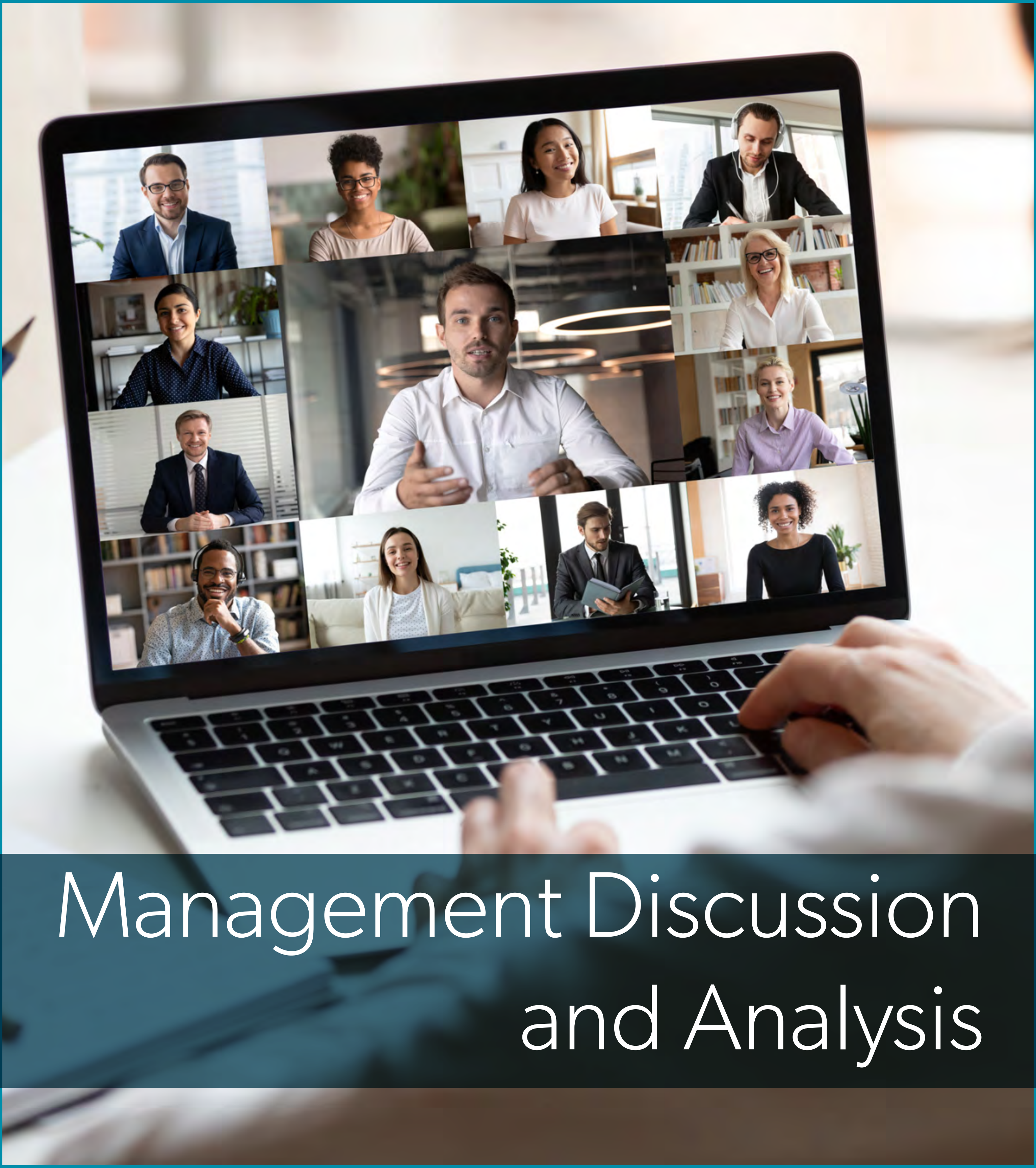


# Management Discussion and Analysis

2020

**Annual Report**

Conexus Credit Union

# Management Discussion and Analysis

This Management Discussion and Analysis (MD&A) enables readers to assess material changes in the financial condition and operating results of Conexus Credit Union (Conexus) for the year ending on December 31, 2020 compared with the prior year and plans. This MD&A is prepared in conjunction with the Consolidated Financial Statements and related Notes for the year ending December 31, 2020 and should be read together with those documents. The MD&A includes information up to February 22, 2021. Unless otherwise indicated, all amounts are expressed in Canadian dollars. Amounts for 2016, 2017, 2018, 2019 and 2020 have been primarily derived from Conexus' annual Consolidated Financial Statements, prepared in accordance with International Financial Reporting Standards (IFRS).

The following items provide an overview of topics discussed throughout the MD&A:

**Economic Conditions**
- 2020 economic and financial services conditions
- Economic and financial outlook for 2021

**Financial Performance to Plan**
- Financial management

**Financial Position Review**
- Overview
- Credit quality
- Liquidity management
- Capital management

**Financial Performance Review**
- Profitability
- Efficiency

**Enterprise Risk Management**
- Overview of significant risks

## Caution Regarding Forward-Looking Statements

This MD&A might contain forward-looking statements concerning future strategies of Conexus. These statements involve uncertainties in relation to prevailing economic, legislative, and regulatory conditions at the time of writing. Therefore, actual results may differ from the forward-looking statements contained in this discussion.

## Factors That Might Affect Future Results

Although Conexus is focused in Saskatchewan, the economic and business conditions in Canada and abroad can affect the trading areas of Conexus and its financial position. Global economic conditions can influence Canada and local economies, affecting businesses, consumer prices and personal incomes. The prevailing conditions nationally can have an effect on financial markets and the Bank of Canada's monetary policy, causing changes in interest rates and the value of the Canadian dollar. Fluctuations in the capital markets and the extent of local competition can impact the market share and price of Conexus' products and services. All these factors affect the environmental conditions in which Conexus operates and, accordingly, Conexus' performance.

## Economic Conditions

### 2020 Economic and Financial Services Conditions

The big news around the globe throughout 2020 was the pandemic brought on by the spread of the COVID-19 virus. Economies around the world are suffering through recessions due to governments closing businesses, trade coming to a halt and millions of people contracting the virus. Global GDP is forecasted to take a tremendous hit from 2019 as economists are estimating GDP growth to come in at negative 4.40% for the year.

In the United States, the annual GDP growth rate ended the fourth quarter of 2020 at negative 2.80% as the economic shutdown in the United States has not been as severe as many other advanced economies. The flip side of this is that the United States has been the country most significantly impacted by the COVID-19 pandemic. Since the start of the COVID-19 pandemic, they have had over 21 million cases leading to over 361,000 deaths as of December 31, 2020. Unemployment in the United States remains higher than normal at 6.70%, but this is a dramatic fall from the 14.70% unemployment rate seen in April 2020. The Federal Reserve was one of the many central banks around the world that decreased the overnight rate in the spring of 2020. The rate currently sits at 0.25% with no anticipation of an increase in the near future.

Canada's economy was not spared from the spread of COVID-19, as annual GDP ended fourth quarter of 2020 at negative 5.20%. Since the beginning of the COVID-19 pandemic, the Canadian government and Bank of Canada have implemented numerous fiscal and monetary policy stimulus packages in an attempt to spur the economy. The Bank of Canada also lowered the overnight rate to 0.25% with all rate cuts taking place in the month of March. Unemployment in Canada spiked in May of this year at 13.70%. Since that point, it has continued to decline but still sits at an elevated rate of 8.50% as of December 31, 2020.

In Saskatchewan, annual GDP growth ended the fourth quarter of 2020 at negative 4.70% which puts the province somewhere in the middle of the pack when comparing to the other provinces. Inflation in the province currently sits at 0.80% growth when comparing November 2020 to November 2019. This rate of 0.80% sits just below the national average of 1.00%. Given that local government has been less strict than other provinces with their regulations and economic shutdowns surrounding COVID-19, unemployment has fared quite well compared to the rest of the country. As of the end of the fourth quarter 2020, Saskatchewan has an unemployment rate of 6.90%, which is second lowest only to Nova Scotia, and noticeably below the national average of 8.50%.

## Economic and Financial Outlook for 2021

In the United States, we can expect to see GDP growth to rebound between 4.00-5.00% through 2021 based on economic forecasts. The United States had a quicker recovery than many other countries due to their lack of regulations with COVID-19, but this is now slowing. Another contributing factor will be how the newly elected Democratic government handles the COVID-19 pandemic and the distribution of the vaccination. With the recent domestic hostility in the United States, there may be increased and persistent volatility in the markets throughout 2021.

As the economy begins to rebound in Canada, the timing of the full reopening of the economy will be largely based around vaccinations. Forecasts are estimating the Canadian economy to grow approximately 4.50% in 2021, leading to GDP returning to pre-COVID-19 levels in late 2022 or early 2023. The rebound will be slow and choppy as many sectors throughout the country were impacted differently. Consumer behavior shifted during the COVID-19 pandemic which may have lasting effects on the economy. The Bank of Canada is expected to continue to keep interest rates low through 2021 and continue their program of buying back bonds until sustainable inflation is reached. Inflation remains weak and is expected to stay below the target of 2.00% into 2023.

Saskatchewan is on track for a quicker recovery than can be seen nationally. With expected GDP growth of 4.70%, the province is estimated to return to pre-COVID-19 pandemic levels as early as the beginning of 2022. After seeing the value of grains, oilseeds and other food exports jump 42.00% in the first 10 months of 2020, it is expected that the global demand will benefit Saskatchewan producers in the year ahead. The provincial government is increasing its capital plan to $7.50 billion over the next two years. This will provide stimulus to the economy through spending on roads, municipal infrastructure and schools in 2021-2022 as it is estimated to create approximately 10,000 jobs. Finally, housing starts in the province surged from a low in 2019. With housing demand at record levels this past fall, it is expected that construction activity will continue to rise through 2021.

# Financial Performance to Plan

Each year, Conexus develops a corporate plan through a comprehensive budget and planning process. The following table provides an overview of key financial measures compared to 2020 plan. Actual results for 2020, 2019, 2018, 2017 and 2016 have also been included for comparison.

## Financial Management

| *(In thousands of CDN $)* | 2020 Actual | 2020 Plan | 2019 Actual | 2018 Actual | 2017 Actual | 2016 Actual |
|---|---|---|---|---|---|---|
| **Growth** | | | | | | |
| Assets | 6,676,606 | 6,777,449 | 6,554,441 | 6,260,155 | 5,818,734 | 5,568,186 |
| Asset growth | 1.86% | 3.40% | 4.70% | 7.59% | 4.50% | 2.31% |
| Deposits | 5,252,837 | 5,156,465 | 4,902,020 | 4,765,586 | 4,325,176 | 4,195,923 |
| Deposit growth | 7.16% | 5.19% | 2.86% | 10.18% | 3.08% | 2.55% |
| Loans and advances | 5,304,396 | 5,730,419 | 5,445,962 | 5,276,887 | 4,948,361 | 4,668,855 |
| Loans and advances growth | -2.60% | 5.22% | 3.20% | 6.64% | 5.99% | 4.02% |
| **Credit quality** | | | | | | |
| Delinquency greater than 90 days | 2.11% | 1.45% | 1.82% | 1.33% | 0.98% | 0.37% |
| Net impaired loans and advances | 87,475 | 79,928 | 98,109 | 77,548 | 45,963 | 15,214 |
| Allowance for credit losses | 31,794 | 27,422 | 21,850 | 16,259 | 8,756 | 3,270 |
| Impairment charges | 22,258 | 14,462 | 14,514 | 16,100 | 9,929 | 3,449 |
| **Liquidity management** | | | | | | |
| Liquid assets [1] | 901,883 | 807,356 | 871,380 | 827,161 | 740,538 | 794,531 |
| Investment securities and interest bearing deposits | 1,151,704 | 862,576 | 934,162 | 737,780 | 650,669 | 679,229 |
| Liquidity coverage ratio (LCR) [2] | 220.86% | 242.00% | 295.80% | 242.91% | 112.12% | n/a |
| Liquid assets as a % of total assets | 13.51% | 11.91% | 13.29% | 13.21% | 12.73% | 14.27% |
| **Capital management** | | | | | | |
| Risk-weighted capital | 14.23% | 13.51% | 13.40% | 13.06% | 13.58% | 13.50% |
| Common equity tier 1 capital to risk-weighted assets | 13.65% | 12.94% | 12.79% | 12.42% | 12.94% | 12.80% |
| Leverage ratio | 8.30% | 8.21% | 8.19% | 8.05% | 8.02% | 7.79% |
| Total capital [3] | 568,913 | 573,519 | 551,225 | 522,726 | 484,083 | 454,035 |
| **Profitability and member return** | | | | | | |
| Total comprehensive income for the year | 19,115 | 26,156 | 30,346 | 41,954 | 31,849 | 38,295 |
| Return on assets (ROA) before tax allocations | 0.34% | 0.52% | 0.55% | 0.87% | 0.75% | 0.88% |
| Efficiency ratio | 76.68% | 74.29% | 74.87% | 66.92% | 71.01% | 71.34% |

[1] Liquid assets include cash and cash equivalents, marketable investment securities, liquid investment securites and statutory liquidity investment securities at SaskCentral.

[2] LCR became a new regulatory requirement in 2018.

[3] Total capital of Conexus in 2020 consists of amounts held in membership shares and member equity accounts of $15.87 million, accumulated other comprehensive income of $0.97 million, and retained earnings of $552.07 million. This differs from the definition of total capital used by the Credit Union Deposit Guarantee Corporation (CUDGC) which amounts to $562.32 million (2019 - $545.75 million).

# Financial Position Review

The financial position review provides an analysis of our major balance sheet categories and a review of our deposits, loans, liquidity, and capital positions. The review is based on the Consolidated Financial Statements.

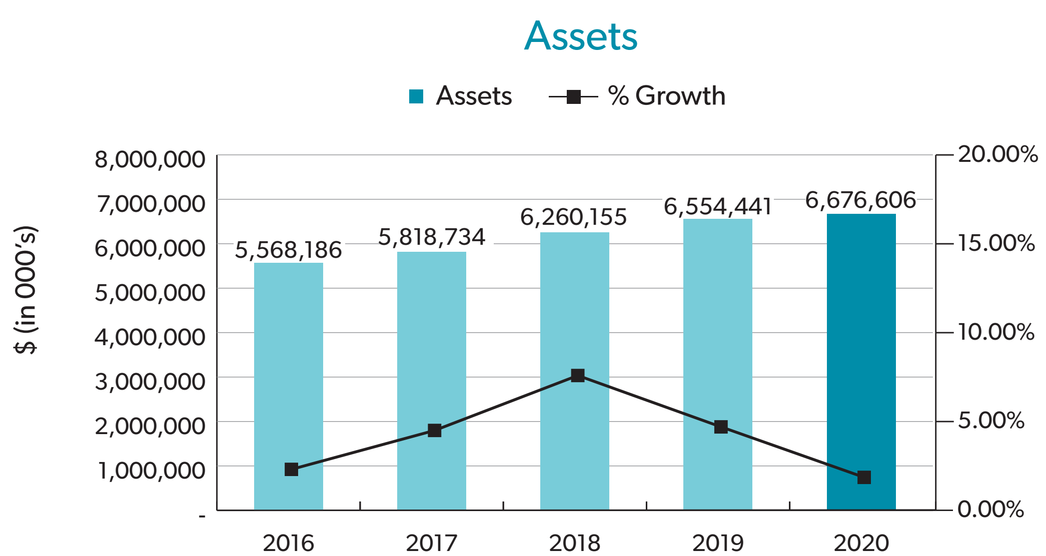
## Overview

Total funds under management ended 2020 at $8.99 billion, up from $8.66 billion in 2019 and achieving total growth of 3.81% (2019 - 4.88%). Total funds under management include “off-balance sheet” assets under administration, and include: $1.80 billion in wealth management assets, up considerably from $1.62 billion in 2019 for an increase of 11.11%; and $508.56 million in syndicated loans, an increase of 3.74% (2019 – 16.65% decrease) over 2019 levels of $490.24 million. Wealth management assets increase is due to an increase in market values and sales of the related assets. The increase in syndicated loans is a result of Conexus’ participation in the Canada Emergency Business Account (CEBA) to support members during the COVID-19 pandemic which is recorded as an “off-balance sheet” amount. Total CEBA loans funded in 2020 was $91.21 million (2019 - $0 million).

### *Assets*

On-balance sheet assets ended 2020 at $6.68 billion, compared to $6.55 billion in 2019, which represented growth of 1.86% (2019 – 4.70%). The lower asset growth in 2020 resulted from negative loan growth of 2.60% in 2020 compared to positive growth of 3.20% in 2019 which can be attributed to the softer economic conditions in the province and uncertainty related to the COVID-19 pandemic.

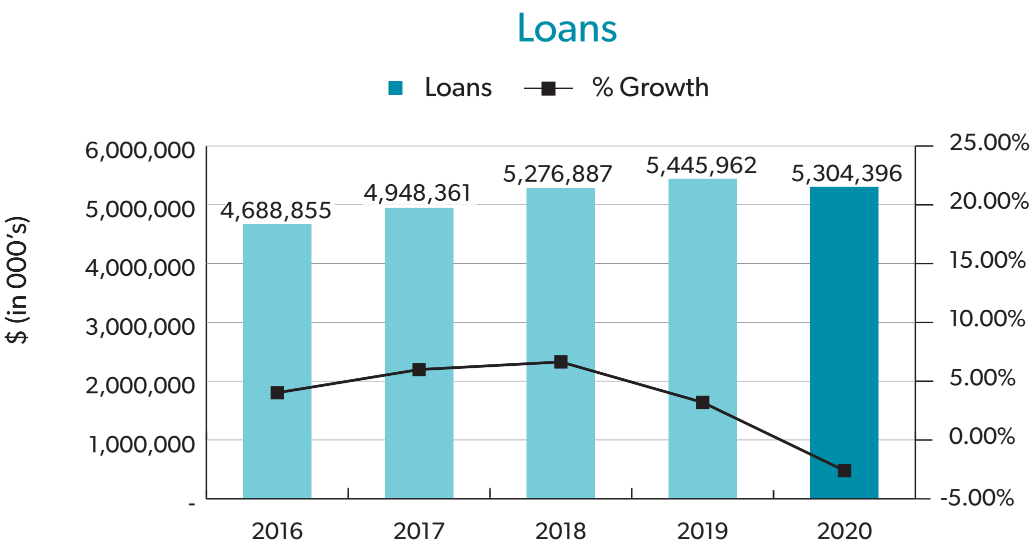
The following illustrates the Credit Union’s growth in on-balance sheet assets over the past five years.



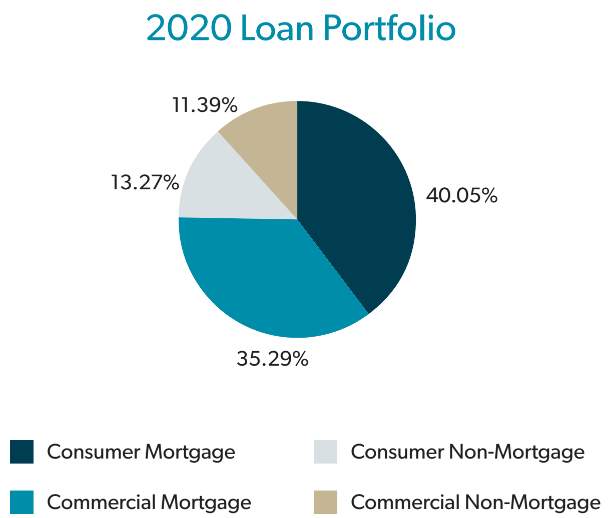
### *Loans*

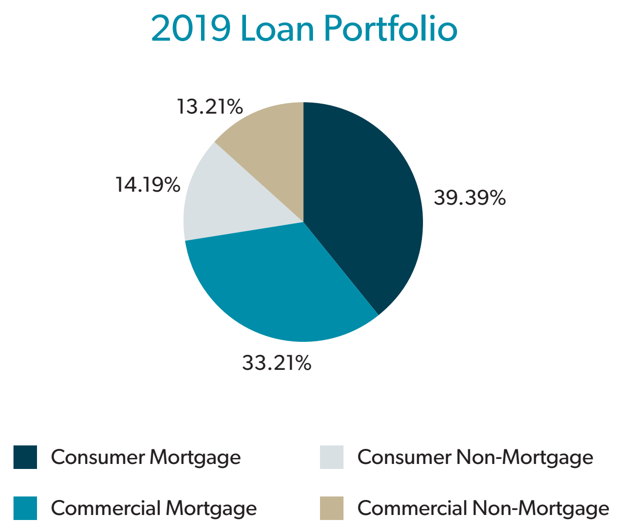
Loans accounted for 79.45% of total assets, and amounted to $5.30 billion as of December 31, 2020, representing a decrease of 2.60% over the previous year's balance of $5.45 billion. The decline in growth can be attributed to the province's weak economic environment entering 2020 and additional economic slowdown resulting from the COVID-19 pandemic.

The following illustrates Conexus' loan growth over the last five years.




A significant portion of Conexus' loan portfolio continues to consist of stable, low-risk consumer residential mortgages. Loan allocation, expressed as a percentage of the total loan portfolio, to the consumer mortgage portfolio increased slightly from 39.39% in the previous year to end 2020 at 40.05%. Loan allocation to the commercial sector increased over previous year from 46.42% in 2019 to end 2020 at 46.68%.

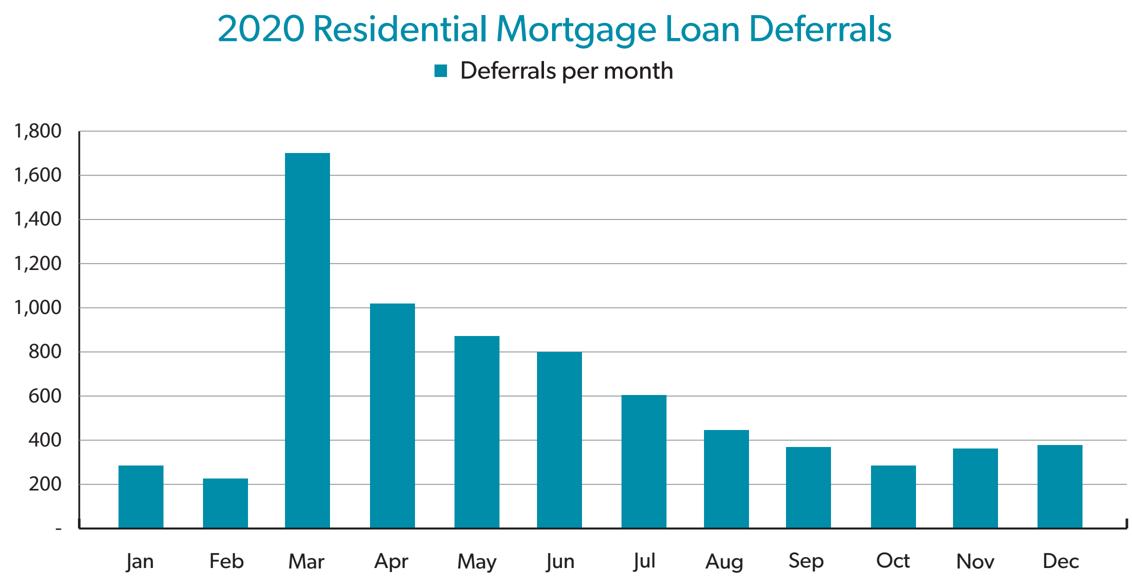


### *Residential mortgages*

A large portion of Conexus' lending portfolio is comprised of residential mortgages, which are well diversified by borrower. This portfolio ended 2020 at $2.12 billion representing 40.05% of Conexus' total loans (2019 - $2.14 billion representing 39.39% of Conexus' total loans).

During the year Conexus allowed members to defer payments outside of the normal contractual terms. In addition to other government support programs, these deferrals were aimed to help members manage pandemic-related disruptions to their income. The following table represents the number of loan deferrals processed on a monthly basis for residential mortgages.




Since the introduction of the deferral program, the above trend indicates higher member utilization in the early months of the pandemic. Starting in September 2020, as member deferrals expired, the new monthly mortgage deferral rate was close to being back within the normal deferral rate previously experienced by Conexus.

### *Residential mortgage portfolio by amortization period*

The following table presents the distribution of residential mortgages by amortization periods.

**Residential mortgages portfolio by remaining amortization period**

| | December 31, 2020 | December 31, 2019 | December 31, 2018 | December 31, 2017 | December 31, 2016 |
|---|---|---|---|---|---|
| **Amortization Period** | | | | | |
| < 5 years | 5% | 5% | 5% | 5% | 5% |
| 5 - 10 years | 10% | 9% | 8% | 7% | 7% |
| 10 - 15 years | 24% | 20% | 15% | 12% | 10% |
| 15 - 20 years | 15% | 16% | 17% | 15% | 13% |
| 20 - 25 years | 44% | 47% | 51% | 54% | 52% |
| 25 - 30 years | 2% | 3% | 4% | 7% | 13% |
| > 30 years | 0% | 0% | 0% | 0% | 0% |
| **Total** | **100%** | **100%** | **100%** | **100%** | **100%** |

### *Insured and uninsured residential mortgages and home equity lines of credit (HELOC)*

Conexus defines "insured" as residential mortgages that are insured individually or bulk insured through Canada Mortgage and Housing Corporation (CHMC) or Sagen (formerly Genworth Canada). The following table presents amounts of insured and uninsured residential mortgages and HELOC's:

**Insured and uninsured residential mortgages and HELOC**

| | | | | | |
|---|---|---|---|---|---|
| | **December 31, 2020** | | | | |
| *(In thousands of CDN $)* | **Insured** | | **Uninsured** | | **Total** |
| Residential mortgages | 1,282,081 | 58% | 840,470 | 38% | 2,122,551 |
| HELOC | - | 0% | 80,917 | 4% | 80,917 |
| **Total** | 1,282,081 | 58% | 921,387 | 42% | 2,203,468 |
| | **December 31, 2019** | | | | |
| Residential mortgages | 1,294,295 | 58% | 847,402 | 38% | 2,141,697 |
| HELOC | - | 0% | 93,605 | 4% | 93,605 |
| **Total** | 1,294,295 | 58% | 941,007 | 42% | 2,235,302 |
| | **December 31, 2018** | | | | |
| Residential mortgages | 1,213,512 | 55% | 886,742 | 40% | 2,100,254 |
| HELOC | - | 0% | 95,839 | 5% | 95,839 |
| **Total** | 1,213,512 | 55% | 982,581 | 45% | 2,196,093 |
| | **December 31, 2017** | | | | |
| Residential mortgages | 1,132,370 | 54% | 866,653 | 41% | 1,999,023 |
| HELOC | - | 0% | 101,090 | 5% | 101,090 |
| **Total** | 1,132,370 | 54% | 967,743 | 46% | 2,100,113 |
| | **December 31, 2016** | | | | |
| Residential mortgages | 1,069,968 | 52% | 882,466 | 43% | 1,952,434 |
| HELOC | - | 0% | 99,658 | 5% | 99,658 |
| **Total** | 1,069,968 | 52% | 982,124 | 48% | 2,052,092 |

### *Loan-to-value (LTV) ratios*

The following table presents the weighted average LTV ratio for total newly originated uninsured residential mortgages and HELOC's during the year.

**Weighted average LTV ratio**

| | **December 31, 2020 Uninsured** | | **December 31, 2019 Uninsured** | | **December 31, 2018 Uninsured** | | **December 31, 2017 Uninsured** | | **December 31, 2016 Uninsured** | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Residential mortgages | HELOC | Residential mortgages | HELOC | Residential mortgages | HELOC | Residential mortgages | HELOC | Residential mortgages | HELOC |
| Weighted average LTV ratio of newly originated for the year | 65% | 51% | 63% | 55% | 65% | 47% | 66% | 52% | 67% | 50% |

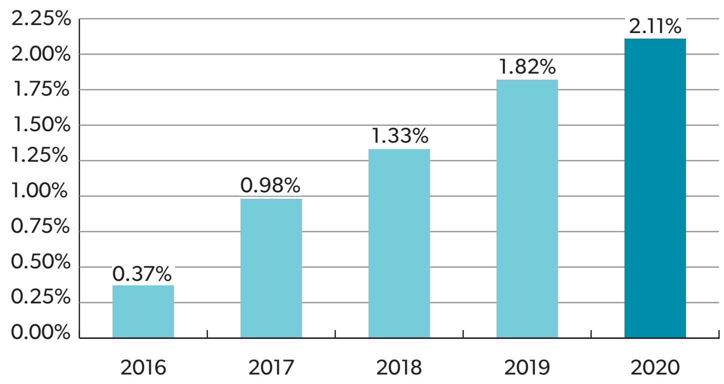
Conexus stress tests our residential mortgage and HELOC portfolios to determine the potential impact of an economic downturn, which results in an increase in defaults and a decrease in housing prices. The stress testing leverages a third-party credit default model which uses forward looking economic factors to establish stressed loss levels on a loan by loan basis. Conexus results show that in an economic downturn, which results in delinquencies well above historical levels and home prices well below historical LTV ratios, our strong capital position would be sufficient to absorb residential mortgage and HELOC losses.

## Credit Quality

### *Past due loans*

Loans are considered past due when a counterparty is contractually in arrears but where payment in full is expected. Delinquency greater than 90 days was 2.11% for 2020, an increase from 1.82% in 2019. The year over year increase in delinquency of 0.29% was primarily within the agriculture loan portfolio, which represents 68.71% of the increase. The continued decline in economic conditions in the province as well as financial hardship related to the COVID-19 pandemic has contributed to the five-year trend as illustrated in the below graph. Despite the unprecedented challenging year, delinquency levels remain within acceptable levels relative to the Credit Union's strong capital position.

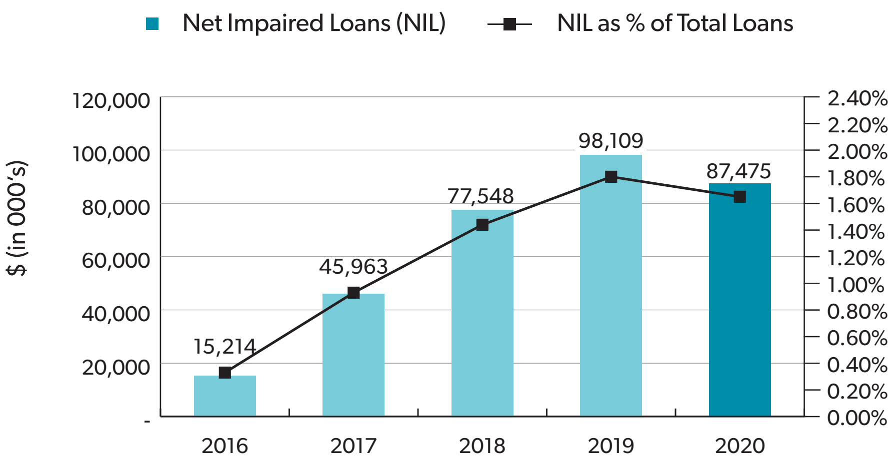
Loan Delinquency Greater Than 90 Days




### *Net impaired loans*

Net impaired loans are considered by management to be uncollectible and are net of individual loan allowances. It is the amount expected to be realized on the sale of any security on the uncollectible loans. In 2020, net impaired loans decreased from the previous year by $10.65 million to end the year at $87.48 million (2019 - $98.11 million). As a percentage of total loans, net impaired loans decreased from 1.80% in 2019 to end 2020 at 1.65%.

Net Impaired Loans




### *Allowance for credit losses*

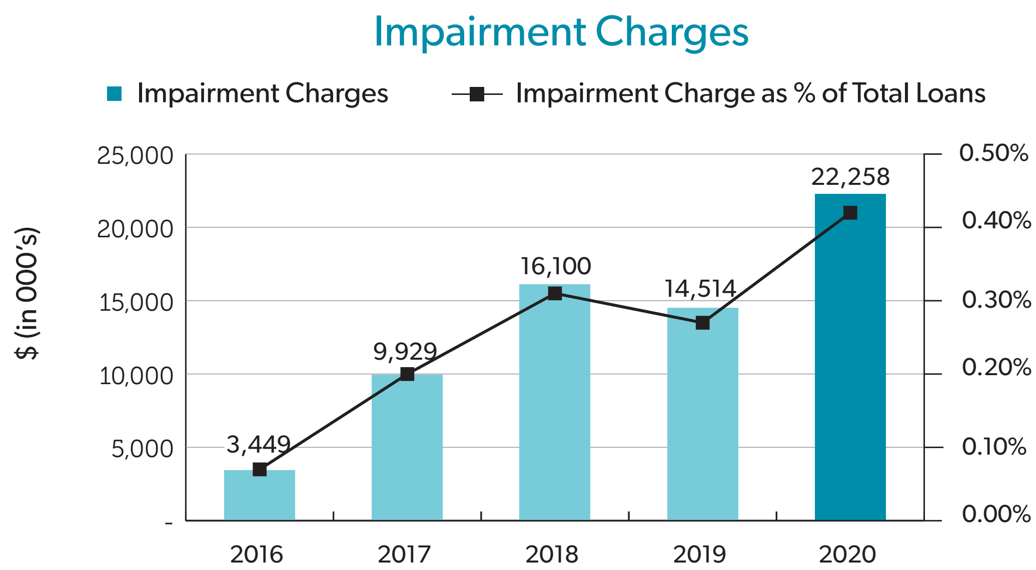
The Credit Union monitors its exposure to potential credit risk and measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for debt investment securities that are determined to have low credit risk at the reporting date and loans where credit risk has not increased significantly since their initial recognition. In particular, management judgement is required in the estimate of whether credit risk of an instrument has increased significantly, inputs into the ECL quantitative model and in the use of forward-looking information (mainly loans). When determining whether the risk of default on a loan has increased significantly since initial recognition, the Credit Union considers reasonable and supportable information that is relevant and available. This includes both quantitative and qualitative information and analysis, based on the Credit Union's historical experience, expert credit assessment and considerations of relevant forward-looking information. The total allowance in the year ended at $31.79 million (2019 - $21.85 million) and represented 0.60% (2019 - 0.40%) of total loans.

In response to the COVID-19 pandemic, management has taken extra precautions to ensure that Conexus' exposure is appropriately reflected. This includes the consideration for an increased probability of loss from loans deemed to be in industries that are of high market risk due to the pandemic. These industries are hotels and restaurants, food and beverage, and entertainment and leisure.

Although the COVID-19 pandemic has been prominent in the economy, Conexus has not experienced a significant impact on credit allowancing due to the pandemic. Instead, the year over year increase is the result of a softer provincial economy which lead to a slight decrease in overall security values, resulting in the increased allowancing of larger commercial lending files. Management continues to monitor and review impacts of the COVID-19 pandemic on credit allowancing.

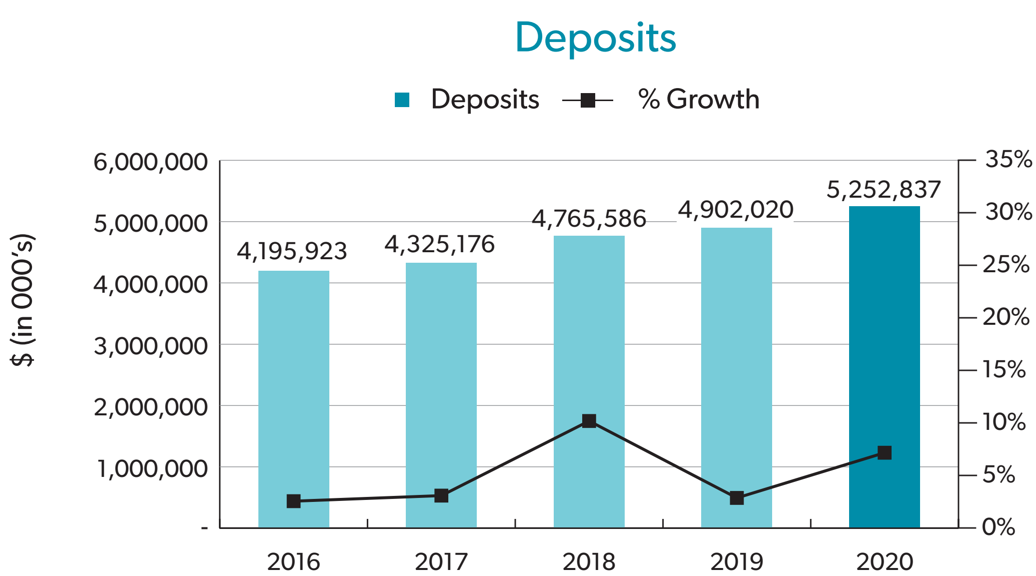
***Impairment charges***

Once allowances for credit losses and write-offs have been assessed, an impairment charge is expensed on the Consolidated Statement of Comprehensive Income. Impairment charges were $22.26 million in 2020, an increase of $7.75 million from the prior year of $14.51 million. The impairment charges as a percentage of total loans increased from 0.27% in 2019 to end 2020 at 0.42%. As indicated above this increase is mainly related to a small number of commercial lending files.




***Deposits***

Deposits ended 2020 at $5.25 billion compared to $4.90 billion in 2019, representing growth of 7.16%. Conexus' deposits consist of deposits from both consumer and commercial members. In 2020, Conexus experienced a strong growth in deposits which can be mainly attributed to the COVID-19 pandemic that resulted in changes in member spending behavior. This behavior included individuals retracting to the safety of demand deposits as they sought out liquidity in anticipating the future depletion of savings due to suppressed economic activity. Another major contributor is that members saw an increase in disposable income as the imposed restrictions on businesses lead to reduced consumer spending and leisure travel.




Consumer deposits accounted for 57.78% of total deposits in 2020 (2019 – 57.86%), and commercial deposits accounted for 42.22% of total deposits (2019 – 42.14%). Conexus' deposits are 100% guaranteed by the regulator of credit unions in Saskatchewan, the Credit Union Deposit Guarantee Corporation (the 'Corporation').

## Liquidity Management

Managing liquidity is essential to maintaining the safety and soundness of the Credit Union, depositor confidence, and stability in earnings. It is Conexus' policy to ensure that sufficient liquid assets and funding capacities are available to meet commitments as they become due, at a reasonable cost, under normal operating and stressed conditions. Conexus defines and manages its liquidity management framework within established corporate policies and regulatory standards.

The principles of Conexus' liquidity management framework are: maintaining a strategy and policies for managing liquidity risk; maintaining a stock of high-quality liquid assets; measuring and monitoring funding requirements; managing market access to funding sources; contingency planning; and ensuring internal controls over liquidity risk management processes.

Conexus has an established liquidity policy, along with a number of processes and practices governing the management of funding requirements. Specifically, Conexus measures and monitors its available liquidity and performs monthly stress scenario modeling to identify sources of potential liquidity strain. Conexus has built and maintains access to numerous funding sources. The organization's primary source of funds is consumer deposits which represent 57.78% of total deposits in 2020 (2019 – 57.86%). This is followed by commercial deposits at 42.22% of total deposits (2019 – 42.14%).

In addition to core deposits, Conexus maintains external borrowing facilities from various sources. Conexus has an authorized line of credit with Credit Union Central of Saskatchewan (SaskCentral) in the amount of $95 million in Canadian funds (2019 - $95 million) and $7 million in U.S. funds (2019 - $7 million). SaskCentral is a wholesale financial services co-operative that provides clearing, settlement and liquidity management services to its member owners – the Saskatchewan credit unions. Additionally, Conexus has a credit agreement with Desjardins, with a maximum available credit limit of $150 million (2019 - $150 million). Given increased liquidity levels during the year, Conexus paid out and closed a term facility with Desjardins and has an outstanding balance of $0 as of December 31, 2020 (2019 - $70 million).

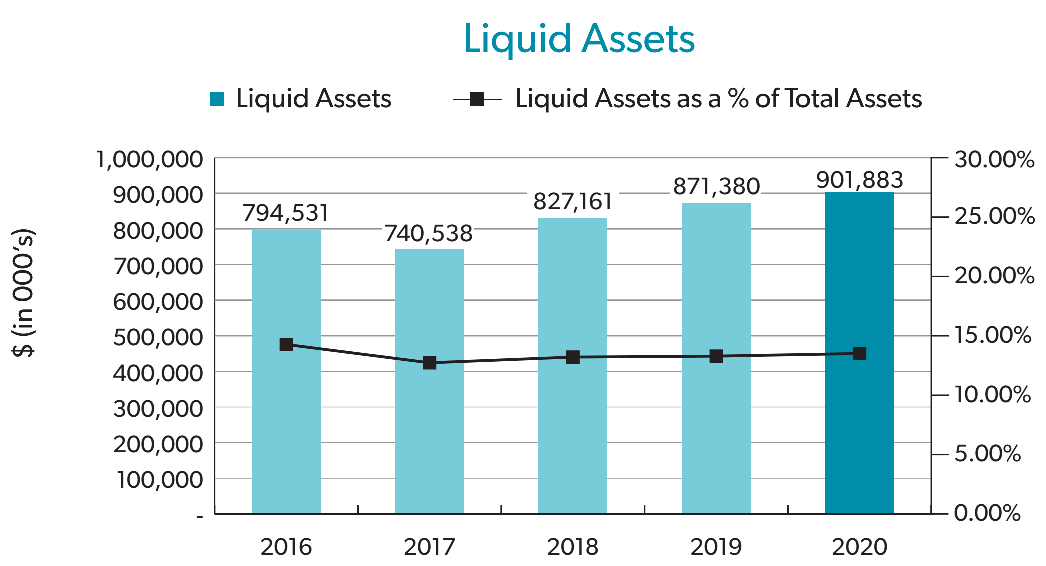
The next source of liquidity for Conexus is the securitization of assets for the purpose of generating funding in the capital markets. Conexus' securitization activities include participation in the Canada Mortgage Bond (CMB) program, the sale of mortgage-backed securities (MBS), and a revolving dealer finance loan pool. Loans may also be syndicated with numerous credit unions for liquidity and diversification purposes thereby achieving off-balance sheet treatment as all credit risk is assumed by the purchaser. In 2020, Conexus securitized an additional $68.13 million in loans (2019 - $246.26 million) and syndicated $78.11 million in loans (2019 - $12.79) as part of its ongoing funding strategies.

### *Liquid Assets*

Conexus maintains a cushion of high-quality liquid assets that it can draw upon to meet unforeseen funding requirements.

Liquid assets include cash and cash equivalents, marketable investment securities and statutory liquidity investment securities at SaskCentral. The value of liquid assets increased from $871.38 million (13.29% of assets) in 2019 to $901.88 million (13.51% of assets) as of December 31, 2020.

Saskatchewan credit unions are required by the provincial regulator, the Corporation, to maintain 10.00% of their liabilities on deposit with SaskCentral, manager of the Provincial Liquidity Program. Throughout 2020, Conexus held the required amount of investment securities with SaskCentral for the purpose of maintaining its obligation to the Provincial Liquidity Program. In addition to the statutory liquidity investment securities on deposit with SaskCentral, Conexus' maintains a high-quality, liquid pool of investment securities to satisfy payment obligations and protect against unforeseen liquidity events. The majority of Conexus' marketable investment securities are held in Canadian (Schedule 1) Chartered Banks.



### *Operating Liquidity*

The primary measures for liquidity adequacy at the Credit Union include the liquidity ratio, liquid asset ratio (LAR) and liquidity coverage ratio (LCR).

The liquidity ratio is calculated as available liquidity and cash inflows divided by cash outflows. Available liquidity is defined as investment securities which are immediately available as cash, investment securities marketable in an active secondary market, and redeemable investment securities. In 2020 the liquidity ratio was 259.00% (2019 – 265.00%), well above management's internal target of 150.00%.

The LAR measures current liquid assets, excluding statutory liquidity investments, as a percentage of total assets. In 2020 the LAR was 5.32% (2019 – 5.35%), well above management's internal target of 3.00%.

The LCR is a ratio that measures the amount of high-quality liquid assets (HQLA) in relation to net cash flows (obligations) over a 30-calendar day liquidity stress scenario. The ratio is calculated as HQLA divided by cash outflows. Regulator standards require credit unions to maintain a minimum liquidity coverage ratio of 100%. In 2020, the LCR was 220.86% (2019 – 295.80%), well above management's internal target of 120%.

## Capital Management

Total capital as a percentage of risk-weighted assets is one of our primary measures of financial strength for financial institutions. Conexus' capital management framework is designed to balance the desire to optimize capital productivity and ensure sufficiency of capital given risks. This appropriate balance can be referred to as capital adequacy. Accordingly, capital policies are designed to ensure that Conexus: meets its regulatory capital requirements; meets its internal assessment of required capital; and builds long-term membership value. Conexus retains a portion of its annual earnings in order to meet these capital objectives.

The Corporation prescribes capital adequacy measures and minimum capital requirements. The capital adequacy rules issued by the Corporation are based on the Basel III capital standards framework established by the Bank for International Settlements and adopted by financial institutions around the globe, including Canadian banks. Conexus monitors changes in regulatory standards and guidelines and adjusts its capital plan and targets accordingly.

The Credit Union has been designated as a provincial systemically important financial institution (P-SIFI) and is subject to a capital surcharge of 1.00% of risk-weighted assets. The surcharge requires P-SIFI's to maintain larger capital reserves and a greater ability to absorb losses. The goal of this capital surcharge is to reflect the greater impact that the failure of a P-SIFI may have on the provincial financial system and economy. The capital surcharge is periodically reviewed by the Corporation in light of national and international developments.

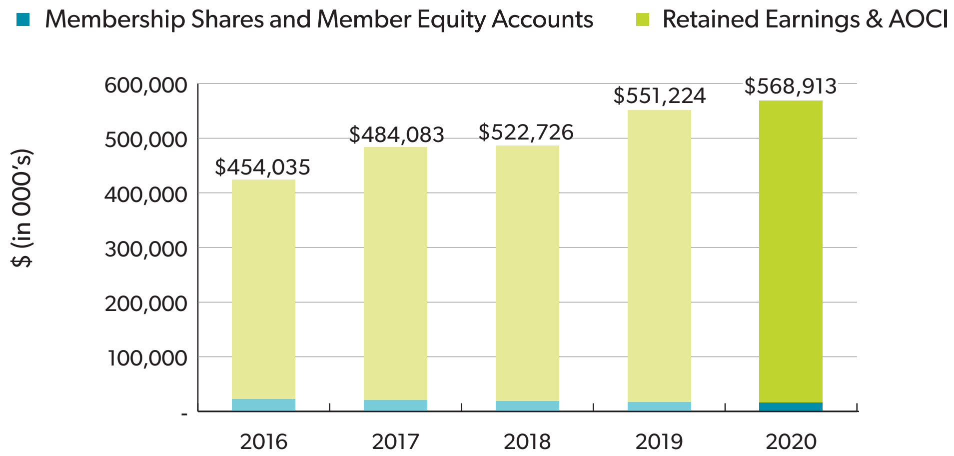
The Corporation currently prescribes four standardized tests to assess the capital adequacy of credit unions: risk-weighted capital ratio (total eligible capital to risk-weighted assets); common equity tier 1 capital to risk-weighted assets; total tier 1 capital to risk-weighted assets; and a minimum leverage ratio (eligible capital to total leveraged assets). The risk-weighted capital ratio is calculated as total eligible capital divided by risk-weighted assets. Achieving minimum regulatory capital levels are of paramount importance to Conexus. Minimum board-level standards are set that either meet or exceed regulatory minimums. Regulatory standards require credit unions designated as P-SIFI to maintain a minimum common equity tier 1 capital to risk-weighted assets of 8.00%, total tier 1 capital to risk-weighted assets of 9.50%, a minimum leverage ratio of 5.00% and a minimum total capital to risk-weighted asset ratio of 11.50%. This standard-setting is the first line of defense to ensure capital levels exceed regulatory minimums even in times of significant loss or unplanned growth.

The Corporation also prescribes an internal capital adequacy assessment process (ICAAP). ICAAP is an integrated process that evaluates capital adequacy and is used to establish capital targets that take into consideration the strategic direction (business plan) and risk appetite of the Credit Union. ICAAP seeks to identify the material risks requiring capital and quantify the amount of capital that should be held in relation to those risks. Enterprise-wide stress testing and scenario analysis are also used to assess the impact of various stress conditions on Conexus' risk profile and capital requirements. In addition to board-level minimums for capital adequacy, internal capital targets are set and reviewed annually through the Conexus' ICAAP process. ICAAP targets and the underlying risk assessment process is approved annually by the Risk Committee of the Board. Conexus manages capital to these operating objectives. Balance sheet operating strategies are designed to ensure these capital levels are achieved in addition to other strategies, such as growth and profitability targets.

Capital planning is integrated with Conexus' business planning. Conexus' capital plan must demonstrate its ability to meet both board-level capital standards and those established through ICAAP. A capital plan is prepared annually and approved by the Audit and Conduct Review Committee.

Conexus experienced capital growth in 2020, adding to its sound financial position. In 2020, the total capital of Conexus increased by $17.69 million, from $551.22 million in 2019 to $568.91 million. Total capital of Conexus consists of amounts held in membership shares and member equity accounts $15.87 million accumulated other comprehensive income (AOCI) of $0.97 million; and retained earnings of $552.07 million. The following chart (next page) illustrates the capital composition of Conexus, showing that retained earnings is the main source of capital for Conexus.

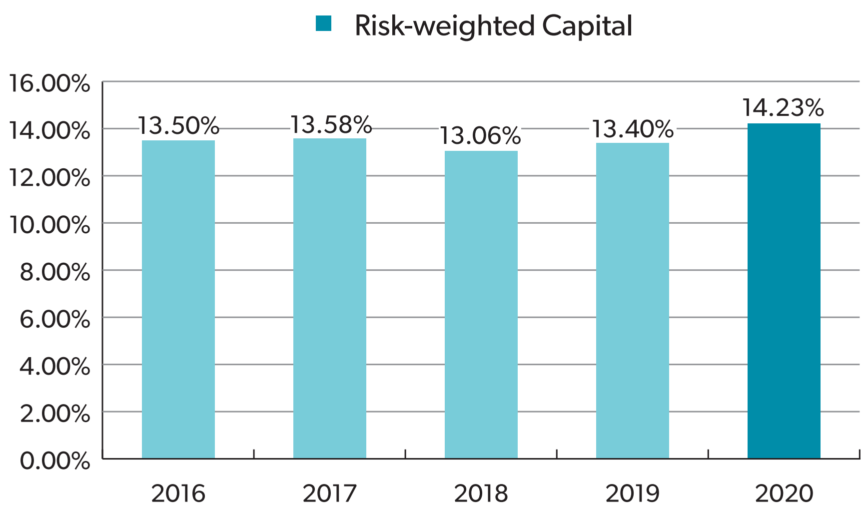
## Total Capital




***Regulatory capital***

For the year ending 2020, Conexus' total capital as a percentage of risk-weighted assets was 14.23% (2019 – 13.40%). Common equity tier 1 capital to risk-weighted assets as well as total tier 1 capital to risk-weighted assets was 13.65% (2019 – 12.79%), and the leverage ratio was 8.30% (2019 – 8.19%), all well above the minimum regulatory standards, policy requirements. The ICAAP process outlines a required total capital as a percentage of risk-weighted assets to be at minimum of 12.51% (2019 – 12.63%).

## Regulatory Capital

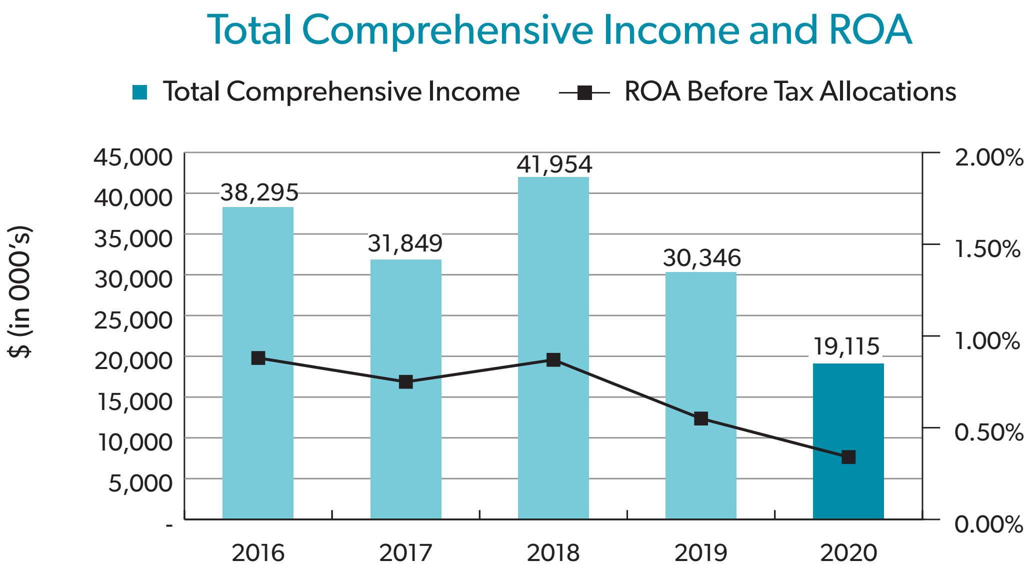


# Financial Performance Review

The financial performance review provides an analysis of our consolidated financial performance and member return. The results below are drawn from continuing operations unless otherwise specified.

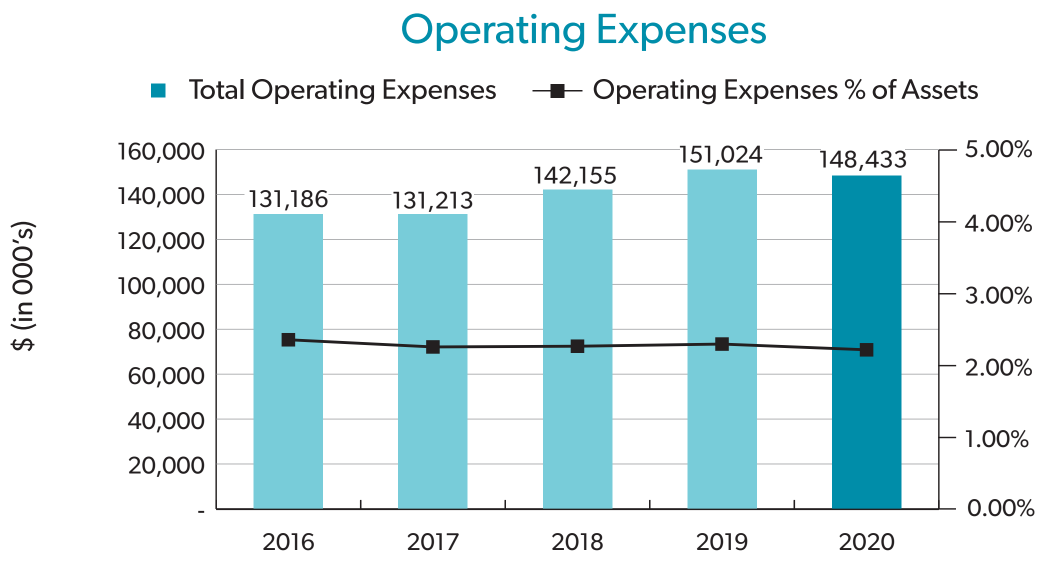
## Profitability

Total comprehensive income for 2020 was $19.12 million, a decrease from $30.35 million in the previous year. For 2020, total annualized return on assets (ROA) before income tax allocations was 0.34%, compared to 0.55% in 2019.




Total comprehensive income is comprised of the following items:

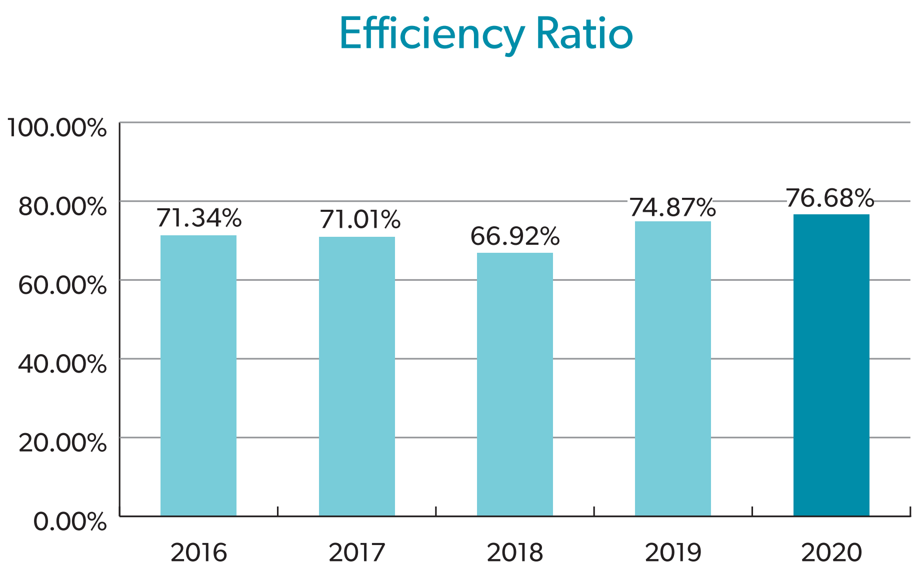
- Net interest income after impairment charges consists of total interest income less total interest expenses while factoring in any loans and investment security impairment charges. Net interest income after impairment charges decreased $15.70 million between December 31, 2020 and 2019. Expressed as a percentage of total assets, net interest income after impairment charges decreased to 1.92% for 2020 compared to 2.19% in 2019. The year over year decrease is mainly attributed to three key items: interest rate cuts totaling 150bps by the Bank of Canada in response to the COVID-19 pandemic caused significant net interest margin compression; lower lending volume; and larger commercial credit impairments.
- Other income: includes account service fees, loan fees, loan insurance fees, card fees, dividend income, financial instruments held at fair value, wealth management income, and other income. Consolidated other income decreased slightly to $43.35 million in 2020 from $43.52 million in 2019. The slight year over year decrease relates to Conexus applying for the Canada Emergency Wage Subsidy (CEWS) which offset the fair value losses on private equity fund investments and derivatives. Similar to a wide range of Canadian businesses Conexus experienced a decline in revenue associated with the impacts of the COVID-19 crisis and qualified for subsidization under the Government of Canada CEWS program. Several private equity fund investments experienced increased fair value volatility given the current economic environment and an unrealized loss of $2.58 million was recorded in 2020. A declining interest rate environment has led to fair value losses of $4.75 million on Conexus' derivative portfolio. Both current period losses have been directly impacted by the economic conditions resulting from the COVID-19 pandemic.
- Operating expenses: includes various operating costs such as general business, occupancy, organizational, personnel, and member security. Consolidated operating expense decreased from 2.30% of assets or $151.02 million in 2019 to 2.22% of assets or $148.43 million in 2020. This ratio of operating expenses divided by total assets is called the operating expense ratio and is included as a measure of efficiency in Conexus' key performance indicators report to ensure all staff and management focus on operating cost management. As the graph (next page) indicates management continuously looks to control and monitor ongoing operating expenses.




### Efficiency

The efficiency ratio measures operating expenses as a percentage of earnings from operations. A low-efficiency ratio indicates efficient use of resources. The ratio is calculated as operating expenses from operations divided by the sum of the following: net interest income plus other income from operations.

The efficiency ratio was 76.68% in 2020 compared to 74.87% in 2019, an unfavorable increase of 1.81%. Impacts from the COVID-19 pandemic have resulted in a decrease in both the net interest margin and non-interest revenue during the year leading to a higher efficiency ratio compared to the prior year.



# Enterprise Risk Management

## Overview

Conexus provides comprehensive financial and wealth management products and services to individuals, small and medium businesses, and agricultural producers. As a result, Conexus is exposed to a broad range of financial, business, and regulatory risks, many of which are beyond direct control. Conexus operates in a highly regulated and increasingly competitive environment with growing member expectations driven by quickly evolving digital and electronic technological capabilities. Conexus is vulnerable to the province's economic strength and increased geographic, and concentration risk exposures with operations focused on the Saskatchewan marketplace.

All organizations face external and internal factors and influences that introduce uncertainty in achieving objectives. A potential impact of this uncertainty is a deviation from the expected outcome in either a positive or negative matter, and sometimes even both. This uncertainty is known as risk.

Enterprise risk management's (ERM) purpose is to create and protect value, with an aim to improve performance, encourage innovation, and support the achievement of objectives. Effective risk management is accomplished by altering the likelihood of a risk occurring and the impact on the organization if the risk does occur. The focus is to manage risks to operate within the risk appetite as communicated by the board. Risk management occurs at an operational level daily and the enterprise risk management team takes risk management to a strategic level so that risks are managed from an enterprise-wide perspective.

## Approach to Risk Management

Conexus seeks to create and protect enterprise value by enabling risk-informed decision-making and by balancing risk and return within the business process. This is achieved by managing the top business (key) and emerging risks impacting strategy and operations, encompassing risks relating to credit, market, liquidity, operations (systems, process, and people), regulatory, legal and strategic risks that may impede the achievement of business objectives. Conexus' ability to manage risks is supported by:

- An effective governance structure;
- A strong risk culture;
- A well-defined risk appetite statement; and
- An effective risk management framework and process.

## Risk Governance

Risk governance includes setting the risk appetite and policy, determining an appropriate organizational structure, and clearly defining authority and responsibility for risk decisions. The following groups and committees have the authority and responsibility to make risk decisions within Conexus.

| | | |
|---|---|---|
| **Risk Governance & Strategic Direction** | Board of Directors | • Foster a risk awareness culture<br>• Set strategy and high-level objectives<br>• Approve risk policies and set risk appetite<br>• Know the extent to which effective ERM has been established within the organization<br>• Be aware of significant risks and whether management has appropriately responded<br>• Review and assess the impact of business strategies, opportunities, and initiatives on the overall risk position |
| | Risk Committee | • Monitor major risks and recommend acceptable risk levels to the board<br>• Review the appropriateness and effectiveness of risk management and compliance practices |
| **Risk Oversight** | CEO & Executive Leadership Team | • Ensure, through the chief executive officer, that all ERM components are in place<br>• Set objectives, establish an organizational structure, and develop the risk culture<br>• Ensure that a supportive learning environment exists |
| | Management Risk Committee | • Oversee the ERM function<br>• Ensure compliance with the risk appetite<br>• Review the status of significant risk areas and key risks<br>• Review and recommend changes to board policy<br>• Review operating policy changes<br>• Review and recommend risk appetite statement to the board<br>• Monitor overall risk profile, key and emerging risk exposures, and risk management activities |
| | Chief Risk and Compliance Officer | • Lead the ERM function<br>• Ensure risk is considered in strategic direction-setting<br>• Support and demonstrate the importance of ERM<br>• Maintain and develop the risk governance framework |

| | | |
|---|---|---|
| **Operational Risk Management** | ERM Department | • Act as a centralized coordinator to facilitate ERM<br>• Establish ERM policies, define roles and responsibilities, and set goals for implementation<br>• Promote ERM competence<br>• Examine and evaluate the effectiveness of the ERM framework, tracking progress and reporting on best practices<br>• Oversee the insurance risk management program<br>• Oversee the business continuity management program |
| | Senior Management | • Manage risk related to unit objectives<br>• Assume responsibility and accountability<br>• Integrate risk management into department strategy and management practices<br>• Identify events, assess risks, and respond accordingly |
| | Compliance & Risk Management Function | • Oversee enterprise-wide management of compliance throughout the organization<br>• Provide independent and objective assurance of control and soundness of operations to management, Audit and Conduct Review Committee and Risk Committee of the board<br>• Monitor compliance with policy and procedure and the adequacy of controls |
| | Credit Management | • Establish credit policies and oversee credit risk management<br>• Monitor credit risk profile and risk exposures<br>• Monitor compliance with credit risk policies<br>• Approve high-risk individual credit applications |
| | Corporate Finance & Balance Sheet Management Group | • Establish market and liquidity risk policies and oversee related programs and practices<br>• Monitor overall market and liquidity risk profile, key and emerging risk exposures, and risk management activities<br>• Monitor compliance with market and liquidity risk policies<br>• Establish balance sheet operational strategies with a focus on achieving financial targets, managing market, and liquidity risk, and optimizing the use of capital<br>• Establish pricing policies and tools<br>• Ensure that policies facilitate appropriate return given the level of risk in individual accounts<br>• Monitor pricing decisions to ensure compliance with policy |
| | Functional Advisors and Supervisors | • Provide support in shaping effective ERM components<br>• Ensure policy-related advice and guidance is in line with corporate ERM and strategic objectives<br>• Identify and assess risk and the effectiveness of existing risk management practices<br>• Help design and implement tools for more effective risk management |
| | All Employees | • Be aware of risk management issues<br>• Practice risk-aware behaviour<br>• Consider limitations and understand the risks they can and cannot take<br>• Execute day-to-day activities following established directives and protocols |

## Risk Culture

Risk management is the responsibility of all employees at Conexus with a culture promoted that enables us to proactively identify, assess, and respond to risks in a timely manner. Expectations for employee behavior and accountabilities are set out in the Conexus Code of Conduct, Risk Appetite Statement, policies, procedures and guidelines.

Risk management is embedded in employee job profiles and performance management practices with risk accountabilities being clearly defined within the risk framework to guide all employees.

## Risk Appetite

Conexus has a well-defined risk appetite statement to guide organizational decision-making practices and ensure that risk levels remain reflective of Conexus member values and consistent with Conexus' co-operative principles.

Conexus' risk appetite statement is an internal document that articulates the amount of risk Conexus is willing to accept in pursuing its strategic objectives. It establishes the boundaries for risk-taking, includes risk definitions and measurable qualitative and quantitative statements, and provides a platform for measuring risk management activities for key business risks across significant risk categories in the Credit Union.

The Credit Union's risk appetite level may change over time; therefore, the risk appetite statement is reviewed at least annually.

# Risk Management Framework Process

## Risk Identification, Measurement, and Assessment

The ERM framework sets out how risk management is designed and will function at Conexus. Risks are identified and assessed, and mitigation plans are documented using a risk register. Risks are evaluated and prioritized based on the potential impact that they could have and the likelihood that they might occur.

Risks considered to be at a desirable level are managed through normal operating policy and procedures. Risks at a slightly higher level receive ongoing monitoring. Risks at a high level are escalated to the Management Risk Committee for monitoring and are reported to the board. If any risk exceeds board policy tolerance levels, a timely and appropriate response is required.

## Risk Monitoring and Reporting

ERM reporting requirements are specified in board policy. Reports are submitted quarterly to the Risk Committee, providing updates on significant risk categories and key business risks. The full board of directors is provided access to all reports that are submitted to the Risk Committee. Reporting through the course of the year includes risk details such as a listing of key risks, a risk map, insurance program review, and an evaluation of the ERM business continuity management program implementation. Internal Audit, and occasionally the Credit Union Deposit Guarantee Corporation, also completes an independent evaluation.

A dedicated executive-level risk committee, the Management Risk Committee, meets at least quarterly to review significant risk categories and to discuss changes to the risk environment, risk impacts on strategic objectives, and emerging risks.

## Risk Control and Mitigation

Management implements policies and procedures to carry out risk mitigation and treatment actions. The Conexus ERM framework establishes that risk owners are generally responsible for controls. The ERM department reports on the adequacy of controls and the internal audit department tests these controls and reports to determine whether they are functioning as intended.

The executive team takes risks into consideration when creating the corporate plan and balanced scorecard. Key initiatives have been put in place to manage risk priorities.

## Significant Risk Areas

In addition to tracking individual key risks, analysis is done for each significant risk area. Conexus conducts an assessment to measure the inherent risks in the area, the effectiveness of risk management controls, and the residual risk. Within each of these risk categories are various individual risks, and Conexus recognizes that any combination of risks can affect the organization's reputational risk.

An important element of our ERM program is to ensure that the key business and emerging risks that may impact the organization are identified, assessed and treated through our risk management process. Key risks are routinely monitored by the Management Risk Committee and fully reviewed and refreshed annually ahead of the new annual business cycle, or during periods of stress in the operating environment. The key business risks described below reflect the 2020 risk environment with a consideration of the impacts of COVID-19 to our business operations through the course of 2020.

## Strategic Risk

Strategic risk encompasses the possibility that business decisions or plans could be flawed and thus impact Conexus' ability to meet objectives. This risk can take the form of adverse business decisions or ineffective/inappropriate business plans. It could also be a failure to respond to changes in the competitive environment, member preferences, or product obsolescence. Products and services must be competitive and profitable, and resources must be used appropriately for Conexus to be successful.

### *Key Strategic Risks*

The following are key strategic risks that have been identified at Conexus:

- **Economic Environment** - A prolonged recession combined with a contracted energy sector has a pronounced effect on Saskatchewan's economic activity, resulting in historically low interest rates, slow growth, and deteriorating credit conditions. The emergence of COVID-19 is projected to lengthen the timelines for economic recovery.

- **Competition** - Increased pressures from existing and non-traditional financial service providers (Federal credit unions, digital banks, Fintechs, Big Tech, and other new entrants), alongside readily available comparison data, influence consumers' expectations of services, products, and pricing, thereby challenging member loyalty. The modernizing of the financial technology and open banking's potential opportunities further support disintermediation activities (changing payments structure and open banking). Aggressive product and pricing offered by new entrants are leading to new and efficient delivery channels and uncoupling of financial products and services. These challenges make it increasingly difficult to offer a seamless relationship-based program to achieve growth organically.

- **Data as an Asset** - Data is a core asset that must be managed to deliver member financial well-being and corporate objectives successfully. Competitors and Fintechs are perceived to be sophisticated data users who can leverage data to create a competitive business advantage that Conexus must compete against. For data to be an asset, it must be of high quality, accessible, timely, adaptable (and yet reliable and repeatable), and usable. These characteristics ensure that data supports the preservation of value through analytical approaches to member insight, increased efficiency, and supports readiness to adapt to innovative approaches such as open banking.

- **Strategic Focus & Alignment** - There is a risk that Conexus may lose focus on the priorities required to digitally and operationally deliver on the Conexus strategic differentiator, member financial well-being, while evolving toward operational excellence as a credit union. If Conexus cannot maintain an enterprise-wide focus and alignment on priorities, there is a risk that objectives will not be met.

- **Sustainability of Strategic Purpose** - Conexus is dedicated to achieving the strategic differentiator of delivering a compelling member-focused financial wellness offering. To succeed, Conexus must engage consumers around our difference and to demonstrate the value in a highly competitive, digital, and low friction environment. There is an additional risk that the strategic differentiator does not resonate with members/consumers and results in a business model that is unsustainable over the long term.

Conexus employs an annual review process to identify the key strategic risks facing the organization. Annually each November, the risk committee reviews the environment which Conexus operates in and updates the key strategic risks and risk appetite statement accordingly. The updated key strategic key risks and correlating risk appetite statement are then employed and monitored the following fiscal year.

### *Strategic Risk Management*
Conexus has an ongoing strategic planning cycle, which includes planning sessions for the board and executive management. Strategic and operational planning is organized and led by the Vice-President, Strategy, within the governance and strategy area of Conexus. Strategic objectives, performance measures, and key initiatives are identified and form part of the balanced scorecard, which is communicated to all staff and used to measure organizational performance. Risk identification is part of Conexus' operational planning process, ensuring that strategic risk identification is incorporated at all levels within the organization.

## Market Risk

Market risk is the exposure to potential loss from changes in market prices or rates. Losses can occur when values of assets and liabilities and changes in revenues or expenses are adversely affected by changes in market conditions. These market conditions include a change in interest rates as well as foreign exchange movements. At Conexus, market risk primarily arises from movements in interest rates and is caused specifically from timing differences in the re-pricing of assets and liabilities, both on and off the balance sheet.

### *Key Market Risks*
There are no key risks identified in this category.

### *Market Risk Management*
Effective management of market risk includes documented board and operating policies which address roles and responsibilities, delegation of authority and limits, risk measurement and reporting, valuation and backtesting, hedging policies, and exception management. Market risk exposure limits have been set in Conexus policy, and different methods of scenario and stress testing are carried out to determine if the limits are exceeded. The corporate finance department is responsible for reporting on and monitoring market risk which is communicated quarterly to the board of directors. Interest rate risk management includes the use of derivatives to exchange floating-rate and fixed-rate cash flows.

## Liquidity Risk

Liquidity risk is the potential inability to meet obligations, such as liability maturities, deposit withdrawals, or funding loans, without incurring unacceptable losses. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources

### *Key Liquidity Risks*
The following key risks have been identified in this category:

- **Liquidity Risk** - Low-interest rates, diversification of deposits, competition for core deposits, increase in non-deposit investments, and a declining preference for saving by a growing segment of the population has, historically, decreased deposit growth rates. This has created an increased reliance on non-deposit funding instruments, which creates exposure to capital markets.

### *Liquidity Risk Management*
Liquidity risk management includes board and operating policies which address roles and responsibilities, delegation of authority and limits, risk measurements, stress testing, and reporting. Operational management of liquidity risk includes daily, monthly, and annual liquidity management processes and planning. Liquidity planning considers the Conexus strategic plan, diversity of on and off-balance sheet funding sources, as well as the diversity and liquidity of assets. The corporate finance department is responsible for monitoring liquidity risk and reporting is provided quarterly to the board of directors.

## Credit Risk

Credit risk is the loss of principal resulting from a borrower's failure to repay a contractual credit obligation. Credit losses occur when the borrower fails to make contractual payments, and the realizable value of security is less than the outstanding principal of the credit.

At Conexus, credit risk comes primarily from direct lending activities and, to a lesser extent, the holdings of investment securities.

### *Key Credit Risks*
The following key risk has been identified in this category:

- **Credit Risk** - Conexus operates almost exclusively within the province of Saskatchewan, creating a portfolio with the following risk characteristics:
  - A high geographic concentration within the province especially the major cities.
  - A dependence on the economic strength of Saskatchewan and its major industries.
  - A recession increased loan delinquency shifting Conexus' portfolio to a higher risk rating.

COVID-19 caused economic uncertainty for our members resulting in higher levels of loan payment deferrals. As government support programs expire, there is an increased risk of both personal and business bankruptcies. This risk is compounded by the increase in available commercial real estate, putting downward pressure on security values.

### *Credit Risk Management*
Credit granting is controlled by board-approved policies and detailed loan policy manuals. Credit approvals require escalation based on the operational lending policy, which is reviewed on a scheduled basis. Quarterly credit management reports provide loan portfolio details on loans by industry type, internal risk weighting where available, and property type for mortgages. Credit portfolio management entails using a variety of strategies to achieve a target loan portfolio. A centralized Credit Management Centre is responsible for the creation of appropriate operating policy and the overall management of credit risk.

## Legal & Regulatory Risk

Legal and regulatory risk is the risk arising from potential violations of non-conformance with laws, rules, regulations, prescribed practices, or ethical standards.

### *Key Legal and Regulatory Risks*
There are no key risks identified in this category.

### *Legal and Regulatory Risk Management*
As a financial institution, Conexus operates in a heavily regulated environment. As a business operating within Saskatchewan, Conexus is subject to all provincial and federal legislation applicable to operations, including labor and anti-money-laundering laws. Board policy, operating policy, operating procedures, and a corporate code of conduct raise awareness and accountability in complying with laws and regulations.

A corporate compliance department that maintains risk oversight and coordinates quarterly reporting to the board is in place at Conexus. Operational compliance employees ensure compliance in key regulatory areas. All specialized departments (wealth management, credit, finance, and retail) are knowledgeable in the specific regulations applicable to their areas, and where required, third-party expertise is consulted to ensure sound decision-making. Employees are responsible for compliance within their scope of responsibilities. Mandatory training and reviews are required for specific regulatory requirements and key human resource operating policies and guidelines.

## Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems, or external events. Exposures to this risk arise from deficiencies in internal controls, technology failures, human error, lack of employee integrity, or natural disasters.

### *Key Operational Risks*

The key risks identified in this category are:

- **Human Resource Risk** - Transformational change requires building a resilient and forward-looking workforce that can respond to emerging risks and strategies while staying galvanized to our purpose. Executing with speed, coordinating changes, and intersection points requires new skillsets on mass. Leadership agility, data, financial, and business acumen are only a few of the skillsets required to lead in this volatile, uncertain, complex, and ambiguous environment where uncertainty and stress have escalated both professionally and personally due to COVID-19.

  Our ability to align employee and leadership behavior to deliver on Conexus' purpose requires relentless attention and consistency. The risk of not achieving our necessary transformation is increased when not done effectively.

- **Cybersecurity** - Conexus' use of digital member service delivery channels, including online and mobile technology, and increased industry use of cloud-based services in combination with increasing incidents of privacy and technology breaches across the corporate environment, creates a vulnerability to financial loss and reputation risk. Technological infrastructure security requires a more robust approach.

- **Operational Process Efficiency** - Conexus requires policy and process that meets member demand for low friction interaction while supporting the empowerment of employees to make decisions at the member level. To achieve these goals, Conexus requires simplified, intuitive policy and process that leverages technology to enhance service delivery and decision-making capabilities. If Conexus is not successful in reducing the cost of operating practices/systems, it is at risk of having a cost structure that is too high to deliver on purpose competitively in its markets and respond to earnings implications brought on by COVID-19.

- **Enterprise Architecture** - Conexus' current technology infrastructure and architecture inhibit the ability to drive business value through technology enablement. Without cohesiveness and integration layers, our ability to leverage proprietary data, open banking opportunities, and industry innovation while building strong partnerships is obstructed. Without cohesion internally, our workforce is strained by inefficient processes that require a vast amount of application knowledge that may result in an increased risk of decision errors and reporting through the manual manipulation of information between systems.

### *Operational Risk Management*

At Conexus, operational risk exists in all products and services and the way they are delivered, such as how the back-office processes and systems are supported. Conexus categorizes operating risk into three main areas: people, systems, and processes. The people category includes human resources and covers risks such as the ability to attract and retain appropriate talent. The systems category addresses technology and reliance on it, encompassing such risks as a security breach or failure of a critical system for an extended period. The processes category includes the way the organization approaches tasks and considers inaccurate policies or procedures.

Operational risk is managed through preventative measures, including policies and procedures, controls, and monitoring. Control and monitoring involves the segregation of duties, employee training, performance management, and a structured internal audit program. Other mitigation practices include business continuity planning, appropriate insurance coverage, and secure technology solutions.

Conexus' people risk is controlled through board and operating policy, and the Conexus human resources department specifically manages it. Individual departments and managers are accountable to ensure appropriate hiring, training, and development of staff including ongoing employee engagement and retention with the assistance of the human resource department.

System risk management is jointly controlled through dedicated information technology departments responsible for ongoing system security and functionality as well as individual departments which are responsible for ensuring the appropriateness of the systems and data used at Conexus.

Process risk is managed through multiple channels. Board policy is reviewed and recommended by an executive-level committee for board approval. Operating policy and procedure, which is centrally available to all staff, is controlled through key departments with the required subject matter expertise and is reviewed by an executive-level committee. The internal audit department conducts ongoing assessments of process compliance and reports the findings directly to the Audit and Risk Committee of the board.

## Business Continuity Management and COVID-19 Pandemic

Conexus maintains a robust set of business continuity plans in preparation of supporting business operations through our critical business functions in the event of a major disruption in member service. The plans include specific action to respond to disruptions that may impact Conexus' physical locations, technological systems, and health and safety of our employees and members. In early 2020 in response to COVID-19 the business continuity pandemic plan was enacted, and Conexus continues to operate with the pandemic plan as of December 31, 2020. Once enacted the overall objective of the response actions was to continue supporting our membership and providing a safe environment for both members and employees.

To support the health of employees Conexus enacted and supported a work from home mandate for all employees that were able to continue to support members remotely. Conexus, considered an allowable service by our Government, continued to offer service through physical branches while employing strict safety protocols for both members and employees. Members were encouraged to bank from home via digital banking and calling the Member Contact Centre.

Conexus followed the Government of Saskatchewan health and safety guidance and the team responsible for occupational health and safety developed detailed protocols, training plans and physical safety measures to ensure a safe working environment for employees and members. A team of human resource, safety and communication specialists continue to work with local and senior leaders to ensure Conexus remains focused on strong health and safety practices through the continuation of the pandemic. A risk assessment process is utilized to monitor the level of risk within all the communities we serve and in our own internal environment. Safety practices and business operations can be easily altered to allow for a safe environment to continue to serve our members.