -	$ 2,157
Loans and notes payable							
Lines of credit	13	**19,794**	**61,491**	**81,285**	18,449	78,635	97,084
Repurchase agreements	13	**158,054**		**158,054**	224,529	-	224,529
Total collateral pledged		**$ 178,944**	**$ 61,491**	**$ 240,435**	$ 245,135	$ 78,635	$ 323,770

[(1)] The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (refer to Note 3.1).

Offsetting financial assets and liabilities

Certain financial assets and financial liabilities are subject to enforceable master netting agreements or similar arrangements. Each agreement between the Bank 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

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21. RISK MANAGEMENT (continued)

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.

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

2018[1]

	Note	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 or Similar Agreements[2]	Related Amounts Not Set Off in the Balance Sheet: Collateral Received/ Pledged[3]	Net Amount[4]
Financial Assets							
Derivative assets	6	**$ 17,948**	**$ -**	**$ 17,948**	**$ (12,342)**	**$ -**	**$ 5,606**
Financial Liabilities							
Derivative liabilities	6	**$ 18,486**	**$ -**	**$ 18,486**	**$ (12,342)**	**$ (675)**	**$ 5,469**
Loans and notes payable							
Lines of credit	13	**4,049**	**-**	**4,049**	**-**	**(3,908)**	**141**
Repurchase agreements	13	**158,567**	**-**	**158,567**	**-**	**(158,054)**	**513**
Total financial liabilities		**$ 181,102**	**$ -**	**$ 181,102**	**$ (12,342)**	**$ (162,637)**	**$ 6,123**

[1] The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (refer to Note 3.1).
[2] 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.
[3] Collateral received/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.
[4] Not intended to represent the Bank's actual exposure to credit risk, as a variety of credit mitigation strategies are employed in addition to offsetting and collateral arrangements.

2017

	Note	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 or Similar Agreements[1]	Related Amounts Not Set Off in the Balance Sheet: Collateral Received/ Pledged[2]	Net Amount[3]
Financial Assets							
Derivative assets	6	$ 18,576	$ -	$ 18,576	$ (8,989)	$ -	$ 9,587
Financial Liabilities							
Derivative liabilities	6	$ 18,733	$ -	$ 18,733	$ (8,989)	$ (862)	$ 8,882
Loans and notes payable							
Lines of credit	13	649	-	649	-	(40)	609
Repurchase agreements	13	225,188	-	225,188	-	(224,529)	659
Total financial liabilities		$ 244,570	$ -	$ 244,570	$ (8,989)	$ (225,431)	$ 10,150

[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/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 the Bank's actual exposure to credit risk, as a variety of credit mitigation strategies are employed in addition to offsetting and collateral arrangements.

21.4 Capital Management

The 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 (eligiable 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.

(In Thousands of Canadian Dollars Unless Otherwise Indicated)

21. RISK MANAGEMENT (continued)

Regulatory ratios are calculated by dividing CET 1 regulatory capital, Tier 1 regulatory capital and Total regulatory capital by risk-weighted assets ("RWA"). The calculation of RWA is determined from OSFI prescribed rules relating to on-balance sheet and off-balance sheet exposures and includes an amount for operational risk. The Bank is not required to compute market risk since the Bank is not an internationally active financial institution. In addition, OSFI formally establishes risk-based capital limits for deposit-taking institutions. Current 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 2018 and 2017, the Bank has been in compliance with OSFI prescribed capital adequacy requirements.

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

(1) The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (refer to Note 3).

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

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

(1) The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (refer to Note 3).

22. FAIR VALUE OF ASSETS AND LIABILITIES

The fair values of assets and liabilities are based on relevant market prices and information available at the reporting date. Due to the use of subjective judgement and uncertainties, the aggregate fair value amounts disclosed in the consolidated financial statements should not be interpreted as necessarily being realizable in an immediate settlement or sale. The following is a summary of how the Bank determines the fair value of its financial instruments and other assets and liabilities measured at fair value on a recurring or non-recurring basis.

Cash, accounts receivable, loans and notes payable, and accounts payable are all short-term in nature and as such, their fair value approximates carrying value.

The fair value of securities is established using market prices when available. Alternatively, fair values are determined using valuation models based on assumptions concerning the amount and timing of estimated future cash flows and discount rates.

The estimated value of loans reflects changes in general interest rates and credit worthiness of borrowers that have occurred since the loans were originated or purchased. The fair value of fixed interest rate loans is calculated using discounted cash flows based on current rates of interest for similar lending arrangements. The fair value of floating interest rate loans approximates carrying value. The credit risk adjustment based on the perceived credit worthiness of a borrower represents a significant unobservable input in the determination of fair value resulting in these instruments being classified at Level 3 in the fair value hierarchy.

The fair value measurement of the Bank's investment property takes into account the Bank's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. In 2018, the Bank has entered into an agreement to sell its investment property (Note 24) and consequently the fair value of the asset is based on the sales price established under this transaction. In previous years when the highest and best use of the asset was to hold and operate rather than sell, the fair value was estimated using the discounted cash flow method. This valuation approach relied upon the following significant unobservable inputs which resulted in these assets being classified at Level 3 in the fair value hierarchy:

Forecasted cash flows: the estimated cash flows generated from the investment property include current and prospective rental revenue less property operating expenses adjusted for items such as average lease up costs, long term vacancy rates, non-recoverable capital expenditures, and property management fees. Increases in forecasted cash flows will increase the fair value of the asset.

Discount rate: the applied discount rate is an estimation of a reasonable investor's expected rate of return for a similar asset taking into account available market data at the valuation date and considering risks specific to the investment property such as location, size, and quality. Generally, increase in the discount rate will result in a decrease in fair value.

The fair value of deposits with no stated maturity or due on demand are assumed to approximate carrying value. For the remainder of the deposits, fair value is calculated using discounted cash flows based on current market interest rates for similar maturities.

The fair value of derivative financial instruments is calculated by referring to the appropriate current market yields with matching terms to maturity. The fair values reflect the estimated amounts that the Bank would receive or pay to terminate the contracts at the reporting date.

Fair value hierarchy

The following tables present the carrying amounts and fair values of financial instruments and other assets and liabilities measured at fair value on a recurring and non-recurring basis, including their levels within the fair value hierarchy. The table does not include: (1) financial instruments whose fair value approximates carrying value due to the short-term nature of the instrument; or (2) other assets and liabilities which are measured on a non-fair value basis, such as premises and equipment, goodwill and intangible assets:

(In Thousands of Canadian Dollars Unless Otherwise Indicated)

22. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

2018[(1)]	Carrying Value	Level 1	Level 2	Level 3	Fair Value
Financial assets recorded at fair value					
Securities at FVTPL	**$ 22,878**	**$ -**	**$ 22,878**	**$ -**	**$ 22,878**
Securities at FVOCI	**1,037,615**	**-**	**1,037,615**	**-**	**1,037,615**
Loans at FVOCI	**1,114,504**	**-**	**-**	**1,114,504**	**1,114,504**
Derivative assets	**17,948**	**-**	**17,948**	**-**	**17,948**
Other assets recorded at fair value on a non-recurring basis					
Assets held for sale – Investment property	**19,115**	**-**	**19,115**	**-**	**19,115**
Financial assets recorded at amortized cost					
Loans at amortized cost	**7,184,347**	**-**	**-**	**7,145,577**	**7,145,577**
Other securitization assets	**62,377**	**-**	**62,377**	**-**	**62,377**
Financial liabilities recorded at fair value					
Derivative liabilities	**18,486**	**-**	**18,486**	**-**	**18,486**
Financial liabilities recorded at amortized cost					
Deposits	**4,827,159**	**-**	**4,833,087**	**-**	**4,833,087**
Securitization liabilities	**3,983,129**	**-**	**3,928,081**	**-**	**3,928,081**

(1) *The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (refer to Note 3.1).*

2017	Carrying Value	Level 1	Level 2	Level 3	Fair Value
Financial assets recorded at fair value					
Securities – Available-for-sale	$ 904,716	$ -	$ 904,716	$ -	$ 904,716
Derivative assets	18,576	-	18,576	-	18,576
Other assets recorded at fair value on a recurring basis					
Investment property	16,980	-	-	16,980	16,980
Financial assets recorded at amortized cost					
Loans receivable	7,678,000	-	-	7,609,515	7,609,515
Other securitization assets	38,195	-	38,195	-	38,195
Financial liabilities recorded at fair value					
Derivative liabilities	18,733	-	18,733	-	18,733
Financial liabilities recorded at amortized cost					
Deposits	3,752,766	-	3,742,547	-	3,742,547
Securitization liabilities	4,339,989	-	4,250,625	-	4,250,625

The following tables summarize the changes in Level 3 assets and liabilities recorded at fair value for the year ended December 31:

2018[(1)]	Balance, Beginning of Year	Purchases/ Issuances	Unrealized Gains (Losses) Recorded in Net Income [(2)]	Unrealized Gains (Losses) Recorded in OCI	Sales/ Settlements	Transfers into (out of) Level 3	Balance, End of Year
Loans at FVOCI	**$ 639,762**	**$ 873,094**	**$ -**	**$ 988**	**$ (399,340)**	**$ -**	**$ 1,114,504**
Investment property	**16,980**	**1,804**	**331**	**-**	**-**	**(19,115)**	**-**
	$ 656,742	**$ 874,898**	**$ 331**	**$ 988**	**$ (399,340)**	**$ (19,115)**	**$ 1,114,504**

(1) *The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (refer to Note 3.1).*
(2) *Unrealized gains (losses) on investment property are recorded in investment property income in the consolidated statement of income.*

(In Thousands of Canadian Dollars Unless Otherwise Indicated)

22. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

2017	Balance, Beginning of Year	Purchases/ Issuances	Unrealized Gains (Losses) Recorded in Net Income[(1)]	Unrealized Gains (Losses) Recorded in OCI	Sales/ Settlements	Transfers into (out of) Level 3	Balance, End of Year
Loans receivable - Held-for-trading	$ 38,070	$ -	$ -	$ -	$ (38,070)	$ -	$ -
Investment property	14,638	522	1,820	-	-	-	16,980
	$ 52,708	$ 522	$ 1,820	$ -	$ (38,070)	$ -	$ 16,980

(1) Unrealized gains (losses) are recorded in gain on financial instruments for loans receivable and other income for investment property.

In 2018, the fair value of the Bank's investment property was based on the price established under a pending sale (i.e. a quoted price in a non-active market) resulting in the asset being transferred from Level 3 to Level 2 in the fair value hierarchy.

There were no other transfers between Level 1, Level 2 and/or Level 3 in 2018 and 2017.

Level 3 sensitivity analysis

The fair value of Level 3 assets and liabilities is determined using management's judgements about the appropriate value of unobservable inputs. Due to the unobservable nature of the inputs used, there may be uncertainty about the valuation of Level 3 assets and liabilities. Management has used a range of reasonably possible alternative assumptions to determine the sensitivity of the fair value to these inputs and the resulting potential impact on Level 3 assets/liabilities as at December 31 in the table below:

2018[(1)]	Valuation technique	Significant unobservable input	Range of estimates (weighted average) for unobservable inputs	Changes in fair value from reasonably possible alternatives
Loans at FVOCI	Discounted Cash Flow	Credit risk adjustment	2.30% - 2.70%	$967 to ($1,878)

(1) The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9; prior year amounts have not been restated (refer to Note 3.1).

2017	Valuation technique	Significant unobservable input	Range of estimates (weighted average) for unobservable inputs	Changes in fair value from reasonably possible alternatives
Investment property	Discounted Cash Flow	Forecasted cash flows	n/a	$52 to ($654)
		Discount rate	7.50% - 8.00%	

23. RELATED PARTY DISCLOSURE

Related party transactions are in the normal course of operations and are measured at the consideration established and agreed to by the parties. The following table summarizes the balances outstanding at year end and transactions during the year not noted elsewhere in the consolidated financial statements. 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 collectively assessing for impairment. Balances and transactions between the Bank and its subsidiary, which is a related party of the Bank, have been eliminated on consolidation and are not disclosed in this note.

The Bank has entered into transactions with the following related parties in the normal course of business:

SaskCentral – SaskCentral holds 84.0% (2017 – 84.0%) of the voting common shares resulting in control of the Bank. SaskCentral provides leased facilities and various financial services to the Bank. The Bank provides consultative and administrative services to SaskCentral.

Celero Solutions **–** an unincorporated entity of which SaskCentral owns 33.3% (2017 – 33.3%) thereby resulting in joint control. Celero Solutions provides information technology support and services to the Bank.

CUPS Payment Services ("CUPS") **–** an unincorporated entity of which SaskCentral owns 50.0% (2017 – 50.0%) thereby resulting in joint control. CUPS provides payment processing services to the Bank.

(In Thousands of Canadian Dollars Unless Otherwise Indicated)

23. RELATED PARTY DISCLOSURE (continued)

		2018[(1)]		2017
SaskCentral				
Assets and Liabilities				
Cash deposited with	**$**	**20,762**	$	18,844
Due from included in other assets		**27**		42
Loans payable to		**3,908**		40
Interest payable to		**5**		4
Revenues and Expenses				
Interest paid to		**156**		71
Fees for services received from		**635**		586
Non-interest expenses paid to		**1,356**		1,293
Other Transactions				
Dividends paid to		**4,512**		3,384
Securities pledged on behalf of		**21,914**		18,449
Celero Solutions				
Due to included in other liabilities		**250**		302
Fee for services received from		**14**		60
Capital assets purchased from		**26**		55
Fee for service paid to		**2,891**		3,243
CUPS Payment Services				
Fee for service paid to		**81**		65

[(1)] *The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9 and IFRS 15; prior year amounts have not been restated (refer to Note 3).*

Key management compensation

The Bank has identified its directors and executive leadership team as key management personnel. The following table summarizes compensation earned by the Bank's key management for the year ended December 31:

		2018[(1)]		2017
Directors				
Honorariums and other short-term benefits	**$**	**515**	$	467
Executive Leadership				
Salaries and other short-term benefits		**3,755**		2,722
Post-employment benefits		**208**		135
Other long-term benefits		**513**		378
Termination benefits		**760**		197
		5,236		3,432
Total key management compensation	**$**	**5,751**	$	3,899

[(1)] *In 2018 the Bank restructured its executive leadership team to include additional positions. As these positions were not previously classified as key management, the associated compensation is not included the prior year comparative.*

24. ASSETS AND LIABILITIES HELD FOR SALE

		2018
Assets Held for Sale		
Cash	$	536
Accounts receivable		40
Investment property		19,115
	$	19,691
Liabilities Held for Sale		
Accounts payable	$	218

In November 2018, the Bank entered into an agreement with a third party to dispose of its investment property along with the associated assets and liabilities. Consequently the affected assets and liabilities have been reclassified and presented separately in the consolidated balance sheet as held for sale and are measured at the lower 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.

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