



CONCENTRA BANK
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

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CONSOLIDATED FINANCIAL STATEMENTS

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying Consolidated Financial Statements of Concentra Bank ("the Bank") 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 the Bank. 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 the Bank.

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 the Bank. 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' 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 the Bank 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 the Bank, 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

March 4, 2020



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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 balance sheet as at December 31 ,2019
- the consolidated statement of income for the year then ended
- the consolidated statement of 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 2019, 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 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

Regina, Canada

March 4, 2020

CONSOLIDATED BALANCE SHEET

As at December 31

(In Thousands of Canadian Dollars)

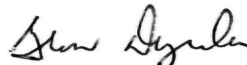
	Note	2019	2018
ASSETS			
Cash		\$ 402,528	\$ 174,170
Securities	4	841,557	1,060,493
Loans Receivable			
Retail loans		6,471,834	7,003,662
Commercial loans		1,086,996	1,295,189
	7	7,558,830	8,298,851
Other			
Derivative assets	6	12,022	17,948
Other securitization assets	5	77,594	62,377
Goodwill		19,248	19,248
Other assets	9	32,923	26,631
		141,787	126,204
Assets Held for Sale	23	-	19,691
		\$ 8,944,702	\$ 9,679,409
LIABILITIES			
Deposits	11	\$ 4,377,099	\$ 4,827,159
Securitization Liabilities	5	3,553,627	3,983,129
Loans and Notes Payable	12	420,276	314,456
Other			
Derivative liabilities	6	12,299	18,486
Accounts payable		56,025	32,494
Other liabilities	13	23,488	24,265
		91,812	75,245
Liabilities Held for Sale	23	-	218
		8,442,814	9,200,207
SHAREHOLDERS' EQUITY			
Share capital	14	245,239	245,239
Retained earnings		253,414	233,807
Accumulated other comprehensive income		3,235	156
		501,888	479,202
		\$ 8,944,702	\$ 9,679,409

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	2019	2018
INTEREST INCOME			
Loans receivable		\$ 270,433	\$ 251,198
Securities		26,915	21,151
		297,348	272,349
INTEREST EXPENSE			
Deposits		115,899	95,018
Securitization liabilities		67,029	73,990
Loans and notes payable		8,018	6,335
Other direct expenses		9,974	6,599
		200,920	181,942
NET INTEREST INCOME		96,428	90,407
Provision for credit losses (recoveries)	8	6,894	(7,598)
NET INTEREST INCOME AFTER PROVISIONS (RECOVERIES)		89,534	98,005
NON-INTEREST INCOME			
Fee for service income	15	18,877	17,475
Gain on financial instruments	16	5,617	6,257
Investment property income	17	66	740
		24,560	24,472
NET INTEREST AND NON-INTEREST INCOME		114,094	122,477
NON-INTEREST EXPENSE			
Salaries and employee benefits		40,465	40,109
Other operating		10,110	8,095
Information technology		8,322	7,431
Professional and advisory services		6,419	4,031
Capital and excise taxes		3,656	4,314
Occupancy		2,410	2,472
		71,382	66,452
INCOME BEFORE INCOME TAXES		42,712	56,025
Income tax expense	10	12,630	15,470
NET INCOME		\$ 30,082	\$ 40,555

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	2019	2018
NET INCOME		\$ 30,082	\$ 40,555
OTHER COMPREHENSIVE INCOME			
Items that will be reclassified subsequently to net income:			
Securities at fair value through OCI			
Net unrealized gains on FVOCI securities, before tax		4,712	3,126
Reclassification of gains on FVOCI securities to net income, before tax		(416)	(935)
Reclassification of impairment (recoveries) losses on FVOCI securities to net income, before tax		(88)	117
Loans at fair value through OCI			
Net unrealized gains on FVOCI loans, before tax		1,378	988
Reclassification of gains on FVOCI loans to net income, before tax		(1,665)	(750)
Reclassification of impairment losses on FVOCI loans to net income, before tax		267	353
Cash flow hedges			
Net gains (losses) on derivatives designated as cash flow hedges, before tax	6	804	(227)
Reclassification of gains on derivatives designated as cash flow hedges to net income, before tax	6	(779)	(985)
Income tax relating to components of other comprehensive income that will be reclassified subsequently to net income	10	(1,134)	(453)
OTHER COMPREHENSIVE INCOME, NET OF TAX		3,079	1,234
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		\$ 33,161	\$ 41,789

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	2019	2018
SHARE CAPITAL			
Balance, beginning of year		\$ 245,239	\$ 245,239
Balance, end of year		245,239	245,239
RETAINED EARNINGS			
Balance, beginning of year		233,807	203,727
Net income		30,082	40,555
Preferred dividends	14	(5,105)	(5,105)
Common dividends	14	(5,370)	(5,370)
Balance, end of year		253,414	233,807
ACCUMULATED OTHER COMPREHENSIVE INCOME			
Securities at fair value through OCI, net of taxes			
Balance, beginning of year		(2,951)	(4,636)
Other comprehensive income		3,072	1,685
Balance, end of year		121	(2,951)
Loans at fair value through OCI, net of taxes			
Balance, beginning of year		736	302
Other comprehensive (loss) income		(12)	434
Balance, end of year		724	736
Cash flow hedges, net of taxes			
Balance, beginning of year		2,371	3,256
Other comprehensive income (loss)		19	(885)
Balance, end of year		2,390	2,371
TOTAL ACCUMULATED OTHER COMPREHENSIVE INCOME		3,235	156
TOTAL SHAREHOLDERS' EQUITY		\$ 501,888	\$ 479,202

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	2019	2018
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Net income		\$ 30,082	\$ 40,555
Adjustments to determine net cash from (used in) operating activities:			
Net interest income		(96,428)	(90,407)
Provision for credit losses (recoveries)	8	6,894	(7,598)
Gain on financial instruments	16	(5,617)	(6,257)
Decrease (increase) in fair value of assets held for sale	17	75	(331)
Amortization of premises and equipment	9	1,252	611
Amortization of other intangible assets	9	660	672
Income tax expense	10	12,630	15,470
Changes in operating assets and liabilities:			
Loans receivable, net of repayments and sales		723,706	(665,552)
Other assets		(3,117)	(278)
Deposits, net of withdrawals		(449,069)	1,052,238
Securitization liabilities, net of repayments		(453,217)	(397,048)
Loans and notes payable, net of repayments		104,708	(139,860)
Accounts payable		25,263	(37,285)
Interest received		295,727	294,544
Interest paid		(195,837)	(154,865)
Net realized (losses) gains from derivatives		(2,063)	555
Net realized losses from derivatives designated as cash flow hedges		(356)	(227)
Income taxes paid		(17,892)	(25,847)
Net cash used in operating activities		(22,599)	(120,910)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Proceeds from sales and maturities of securities		687,743	1,316,291
Purchase of securities		(442,049)	(1,431,855)
Premises and equipment purchases, net of disposals		(188)	(781)
Intangible asset additions, net of disposals		(2,980)	(1,005)
Proceeds from disposal of (additions to) assets held for sale		19,039	(1,804)
Net cash from (used in) investing activities		261,565	(119,154)
CASH FLOWS USED IN FINANCING ACTIVITIES			
Dividends paid	14	(10,475)	(10,475)
Cash outflow for lease financing		(669)	-
Net cash used in financing activities		(11,144)	(10,475)
NET INCREASE (DECREASE) IN CASH		227,822	(250,539)
Cash, beginning of year		174,170	425,245
Cash of assets held for sale, beginning of year		536	-
Less: cash of assets held for sale	23	-	(536)
CASH, END OF YEAR		\$ 402,528	\$ 174,170

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31

(In Thousands of Canadian Dollars Unless Otherwise Indicated)

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, 2019, were approved for issue by the Board of Directors on March 4, 2020.

(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

(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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31

(In Thousands of Canadian Dollars Unless Otherwise Indicated)

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

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31

(In Thousands of Canadian Dollars Unless Otherwise Indicated)

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 accumulated other comprehensive income ("AOCI") 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31

(In Thousands of Canadian Dollars Unless Otherwise Indicated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial assets: equity instruments

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 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2.4 Impairment

(a) Financial assets

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.

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For the Year Ended December 31

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 assesses 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.

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(In Thousands of Canadian Dollars Unless Otherwise Indicated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2019 include the following macroeconomic factors.

% change ⁽¹⁾	12 Month Forecast			5 Year Forecast		
	Base Case	Optimistic	Pessimistic	Base Case	Optimistic	Pessimistic
Canadian equity index	(7.8%)	1.3%	(17.6%)	8.3%	13.4%	0.7%
Canadian unemployment						
National	6.4%	(8.4%)	13.5%	16.7%	12.7%	21.6%
Regional ⁽²⁾	2.0%	(10.3%)	7.4%	7.7%	3.6%	13.0%
Oil price	5.1%	27.6%	0.4%	14.3%	36.2%	9.6%

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

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

Presentation of allowance for 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 AOCI to the consolidated statement of income; and
- For undrawn lending commitments, as a provision in other liabilities.

Modified financial assets

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) 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.

(c) 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.

(d) Non-financial assets

At each reporting date, the Bank reviews its non-financial assets (other than 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 21. 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.

2.7 Revenue from Contracts with Customers

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 22) 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

2.8 Leases

Under IFRS 16 for the year ended December 31, 2019

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

(a) As lessee

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

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

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

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

(b) As lessor

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

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

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

Under IAS 17 for the year ended December 31, 2018

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 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) As lessor

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

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

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 Assets held for sale

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

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

2.12 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the date of the consolidated balance sheet and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

The principal temporary differences arise from lease receivables, allowances for credit losses, amortization of 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 \$10,485 (2018 - \$9,340), net income of \$854 (2018 - \$600) and total assets of \$18,888 (2018 - \$16,649). 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

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

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

2.18 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:

Interest rate benchmark reform

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

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

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 and interest rates for discounting expected future cash flows of 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.
- 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).

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3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Upon transition to IFRS 16, the Bank has recognized lease liabilities and corresponding right-of-use assets of \$1,545 as at January 1, 2019 with no impact to the previously reported retained earnings.

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). The Bank also holds portfolios of equity and corporate debt 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.

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

2019							
	Effective Rate	Within 3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	No Fixed Maturity	Total
Securities at FVOCI							
Corporate Portfolio							
Government							
Federal	1.86%	\$ 10,593	\$ 23,499	\$ 128,642	\$ -	\$ -	\$ 162,734
Provincial	1.54%	-	-	174,030	-	-	174,030
Corporate	3.05%	-	-	10,115	5,671	-	15,786
Asset-backed	1.81%	86,782	-	-	-	-	86,782
Securitized Portfolio							
Government							
Federal	1.86%	112,955	91,543	157,869	-	-	362,367
		\$ 210,330	\$ 115,042	\$ 470,656	\$ 5,671	\$ -	\$ 801,699
Accrued interest							1,393
Total securities at FVOCI							\$ 803,092
Securities at FVTPL							
Equities	-	-	-	-	8,433	25,032	33,465
Corporate debt	-	-	-	5,000	-	-	5,000
							\$ 841,557

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4. SECURITIES (continued)

2018							
	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

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

2019					2018				
	Amortized Cost	Unrealized		Fair Value	Amortized Cost	Unrealized		Fair Value	
		Gains	Losses			Gains	Losses		
Securities at FVOCI									
Corporate Portfolio									
Government	\$ 338,870	\$ 146	\$ (1,443)	\$ 337,573	\$ 437,395	\$ 327	\$ (5,689)	\$ 432,033	
Corporate	15,619	247	-	15,866	79,618	1	(120)	79,499	
Asset-backed	86,786	-	(3)	86,783	181,787	9	(3)	181,793	
Securitized Portfolio									
Government	362,055	815	-	362,870	343,432	1,354	(496)	344,290	
	803,330	1,208	(1,446)	803,092	1,042,232	1,691	(6,308)	1,037,615	
Securities at FVTPL									
Equities	33,312	153	-	33,465	22,878	-	-	22,878	
Corporate debt	5,000	-	-	5,000	-	-	-	-	
	\$ 841,642	\$ 1,361	\$ (1,446)	\$ 841,557	\$1,065,110	\$ 1,691	\$ (6,308)	\$ 1,060,493	

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 12).

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:

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5. TRANSFERS OF FINANCIAL ASSETS (continued)

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 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:

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5. TRANSFERS OF FINANCIAL ASSETS (continued)

	2019		2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Securitized Assets				
Cash reserve related to Multi-Seller Conduit	\$ 4,255	\$ 4,255	\$ 5,463	\$ 5,463
Securities – securitized portfolio (Note 4)	362,870	362,870	344,290	344,290
Residential mortgages	3,500,254	3,477,063	3,904,797	3,870,042
	3,867,379	3,844,188	4,254,550	4,219,795
Securitization Liabilities				
Securitization obligations under the CMB program ⁽¹⁾	1,528,689	1,513,666	1,879,662	1,850,947
Securitization obligations under the NHA MBS program ⁽²⁾	1,940,121	1,931,191	1,994,557	1,969,863
Securitization obligations to Multi-Seller Conduit ⁽³⁾	84,817	84,469	108,910	107,271
	3,553,627	3,529,326	3,983,129	3,928,081
Net position	\$ 313,752	\$ 314,862	\$ 271,421	\$ 291,714

⁽¹⁾ Securitization obligations under the CMB program have a weighted average interest rate of 1.40% (2018 – 1.51%) and include only those CMB securitizations subject to a total return swap.

⁽²⁾ Securitization obligations under the NHA MBS program have a weighted average interest rate of 1.79% (2018 – 1.77%) and include CMB securitizations which are not subject to a total return swap

⁽³⁾ The interest rate related to the securitization obligations to Multi-Seller Conduits corresponds to the rate of the asset-backed commercial paper issued by the conduit, plus related program fees.

The Bank also retains certain amounts of its issued NHA MBS certificates as part of its liquidity management strategy. As at December 31, 2019 residential mortgages of \$331,701 (2018 - \$268,742) with a fair value of \$332,703 (2018 - \$268,203) were assigned to NHA MBS certificates and retained by 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.

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

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

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

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5. TRANSFERS OF FINANCIAL ASSETS (continued)

	2018		
	Retail Loans	Commercial Loans	Total
Sales/Syndication Activity			
Notional amount of 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 ⁽¹⁾	770	913	1,683

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

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.

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

	2019	2018
Securitization Activity		
Carrying value of mortgages derecognized during the year	\$ 620,660	\$ 771,914
Gain on sale of mortgages during the year	3,945	4,342
Continuing Involvement		
Carrying value of deferred installments receivable ⁽¹⁾	160	431
Carrying value of retained interests	77,434	61,946
Total other securitization assets	77,594	62,377
Carrying value of servicing liabilities (Note 13)	12,360	10,020
Outstanding principal balance of derecognized loans at year end	2,259,239	1,692,503
Cumulative income earned on derecognized loans during the year	1,243	1,108

⁽¹⁾ The effective rate of outstanding deferred installments is 1.25% (2018 – 1.25%).

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5. TRANSFERS OF FINANCIAL ASSETS (continued)

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

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

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.

	2019					Fair Value	
	Notional Amount by Term to Maturity					Asset	Liability
	Within 3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	Total		
Asset / Liability Management							
Interest rate swaps	\$ -	\$ 384,913	\$ 63,162	\$ -	\$ 448,075	\$ 2,297	\$ 3,954
Designated in Fair Value Hedges							
Interest rate swaps	-	-	10,000	5,500	15,500	43	185
Designated in Cash Flow Hedges							
Forward rate contracts	71,933	-	-	-	71,933	1,160	-
As Intermediary							
Interest rate swaps	180,000	292,236	776,064	62,725	1,311,025	7,702	7,373
Forward rate contracts	10,000	-	11,078	10,590	31,668	485	456
Foreign exchange contracts	11,427	23,522	-	-	34,949	335	331
	201,427	315,758	787,142	73,315	1,377,642	8,522	8,160
	\$ 273,360	\$ 700,671	\$ 860,304	\$ 78,815	\$ 1,913,150	\$ 12,022	\$ 12,299

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6. DERIVATIVE ASSETS AND LIABILITIES (continued)

	2018					Fair Value	
	Notional Amount by Term to Maturity					Asset	Liability
	Within 3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	Total		
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

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

	2019		2018	
	Asset	Liability	Asset	Liability
Within 12 months	\$ 9,368	\$ 9,253	\$ 15,430	\$ 14,936
After 12 months	2,654	3,046	2,518	3,550
	\$ 12,022	\$ 12,299	\$ 17,948	\$ 18,486

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 as the ineffective portion of fair value hedges in gain on financial instruments in the statement of income.

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

	2019	2018
Cash Flow Hedges		
Effective portion – net gains (losses) recorded in OCI during the year	\$ 804	\$ (227)
Reclassification of gains to net income during the year	(779)	(985)
Fair Value Hedges		
Ineffective portion recorded in gain on financial instruments (Note 16)	8	(5)
Reclassification of gains on hedged risk components from OCI to net income	144	6
Unrealized losses on derivatives related to hedged risk components	(138)	(9)

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7. LOANS RECEIVABLE

	2019			2018		
	Gross Carrying Value	Allowance for Credit Losses	Total	Gross Carrying Value	Allowance for Credit Losses	Total
Loans at Amortized Cost						
Retail Loans						
Residential mortgages ⁽¹⁾	\$ 5,203,789	\$ (2,988)	\$ 5,200,801	\$ 5,488,228	\$ (2,029)	\$ 5,486,199
Consumer loans	527,429	(6,272)	521,157	407,637	(4,678)	402,959
Commercial Loans						
Commercial mortgages and loans	922,163	(15,966)	906,197	1,077,771	(13,764)	1,064,007
Commercial leases	182,319	(1,520)	180,799	232,311	(1,129)	231,182
Total loans at amortized cost	\$ 6,835,700	\$ (26,746)	\$ 6,808,954	\$ 7,205,947	\$ (21,600)	\$ 7,184,347
Loans at FVOCI						
Retail Loans						
Residential mortgages			749,876			1,114,504
			\$ 7,558,830			\$ 8,298,851

⁽¹⁾ Residential mortgages include \$478 (2018 - \$210) 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 two separately identifiable sub-portfolios which it both sells and holds a significant portion of newly originated assets. As the business model for these portfolios are managed to generate cash flows through both sales and collection of the contractual cash flows, the loans are classified as at 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 19); 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:

	2019				2018			
	Amortized Cost	Unrealized		Fair Value	Amortized Cost	Unrealized		Fair Value
		Gains	Losses			Gains	Losses	
Loans at FVOCI								
Residential mortgages	\$ 749,289	\$ 1,954	\$ (1,367)	\$ 749,876	\$ 1,114,809	\$ 1,790	\$ (2,095)	\$ 1,114,504

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

	2019					
	Effective Rate	Within 3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	Total
Loans at Amortized Cost						
Residential mortgages	3.04%	\$ 282,068	\$ 1,256,265	\$ 3,656,834	\$ 2,712	\$ 5,197,879
Consumer loans	8.03%	9,704	61,366	294,577	160,109	525,756
Commercial mortgages and loans	4.56%	90,713	200,109	600,630	26,708	918,160
Commercial leases	4.56%	2,086	11,563	154,799	13,848	182,296
Loans at FVOCI						
Residential mortgages	4.59%	50,004	524,229	174,339	-	748,572
		\$ 434,575	\$ 2,053,532	\$ 4,881,179	\$ 203,377	\$ 7,572,663
Accrued interest						12,913
Total gross carrying value						\$ 7,585,576

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7. LOANS RECEIVABLE (continued)

		2018				
	Effective Rate	Within 3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	Total
Loans at Amortized Cost						
Residential mortgages	2.96%	\$ 229,867	\$ 1,036,795	\$ 4,212,844	\$ 2,535	\$ 5,482,041
Consumer loans	7.63%	11,222	50,528	218,368	126,169	406,287
Commercial Loans						
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

Commercial leases

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

	2019	2018
Minimum lease payments receivable:		
Not later than one year	\$ 13,942	\$ 13,216
Between one and five years	167,518	213,461
Later than five years	16,788	27,234
	198,248	253,911
Unearned finance income on commercial leases	(15,929)	(21,600)
Gross commercial leases receivable	\$ 182,319	\$ 232,311

8. ALLOWANCE AND NET PROVISION FOR CREDIT LOSSES

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

	2019	2018
Debt Instruments at Amortized Cost		
Residential mortgages	\$ 1,279	\$ 336
Consumer loans	7,184	4,223
Commercial mortgages and loans	1,929	(10,625)
Commercial leases	451	(230)
Debt Instruments at FVOCI		
Residential mortgages	460	676
Securities	(88)	117
Gross provision for credit losses (recoveries)	11,215	(5,503)
Impact of financial guarantees	(4,321)	(2,095)
Net provision for credit losses (recoveries)	\$ 6,894	\$ (7,598)

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

	2019				2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Residential mortgages	\$ 1,798	\$ 602	\$ 588	\$ 2,988	\$ 1,446	\$ 147	\$ 436	\$ 2,029
Consumer loans	4,496	1,581	195	6,272	3,565	837	276	4,678
Commercial mortgages and loans	1,500	5,108	9,358	15,966	1,807	5,398	6,559	13,764
Commercial leases	291	407	822	1,520	473	393	263	1,129
Balance, end of year	\$ 8,085	\$ 7,698	\$ 10,963	\$ 26,746	\$ 7,291	\$ 6,775	\$ 7,534	\$ 21,600

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

	2019				2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Total Loans								
Balance, beginning of year	\$ 8,032	\$ 6,849	\$ 7,534	\$ 22,415	\$ 7,019	\$ 21,839	\$ 5,144	\$ 34,002
Provision for credit losses (recoveries)								
Re-measurement	4,473	4,596	2,977	12,046	4,224	(8,390)	(802)	(4,968)
Newly originated or purchased assets	3,422	-	-	3,422	3,024	-	-	3,024
Derecognized financial assets and maturities	(1,546)	(1,825)	(1,296)	(4,667)	(1,348)	(2,810)	(194)	(4,352)
Changes in models and methodologies	823	(781)	-	42	-	-	-	-
Transfer to (from):								
Stage 1	(6,785)	3,449	3,336	-	(5,202)	2,136	3,066	-
Stage 2	307	(3,868)	3,561	-	315	(5,946)	5,631	-
Stage 3	58	(697)	639	-	-	20	(20)	-
Total provision for credit losses (recoveries)	752	874	9,217	10,843	1,013	(14,990)	7,681	(6,296)
Write-offs	-	-	(8,428)	(8,428)	-	-	(6,444)	(6,444)
Recoveries	-	-	2,640	2,640	-	-	1,153	1,153
Total allowance for credit losses	8,784	7,723	10,963	27,470	8,032	6,849	7,534	22,415
Less: allowance for undrawn commitments	(699)	(25)	-	(724)	(741)	(74)	-	(815)
Balance, end of year	\$ 8,085	\$ 7,698	\$ 10,963	\$ 26,746	\$ 7,291	\$ 6,775	\$ 7,534	\$ 21,600

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

	2019				2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Residential Mortgages								
Balance, beginning of year	\$ 1,446	\$ 147	\$ 436	\$ 2,029	\$ 847	\$ 456	\$ 710	\$ 2,013
Provision for credit losses (recoveries)								
Re-measurement	507	144	1,262	1,913	219	(229)	(118)	(128)
Newly originated or purchased assets	469	-	-	469	803	-	-	803
Derecognized financial assets and maturities	(253)	(183)	(918)	(1,354)	(154)	(55)	(130)	(339)
Changes in models and methodologies	105	146	-	251	-	-	-	-
Transfer to (from):								
Stage 1	(493)	444	49	-	(283)	158	125	-
Stage 2	17	(115)	98	-	14	(185)	171	-
Stage 3	-	19	(19)	-	-	2	(2)	-
Total provision for credit losses (recoveries)	352	455	472	1,279	599	(309)	46	336
Write-offs	-	-	(404)	(404)	-	-	(426)	(426)
Recoveries	-	-	84	84	-	-	106	106
Balance, end of year	\$ 1,798	\$ 602	\$ 588	\$ 2,988	\$ 1,446	\$ 147	\$ 436	\$ 2,029
Consumer Loans								
Balance, beginning of year	\$ 3,655	\$ 839	\$ 276	\$ 4,770	\$ 3,554	\$ 768	\$ 56	\$ 4,378
Provision for credit losses (recoveries)								
Re-measurement	2,883	4,248	(957)	6,174	3,269	1,716	(967)	4,018
Newly originated or purchased assets	2,228	-	-	2,228	991	-	-	991
Derecognized financial assets and maturities	(611)	(692)	(289)	(1,592)	(441)	(281)	(64)	(786)
Changes in models and methodologies	839	(465)	-	374	-	-	-	-
Transfer to (from):								
Stage 1	(4,307)	1,022	3,285	-	(3,726)	874	2,852	-
Stage 2	14	(3,364)	3,350	-	8	(2,241)	2,233	-
Stage 3	-	9	(9)	-	-	3	(3)	-
Total provision for credit losses (recoveries)	1,046	758	5,380	7,184	101	71	4,051	4,223
Write-offs	-	-	(7,689)	(7,689)	-	-	(4,555)	(4,555)
Recoveries	-	-	2,228	2,228	-	-	724	724
Total allowance for credit losses	4,701	1,597	195	6,493	3,655	839	276	4,770
Less: allowance for undrawn commitments	(205)	(16)	-	(221)	(90)	(2)	-	(92)
Balance, end of year	\$ 4,496	\$ 1,581	\$ 195	\$ 6,272	\$ 3,565	\$ 837	\$ 276	\$ 4,678

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

	2019				2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Commercial Mortgages and Loans								
Balance, beginning of year	\$ 2,458	\$ 5,470	\$ 6,559	\$ 14,487	\$ 2,232	\$ 19,946	\$ 3,500	\$ 25,678
Provision for credit losses (recoveries)								
Re-measurement	1,123	111	1,983	3,217	608	(9,764)	566	(8,590)
Newly originated or purchased assets	604	-	-	604	1,026	-	-	1,026
Derecognized financial assets and maturities	(637)	(834)	-	(1,471)	(742)	(2,319)	-	(3,061)
Changes in models and methodologies	(55)	(366)	-	(421)	-	-	-	-
Transfer to (from):								
Stage 1	(1,829)	1,829	-	-	(959)	959	-	-
Stage 2	272	(366)	94	-	293	(3,352)	3,059	-
Stage 3	58	(727)	669	-	-	-	-	-
Total provision for credit losses (recoveries)	(464)	(353)	2,746	1,929	226	(14,476)	3,625	(10,625)
Write-offs	-	-	(21)	(21)	-	-	(645)	(645)
Recoveries	-	-	74	74	-	-	79	79
Total allowance for credit losses	1,994	5,117	9,358	16,469	2,458	5,470	6,559	14,487
Less: allowance for undrawn commitments	(494)	(9)	-	(503)	(651)	(72)	-	(723)
Balance, end of year	\$ 1,500	\$ 5,108	\$ 9,358	\$ 15,966	\$ 1,807	\$ 5,398	\$ 6,559	\$ 13,764
Commercial Leases								
Balance, beginning of year	\$ 473	\$ 393	\$ 263	\$ 1,129	\$ 386	\$ 669	\$ 878	\$ 1,933
Provision for credit losses (recoveries)								
Re-measurement	(40)	93	689	742	128	(113)	(283)	(268)
Newly originated or purchased assets	121	-	-	121	204	-	-	204
Derecognized financial assets and maturities	(45)	(116)	(89)	(250)	(11)	(155)	-	(166)
Changes in models and methodologies	(66)	(96)	-	(162)	-	-	-	-
Transfer to (from):								
Stage 1	(156)	154	2	-	(234)	145	89	-
Stage 2	4	(23)	19	-	-	(168)	168	-
Stage 3	-	2	(2)	-	-	15	(15)	-
Total provision for credit losses (recoveries)	(182)	14	619	451	87	(276)	(41)	(230)
Write-offs	-	-	(314)	(314)	-	-	(818)	(818)
Recoveries	-	-	254	254	-	-	244	244
Balance, end of year	\$ 291	\$ 407	\$ 822	\$ 1,520	\$ 473	\$ 393	\$ 263	\$ 1,129

9. OTHER ASSETS

	2019	2018
Accounts receivable	\$ 5,261	\$ 4,112
Prepaid and deferred costs	3,129	972
Premises and equipment	4,373	3,894
Other intangible assets	5,140	2,821
Current income tax assets	329	-
Deferred income tax assets (Note 10)	14,691	14,832
	\$ 32,923	\$ 26,631

Amortization recorded on premises and equipment for the year was \$1,252 (2018 - \$611). Amortization recorded on other intangible assets for the year was \$660 (2018 - \$672).

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10. INCOME TAXES

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

	2019	2018
Current income tax expense		
Current tax on income for current year	\$ 14,333	\$ 15,047
Current tax from adjustments for prior years	230	297
	14,563	15,344
Deferred income tax (recovery) expense		
Origination and reversal of temporary differences	(2,501)	421
Deferred tax from adjustments for prior years	560	(296)
Impact of tax rate changes	8	1
	(1,933)	126
	\$ 12,630	\$ 15,470

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

	2019	2018
Other comprehensive income		
Current income tax expense		
Net unrealized gains on FVOCI securities	1,271	844
Reclassification of gains on FVOCI securities to net income	(112)	(253)
Reclassification of impairment losses (recoveries) on FVOCI securities to net income	(23)	32
Net unrealized gains on FVOCI loans	370	267
Reclassification of gains on FVOCI loans to net income	(449)	(205)
Reclassification of impairment losses on FVOCI loans to net income	71	95
Net gains (losses) on derivatives designated as cash flow hedges	216	(61)
Reclassification of gains on derivatives designated as cash flow hedges to net income	(210)	(266)
	\$ 1,134	\$ 453

Reconciliation of income tax expense from operations:

	2019	2018
Combined federal and provincial income tax rate applied to income from operations (2019 – 27.0%; 2018 – 27.0%)	\$ 11,532	\$ 15,128
Income tax expense adjusted for the effect of:		
Adjustments related to prior periods	790	2
Expenses not deductible for tax purposes	91	155
Impact of change in tax rates	8	1
Other	209	184
	\$ 12,630	\$ 15,470

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 27.0% (2018 – 27.0%). The movement in deferred income taxes is as follows:

	2019	2018
Balance, beginning of year	\$ 3,550	\$ 329
Recognized in net income	1,933	(126)
Impact of adopting IFRS 9	-	3,345
Other adjustments	-	2
Balance, end of year	\$ 5,483	\$ 3,550

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10. INCOME TAXES (continued)

The components of deferred income taxes are as follows:

	2019	2018
Deferred income tax assets		
Loans	\$ 14,190	\$ 13,929
Other	501	903
	14,691	14,832
Deferred income tax liabilities		
Securitization activities	(8,758)	(11,261)
Other	(450)	(21)
	(9,208)	(11,282)
Net deferred income taxes	\$ 5,483	\$ 3,550

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

	2019	2018
Net deferred income taxes (payable) recoverable		
Within 12 months	\$ 1,065	\$ (1,499)
After more than 12 months	4,418	5,049
	\$ 5,483	\$ 3,550

11. DEPOSITS

	2019	2018
Retail deposits	\$ 2,965,557	\$ 3,437,209
Credit union deposits	1,039,932	1,052,564
Commercial deposits	221,098	187,018
Capital market deposits	150,512	150,368
	\$ 4,377,099	\$ 4,827,159

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

2019							
	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	2.54%	\$ 96,874	\$ 144,376	\$ 932,468	\$ 1,758,469	\$ -	\$ 2,932,187
Credit Union deposits	1.87%	409,887	270,465	225,621	130,675	-	1,036,648
Commercial deposits	1.77%	121,111	2,078	87,460	10,214	-	220,863
Capital market deposits	2.57%	-	-	149,931	-	-	149,931
		\$ 627,872	\$ 416,919	\$ 1,395,480	\$ 1,899,358	\$ -	\$ 4,339,629
Accrued interest							37,470
							\$ 4,377,099
2018							
	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

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12. LOANS AND NOTES PAYABLE

	2019	2018
Lines of credit	\$ 581	\$ 4,049
Notes payable	302,436	151,840
Repurchase agreements (Note 5.1.1)	117,259	158,567
	\$ 420,276	\$ 314,456

All loans and notes payable are due within 12 months (2018 – within 12 months).

Lines of credit

The Bank maintains a \$100,000 (2018 - \$100,000) line of credit facility with SaskCentral. The line of credit bears interest at prime less 0.50% (2018 – prime less 0.50%) with an effective interest rate at December 31, 2019 of 3.45% (2018 – 3.45%). 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% (2018 – prime plus 4.00%) with an effective interest rate at December 31, 2019 of 7.95% (2018 – 7.95%).

The Bank maintains a \$500,000 (2018 - \$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% (2018 – 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 2.06% at year end (2018 – 2.22%).

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 1.82% (2018 – 1.93%).

13. OTHER LIABILITIES

	2019	2018
Servicing liabilities (Note 5.2.2)	\$ 12,360	\$ 10,020
Current income tax liabilities	284	2,148
Deferred income tax liabilities (Note 10)	9,208	11,282
Allowance for undrawn commitments (Note 8)	724	815
Lease liabilities	912	NA
	\$ 23,488	\$ 24,265

14. 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.

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14. SHARE CAPITAL (continued)

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.

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

2019					
	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	
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	

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15. FEE FOR SERVICE INCOME

	2019	2018
Commercial and Retail Banking		
Syndication and servicing fees	\$ 5,331	\$ 5,284
Professional fees	1,924	1,694
Banking fees	1,587	1,528
Trust		
Trust fees	7,968	7,228
Estate fees	1,469	1,137
Total revenue from contracts with customers	18,279	16,871
Rental income	598	604
Total fee for service income	\$ 18,877	\$ 17,475

16. GAIN ON FINANCIAL INSTRUMENTS

	2019	2018
Securities		
Unrealized and realized gains on securities at FVTPL	153	-
Realized gains on securities at FVOCI	416	914
Loans Receivable		
Realized gains on loans at amortized cost	163	308
Realized gains on loans at FVOCI	1,665	750
Gain on derecognized securitizations	3,945	4,342
Derivatives and Hedging Activities		
Unrealized and realized losses on derivatives	(733)	(52)
Ineffective portion of fair value hedges	8	(5)
Total gain on financial instruments	\$ 5,617	\$ 6,257

17. INVESTMENT PROPERTY INCOME

	2019	2018
Rental income from investment property	\$ 669	\$ 2,555
Operating expenses of investment property	(528)	(2,146)
(Decrease) increase in fair value of investment property	(75)	331
Total investment property income	\$ 66	\$ 740

18. SALARIES AND EMPLOYEE BENEFITS EXPENSE

The Bank provides pension benefits to qualified employees. During the year the Bank contributed \$1,774 (2018 - \$1,654) 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.

19. COMMITMENTS AND CONTINGENCIES

19.1 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.

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19. COMMITMENTS AND CONTINGENCIES (continued)

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:

	2019 ⁽¹⁾	2018
Undrawn commitments for:		
Loans at amortized cost	\$ 479,598	\$ 515,016
Loans at FVTPL ⁽¹⁾	63,750	20,500
Letters of credit	38,990	48,555
Total loan commitments	582,338	584,071
Origination commitments	8,500	8,500
Total credit commitments	\$ 590,838	\$ 592,571

⁽¹⁾ 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, 2019.

19.2 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.

20. 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 Framework and all Corporate Policies, including those related to the management of credit risk, market risk, and liquidity and funding risk. Management Guidelines, approved by the Executive Risk Management Committee, are also in place to provide further risk controls, limits and tolerances in operations. Compliance with Risk Appetite, Corporate Policies and Management Guidelines is monitored on a monthly basis and reported to the Board on a quarterly basis through the Chief Risk Officer Report.

Management has established a formal risk management committee structure to provide a structured and disciplined approach to risk management. The Executive Risk Management Committee, chaired by the Chief Risk Officer, reviews the comprehensive assessment of current and emerging risks and provides oversight to the other risk management committees. These committees include the Asset Liability Committee, the Investment Management Committee, the Technology Risk Management Committee and the Data Governance Committee.

The objectives and methodologies related to the management of credit risk, market risk and liquidity and funding risk have not changed significantly since December 31, 2018. The following is a description of these risks and how the exposures are managed.

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

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20. RISK MANAGEMENT (continued)

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 follows a dual stream approval process for credit transactions, where the First Line of Defense (Retail and Commercial Banking) recommends a transaction and the Second Line of Defence (Credit Risk function within the Risk Management Group) concurs with the recommendation. Both a recommendation and concurrence must occur for the transaction to be approved. In addition, the Credit Risk Review function within the Risk Management Group conducts ongoing systematic reviews of the credit adjudication process and the condition of the credit portfolio, with regular reporting to the Board.

Risk measurement

The overall credit risk position is monitored for Risk Appetite and Corporate 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.

20.1.1 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 and PD range:

		2019				2018
	PD Range	Stage 1	Stage 2	Stage 3	Total	Total
Retail Loans at Amortized Cost						
Low risk	0.21% - 1.90%	\$ 4,400,431	\$ -	\$ -	\$ 4,400,431	\$ 4,875,298
Standard monitoring	1.90% - 29.4%	1,222,692	80,297	-	1,302,989	994,260
Special monitoring	4.92% - 29.4%	-	25,652	-	25,652	24,575
Default	29.4% - 99.9%	-	-	2,146	2,146	1,732
Total exposure		5,623,123	105,949	2,146	5,731,218	5,895,865
Allowance for credit losses		(6,294)	(2,183)	(783)	(9,260)	(6,707)
		2019				2018
	PD Range	Stage 1	Stage 2	Stage 3	Total	Total
Commercial Loans at Amortized Cost						
Low risk	0.19% - 2.66%	\$ 123,398	\$ -	\$ -	\$ 123,398	\$ 134,547
Standard monitoring	5.09% - 33.8%	820,829	92,898	-	913,727	1,109,345
Special monitoring	33.8% - 34.2%	-	20,456	-	20,456	37,609
Default	34.2% - 99.9%	-	-	46,901	46,901	28,581
Total exposure		944,227	113,354	46,901	1,104,482	1,310,082
Allowance for credit losses		(1,791)	(5,515)	(10,180)	(17,486)	(14,893)

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20. RISK MANAGEMENT (continued)

		2019				2018	
	PD Range	Stage 1	Stage 2	Stage 3	Total	Total	
Undrawn Commitments⁽¹⁾							
Low risk	0.06% - 1.47%	\$ 274,538	\$ -	\$ -	\$ 274,538	\$ 289,790	
Standard monitoring	0.80% - 16.5%	306,060	1,740	-	307,800	292,047	
Special monitoring	-	-	-	-	-	1,856	
Default	-	-	-	-	-	378	
Total exposure ⁽²⁾		580,598	1,740	-	582,338	584,071	
Allowance for credit losses		(699)	(25)	-	(724)	(815)	
Retail Loans at FVOCI							
Low risk	-	\$ -	\$ -	\$ -	\$ -	\$ -	
Standard monitoring	0.35% - 2.88%	723,788	17,912	-	741,700	1,103,581	
Special monitoring	3.88% - 27.7%	-	5,555	-	5,555	6,134	
Default	27.7% - 99.9%	-	-	2,621	2,621	4,789	
Total exposure		723,788	23,467	2,621	749,876	1,114,504	
Impairment reserve ⁽³⁾		(1,062)	(397)	(372)	(1,831)	(1,565)	
Securities at FVOCI							
AAA/R1H	0.18% - 0.18%	\$ 612,748	\$ -	\$ -	\$ 612,748	\$ 755,944	
AA/R1M	0.13% - 0.24%	27,042	-	-	27,042	53,797	
A/R1L	0.07% - 0.09%	157,777	-	-	157,777	219,966	
BBB/R2H	0.32% - 0.32%	5,679	-	-	5,679	7,908	
Total exposure		803,246	-	-	803,246	1,037,615	
Impairment reserve ⁽³⁾		(88)	-	-	(88)	(173)	

⁽¹⁾ Excludes origination commitments as they are not tied to specific borrowers and therefore do not represent a credit risk exposure. See Note 19.1 for more information.

⁽²⁾ 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.

⁽³⁾ 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 \$402,528 (2018 - \$174,170) on deposit with various highly rated financial institutions that maintain investment grade credit ratings.

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"):

	2019			2018		
	Interest Rate Contracts	Foreign Exchange Contracts	Total	Interest Rate Contracts	Foreign Exchange Contracts	Total
Notional amounts	\$ 1,878,201	\$ 34,949	\$ 1,913,150	\$ 2,394,511	\$ 53,647	\$ 2,448,158
Positive replacement cost	11,687	335	12,022	16,949	999	17,948
Potential credit risk exposure	7,842	564	8,406	6,434	536	6,970
Credit equivalent amount	30,194	824	31,018	23,382	1,536	24,918
Risk-weighted equivalent	6,039	165	6,204	4,676	307	4,983

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20. RISK MANAGEMENT (continued)

20.1.2 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, 2019, approximately 69.9% (2018 – 69.5%) 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 date the premium is refunded. These secured loans represented approximately 12.7% (2018 – 12.9%) of the Bank's consumer loans at December 31, 2019.

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

Commercial mortgages and loans

Approximately 85.3% (2018 – 91.7%) 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 \$86,782 (2018 – \$181,793) 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.

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20. RISK MANAGEMENT (continued)

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

	2019				2018			
	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	\$ 33,979	\$ 12,034	\$ 8,887	\$ 54,900	\$ 33,722	\$ 13,314	\$ 9,491	\$ 56,527
Consumer loans	2,382	2,220	-	4,602	1,767	1,770	-	3,537
Commercial mortgages and loans	1,233	2,066	-	3,299	1,787	3,799	-	5,586
Commercial leases	3,150	1,424	-	4,574	1,603	5,372	-	6,975
Loans at FVOCI								
Residential mortgages	16,772	5,629	-	22,401	22,461	6,084	-	28,545
	\$ 57,516	\$ 23,373	\$ 8,887	\$ 89,776	\$ 61,340	\$ 30,339	\$ 9,491	\$ 101,170

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

	2019			2018		
	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	\$ 1,919	\$ (588)	\$ 1,331	\$ 1,424	\$ (436)	\$ 988
Consumer loans	227	(195)	32	308	(276)	32
Commercial mortgages and loans	43,801	(9,358)	34,443	27,205	(6,559)	20,646
Commercial leases	3,100	(822)	2,278	1,370	(263)	1,107
Loans at FVOCI						
Residential mortgages ⁽¹⁾	2,621	-	2,621	4,789	-	4,789
	\$ 51,668	\$ (10,963)	\$ 40,705	\$ 35,096	\$ (7,534)	\$ 27,562
By geography:						
British Columbia	\$ 1,215			\$ 35		
Alberta	25,063			10,431		
Saskatchewan	5,825			5,445		
Ontario	6,823			7,011		
Other	12,742			12,174		
	\$ 51,668			\$ 35,096		

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

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

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20. RISK MANAGEMENT (continued)

20.1.4 Credit Risk Concentrations

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

	2019			2018		
	Gross Carrying Value	Undrawn Commitments ⁽¹⁾	Total	Gross Carrying Value	Undrawn Commitments ⁽¹⁾	Total
Commercial Customers						
Agriculture and forestry	\$ 97,001	\$ 31,514	\$ 128,515	\$ 151,297	\$ 24,011	\$ 175,308
Construction	236,497	260,888	497,385	230,163	289,811	519,974
Commercial real estate	407,166	2,014	409,180	565,651	1,663	567,314
Credit union	29	203,405	203,434	7,000	232,057	239,057
Health care	11,759	1,000	12,759	19,010	1,000	20,010
Hospitality	86,647	625	87,272	115,305	3,494	118,799
Manufacturing	66,141	6	66,147	71,309	-	71,309
Public administration	19,599	21,168	40,767	18,013	7,250	25,263
Transportation and warehousing	34,233	574	34,807	47,123	-	47,123
Utilities	13,462	-	13,462	14,072	-	14,072
Other	131,948	18,049	149,997	71,139	13,388	84,527
Retail Customers						
Residential mortgages – insured	4,162,969	14,040	4,177,009	4,590,398	385	4,590,783
Residential mortgages – uninsured	1,790,696	2,889	1,793,585	2,012,334	1,190	2,013,524
Consumer loans	527,429	26,166	553,595	407,637	9,822	417,459
Total exposure	\$ 7,585,576	\$ 582,338	\$ 8,167,914	\$ 8,320,451	\$ 584,071	\$ 8,904,522

⁽¹⁾ Excludes origination commitments as they are not tied to specific assets. See Note 19.1 for more information.

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

	2019 ⁽¹⁾					
	British Columbia	Alberta	Saskatchewan	Ontario	Other	Total
Outstanding	\$ 985,821	\$ 1,831,009	\$ 428,370	\$ 3,682,948	\$ 657,428	\$ 7,585,576
Undrawn commitments ⁽¹⁾	187,403	29,858	181,231	127,635	56,211	582,338
Total exposure	\$ 1,173,224	\$ 1,860,867	\$ 609,601	\$ 3,810,583	\$ 713,639	\$ 8,167,914

	2018					
	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⁾ Excludes origination commitments as they are not tied to specific assets. See Note 19.1 for more information.

20.1.5 Counterparty Credit Risk

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

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

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20. RISK MANAGEMENT (continued)

20.2 Market Risk

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

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 and reporting compliance with those limits to relevant internal stakeholders
- Complying with applicable regulatory expectations, regulations and guidelines

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

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 the impact of an immediate 100 basis point (bp) shock on net interest income. The long-term market risk position is measured by the impact of an immediate 100 bp shock on the economic value of equity. The information presented is a measurement of interest rate sensitivity gaps at a specific point in time, and there is potential for these gaps to change significantly over a short period. The impact on earnings from changes in market interest rates will depend on both the magnitude of and speed with which interest rates change, as well as the size and maturity structure of the cumulative interest rate gap position and the management of those positions over time.

	2019 ⁽¹⁾		2018	
	Net Interest Income	Economic Value of Equity	Net Interest Income	Economic Value of Equity
Impact of:				
100 bp increase in rates	\$ 2,954	\$ 3,940	\$ 2,759	\$ 15,568
100 bp decrease in rates	(2,939)	(4,120)	(2,740)	(16,467)

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

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.

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20. RISK MANAGEMENT (continued)

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:

2019 ⁽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	\$ 402,528	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 402,528
Securities	1,724	237,043	113,120	474,170	14,104	1,396	841,557
Loans receivable	564,334	350,143	1,982,242	4,579,764	95,503	(13,156)	7,558,830
Other securitization assets	-	-	-	160	-	77,434	77,594
Other non-sensitive assets	-	-	-	-	-	64,193	64,193
Total assets	968,586	587,186	2,095,362	5,054,094	109,607	129,867	8,944,702
Liabilities and Shareholders' Equity							
Deposits	627,872	416,919	1,395,480	1,899,358	-	37,470	4,377,099
Securitization liabilities	-	-	834,028	2,715,621	-	3,978	3,553,627
Loans and notes payable	581	244,796	172,567	-	-	2,332	420,276
Other non-sensitive liabilities	-	-	-	-	-	91,812	91,812
Shareholders' equity	-	-	-	-	-	501,888	501,888
Total liabilities and Shareholders' equity	628,453	661,715	2,402,075	4,614,979	-	637,480	8,944,702
On-balance sheet gap	340,133	(74,529)	(306,713)	439,115	109,607	(507,613)	-
Notional Amount of Derivative Financial Instruments							
Pay side instruments	-	(1,206,699)	(172,612)	(456,733)	(42,158)	(34,948)	(1,913,150)
Receive side instruments	-	933,436	504,537	403,571	36,658	34,948	1,913,150
Derivative financial instruments gap	-	(273,263)	331,925	(53,162)	(5,500)	-	-
Total gap	340,133	(347,792)	25,212	385,953	104,107	(507,613)	\$ -
Total cumulative gap	\$ 340,133	\$ (7,659)	\$ 17,553	\$ 403,506	\$ 507,613	\$ -	

⁽¹⁾ The amounts for the year ended December 31, 2019 have been prepared in accordance with IFRS 16; prior year amounts have not been restated (refer to Note 3).

2018							
	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	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	\$ -	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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20. RISK MANAGEMENT (continued)

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

2019						
	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	3.16%	2.27%	3.35%	3.21%	4.46%	3.89%
Liabilities and pay side instruments	1.31%	1.88%	2.02%	2.09%	2.08%	2.80%

2018						
	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%

20.3 Liquidity and Funding Risk

Liquidity and funding 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 contingency funding plan, and funding strategy to ensure there is sufficient cash and high quality cash equivalents to support daily liquidity needs
- Undertaking regular stress testing to assist in identifying, measuring and controlling liquidity and funding risks, assessing the adequacy of liquidity buffers in case of both internal and market-wide stress events, and developing treatment plans
- Establishing aggregate tolerances and limits to manage liquidity and funding risk and reporting compliance with those limits to relevant internal stakeholders
- 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 reductions 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 2019 and 2018 the Bank has been in compliance with the OSFI prescribed LAR Guideline.

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20. 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:

2019						
	On Demand	Within 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Deposits	\$ 627,890	\$ 429,940	\$ 1,419,191	\$ 1,900,078	\$ -	\$ 4,377,099
Securitization liabilities	-	3,978	834,028	2,715,621	-	3,553,627
Loans and notes payable	581	247,128	172,567	-	-	420,276
Loan commitments	215,720	45,169	43,702	246,627	17,374	568,592
	\$ 844,191	\$ 726,215	\$ 2,469,488	\$ 4,862,326	\$ 17,374	\$ 8,919,594

2018						
	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

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:

2019				2018			
	Note	Securities	Residential Mortgages	Total Pledged	Securities	Residential Mortgages	Total Pledged
Derivative liabilities	6	\$ 599	\$ -	\$ 599	\$ 1,096	\$ -	\$ 1,096
Loans and notes payable							
Lines of credit	12	20,092	-	20,092	19,794	61,491	81,285
Repurchase agreements	12	116,910		116,910	158,054		158,054
Total collateral pledged		\$ 137,601	\$ -	\$ 137,601	\$ 178,944	\$ 61,491	\$ 240,435

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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20. 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:

2019								
	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		Net Amount ⁽³⁾	
					Impact of Master Netting or Similar Agreements ⁽¹⁾	Collateral Received/ Pledged ⁽²⁾		
Financial Assets								
Derivative assets	6	\$ 12,022	\$ -	\$ 12,022	\$ (8,127)	\$ (3,030)		\$ 865
Financial Liabilities								
Derivative liabilities	6	\$ 12,299	\$ -	\$ 12,299	\$ (8,127)	\$ -		\$ 4,172
Loans and notes payable								
Lines of credit	12	581	-	581	-	(403)		178
Repurchase agreements	12	117,259	-	117,259	-	(116,910)		349
Total financial liabilities		\$ 130,139	\$ -	\$ 130,139	\$ (8,127)	\$ (117,313)		\$ 4,699

⁽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.

2018								
	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		Net Amount ⁽³⁾	
					Impact of Master Netting or Similar Agreements ⁽¹⁾	Collateral Received/ Pledged ⁽²⁾		
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	12	4,049	-	4,049	-	(3,908)		141
Repurchase agreements	12	158,567	-	158,567	-	(158,054)		513
Total financial liabilities		\$ 181,102	\$ -	\$ 181,102	\$ (12,342)	\$ (162,637)		\$ 6,123

⁽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.

20.4 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 (eligible stage 1 and stage 2 allowances) less deductions as prescribed by OSFI. Total regulatory capital is defined as the sum of Tier 1 and Tier 2 regulatory capital.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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20. 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 2019 and 2018, the Bank has been in compliance with OSFI prescribed capital adequacy requirements.

	2019	2018
Capital		
Common Equity Tier 1 regulatory capital	\$ 366,513	\$ 346,147
Tier 1 regulatory capital	477,500	457,134
Total regulatory capital	494,006	472,015
Risk-weighted assets		
Credit risk	2,555,408	2,731,068
Market risk	-	-
Operational risk	208,452	195,810
Total risk-weighted assets	\$ 2,763,860	\$ 2,926,878
Capital Ratios		
Common Equity Tier 1 regulatory capital to risk-weighted assets	13.3%	11.8%
Tier 1 regulatory capital to risk-weighted assets	17.3%	15.6%
Total regulatory capital to risk-weighted assets	17.9%	16.1%
Leverage ratio	5.2%	4.6%

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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21. 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 values 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:

	2019				
	Carrying Value	Level 1	Level 2	Level 3	Fair Value
Financial assets recorded at fair value					
Securities at FVTPL	\$ 38,465	\$ -	\$ 38,465	\$ -	\$ 38,465
Securities at FVOCI	803,092	-	803,092	-	803,092
Loans at FVOCI	749,876	-	-	749,876	749,876
Derivative assets	12,022	-	12,022	-	12,022
Financial assets recorded at amortized cost					
Loans at amortized cost	6,808,954	-	-	6,795,537	6,795,537
Other securitization assets	77,594	-	77,594	-	77,594
Financial liabilities recorded at fair value					
Derivative liabilities	12,299	-	12,299	-	12,299
Financial liabilities recorded at amortized cost					
Deposits	4,377,099	-	4,389,622	-	4,389,622
Securitization liabilities	3,553,627	-	3,528,942	-	3,528,942

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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21. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

	2018				
	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

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

	2019						
	Balance, Beginning of Year	Purchases/ Issuances	Unrealized Gains (Losses) Recorded in Net Income	Unrealized Gains (Losses) Recorded in OCI	Sales/ Settlements	Transfers into (out of) Level 3	Balance, End of Year
Loans at FVOCI	\$ 1,114,504	\$ 170,648	\$ -	\$ 1,378	\$ (536,654)	\$ -	\$ 749,876
	\$ 1,114,504	\$ 170,648	\$ -	\$ 1,378	\$ (536,654)	\$ -	\$ 749,876

	2018						
	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 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⁾ 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 2019 and 2018.

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:

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21. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

2019				
	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% - 3.56%	\$1,680 to (\$3,086)
2018				
	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)

22. 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% (2018 – 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% (2018 – 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% (2018 – 50.0%) thereby resulting in joint control. CUPS provides payment processing services to the Bank.

	2019	2018
SaskCentral		
Assets and Liabilities		
Cash deposited with	\$ 16,170	\$ 20,762
Due from included in other assets	7	27
Loans payable to	403	3,908
Interest payable to	17	5
Revenues and Expenses		
Interest paid to	172	156
Fees for services received from	630	635
Non-interest expenses paid to	1,081	1,356
Other Transactions		
Dividends paid to	4,512	4,512
Securities pledged on behalf of	20,603	21,914
Lease payments paid to	439	-
Celero Solutions		
Due to included in other liabilities	222	250
Fee for services received from	15	14
Capital assets purchased from	72	26
Fee for service paid to	3,001	2,891
CUPS Payment Services		
Fee for service paid to	77	81

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:

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22. RELATED PARTY DISCLOSURE (continued)

	2019	2018
Directors		
Honorariums and other short-term benefits	\$ 714	\$ 515
Executive Leadership		
Salaries and other short-term benefits	4,159	3,755
Post-employment benefits	229	208
Other long-term benefits	386	513
Termination benefits	228	760
	5,002	5,236
Total key management compensation	\$ 5,716	\$ 5,751

23. ASSETS AND LIABILITIES HELD FOR SALE

	2019	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 were 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 was originally expected to occur in January 2019, however the closing date was delayed until April 24, 2019 resulting in a loss of \$75 due to adjustments made to the purchase price during the closing period.

24. SUBSEQUENT EVENT

In January 2020, the Bank entered into negotiations to sell a sub-portfolio of the retail loans portfolio with a carrying value at December 31, 2019 of \$67,800 back to the originating entity. The sale of the loans was finalized on March 2, 2020 and the realized gain approximates the foregone net interest income had the Bank held and collected the loans' remaining contractual payments.