

CONEXUS CREDIT UNION

Consolidated Financial Statements
December 31, 2020

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Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Conexus Credit Union were prepared by management, which is responsible for the integrity and fairness of the information presented, including the many accounts that must of necessity be based on estimates and judgements. These consolidated financial statements were prepared in accordance with the financial reporting requirements prescribed by *The Credit Union Act, 1998* of the Province of Saskatchewan, Credit Union Deposit Guarantee Corporation and by statute. The accounting policies followed in the preparation of these financial statements conform to International Financial Reporting Standards (IFRS). Financial and operating data elsewhere in the annual report are consistent with the information contained in the consolidated financial statements.

In discharging our responsibility for the integrity and fairness of the consolidated financial statements and for the accounting systems from which they are derived, we maintain the necessary system of internal controls designed to ensure that transactions are authorized, assets are safeguarded and proper records are maintained. These controls include: quality standards in hiring and training of employees, policy and procedure manuals, a corporate code of conduct and accountability for performance within appropriate and well-defined areas of responsibility.

The system of internal controls is further supported by a compliance function, which is designed to ensure that we and our employees comply with the appropriate legislation and conflict of interest rules. It is also supported by internal audit staff, which conducts periodic audits of all aspects of our operations.

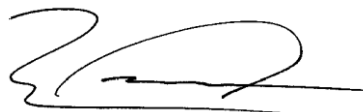
The Board of Directors oversees management's responsibilities for financial reporting through an Audit and Conduct Review Committee, which is composed entirely of independent directors. This Committee reviews our consolidated financial statements and recommends them to the Board for approval. Other key responsibilities of the Audit and Conduct Review Committee include reviewing our existing internal control procedures, planned revisions to those procedures and advising the directors on auditing matters and financial reporting issues. Our chief internal auditor has full and unrestricted access to the Audit and Conduct Review Committee.

Further monitoring of financial performance and reporting is carried out by the Credit Union Deposit Guarantee Corporation. It is given its responsibilities and powers by provincial statute through *The Credit Union Act, 1998*. Its purpose is to guarantee members' funds on deposit with Saskatchewan credit unions and provide preventative services, that include ongoing financial monitoring, regular reporting and consultation.

Deloitte LLP Chartered Professional Accountants, appointed by the members of Conexus Credit Union upon the recommendation of the Audit and Conduct Review Committee and Board of Directors, have performed an independent audit of the consolidated financial statements and their report follows. The auditors have full and unrestricted access to the Audit and Conduct Review Committee to discuss their related findings.



Eric Dillon
Chief Executive Officer



Neil Cooper
Chief Financial Officer

Independent Auditor's Report

To the Members of
Conexus Credit Union 2006

Opinion

We have audited the consolidated financial statements of Conexus Credit Union 2006 (the "Credit Union"), which comprise the consolidated statements of financial position as at December 31, 2020, and the consolidated statements of comprehensive income, changes in members' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Credit Union 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. The other information comprises the information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do 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, or otherwise appears to be materially misstated.

We obtained the Annual Report prior to the date of this auditor's 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 this auditor's 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 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 Credit Union'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 Credit Union or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union'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 Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Credit Union to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte LLP

Chartered Professional Accountants
Regina, Saskatchewan
March 2, 2021

Conexus Credit Union

Consolidated Statement of Financial Position

(In thousands of CDN \$)

As at December 31, 2020

	Note	2020	2019
Assets			
Cash and cash equivalents	5	303,400	266,522
Investment securities	6	899,797	696,592
Loans and advances	7	5,304,396	5,445,962
Derivative assets	9	4,088	5,951
Property and equipment	11	90,939	79,619
Right of use assets	17	19,660	17,629
Investment property	12	10,456	8,734
Goodwill and intangible assets	13	13,139	11,778
Investments in associates and joint venture		335	935
Current tax assets	23	4,847	1,830
Deferred tax assets	23	589	1,434
Accounts receivable and prepaids		24,960	17,455
Total assets		6,676,606	6,554,441
Liabilities			
Deposits	14	5,252,837	4,902,020
Securitization liabilities	10	767,758	930,810
Borrowings	15	-	84,096
Membership shares and equity accounts	16	15,868	17,295
Derivative liabilities	9	8,388	5,852
Lease liabilities	17	17,164	14,782
Non-controlling interests	18	1,801	764
Current tax liabilities	23	427	51
Deferred tax liabilities	23	1,498	161
Accounts payable and other liabilities	19	57,820	64,680
Total liabilities		6,123,561	6,020,511
<i>Contingent liabilities and commitments</i>	27		
Members' equity			
Accumulated other comprehensive income		969	298
Retained earnings		552,076	533,632
Total members' equity		553,045	533,930
Total liabilities and members' equity		6,676,606	6,554,441

See accompanying notes to the consolidated financial statements

APPROVED BY THE BOARD:



Joel Mowchenko, Chair, Board of Directors



Ken Kosolofski, Chair, Audit and Conduct Review Committee

Conexus Credit Union

Consolidated Statement of Comprehensive Income

(In thousands of CDN \$)

For the year ended December 31, 2020

	Note	2020	2019
Interest income	20	227,648	250,094
Interest expense	20	77,410	91,900
Net interest income		150,238	158,194
Commission and fee income	21	34,213	35,981
Other income	22	9,135	7,534
Net interest and other income before credit losses		193,586	201,709
Provision for credit losses	8	22,258	14,514
Net interest and other income after credit losses		171,328	187,195
Operating expenses			
Personnel		78,058	77,532
General business		51,650	54,563
Occupancy		12,096	11,453
Member security		4,364	4,235
Organizational		2,265	3,241
Total operating expenses		148,433	151,024
Profit for the year before income tax		22,895	36,171
Income tax expense	23	4,214	7,263
Profit for the year		18,681	28,908
Profit (loss) attributable to non-controlling interest	18	237	(48)
Profit attributable to members		18,444	28,956
Other comprehensive income, net of tax:			
Items that may be reclassified subsequently to profit or loss:			
Financial assets at FVOCI			
Net unrealized gains		1,154	1,001
Net realized (losses) gains reclassified to profit and loss		-	(94)
Cash flow hedges			
Effective portion of unrealized gains		-	483
Effective portion of realized (gains) losses reclassified to profit and loss		(483)	-
Other comprehensive income for the year, net of tax		671	1,390
Total comprehensive income for the year		19,115	30,346

See accompanying notes to the consolidated financial statements

Conexus Credit Union

Consolidated Statement of Changes in Members' Equity

(In thousands of CDN \$)

As at December 31, 2020

	2020	2019
Accumulated other comprehensive income (loss) - Financial assets at FVOCI		
Balance at January 1	(185)	(1,092)
Other comprehensive income (net of tax of \$427)	1,154	907
Balance at December 31	969	(185)
Accumulated other comprehensive income - Cash flow hedges		
Balance at January 1	483	-
Other comprehensive (loss) income	(483)	483
Balance at December 31	-	483
Total Accumulated other comprehensive income	969	298
Retained earnings		
Balance at January 1	533,632	504,676
Profit for the year attributable to members	18,444	28,956
Balance at December 31	552,076	533,632
Total members' equity	553,045	533,930

See accompanying notes to the consolidated financial statements

Conexus Credit Union

Consolidated Statement of Cash Flows

(In thousands of CDN \$)

For the year ended December 31, 2020

	Note	2020	2019
Cash flows provided by (used in) operating activities			
Profit for the year		18,681	28,908
Adjustments for non-cash items:			
Net interest income	20	(150,238)	(158,194)
Loss (gain) on financial instruments	22	4,708	(316)
Dividend income	22	(3,622)	(4,473)
Provision for credit losses	8	22,258	14,514
Depreciation of property and equipment	11	8,285	5,763
Depreciation of right of use assets	17	2,215	2,325
Amortization of intangible assets	13	1,914	1,781
Amortization of investment property	12	192	-
Income tax expense	23	4,214	7,263
Other		(979)	(509)
Changes in operating assets and liabilities:			
Loans and advances		127,721	(178,598)
Deposits		357,282	131,445
Securitization liabilities		(163,052)	23,150
Accounts receivable and prepaids		(7,505)	959
Accounts payable and other liabilities		(6,860)	11,135
Interest received		219,693	244,154
Interest paid		(83,940)	(86,966)
Income tax paid		(4,674)	(15,552)
Cash flows provided by (used in) operating activities		346,293	26,789
Cash flows provided by (used in) investing activities			
Dividends received on equity investment securities	22	3,622	4,473
Distributions received from associates and joint ventures		934	580
Purchases of investment securities		(450,614)	(623,150)
Proceeds on sale of investment securities		245,051	599,770
Net purchase of property and equipment	11	(19,624)	(27,030)
Net purchase of investment property	12	(1,914)	(6,484)
Net purchase of intangible assets	13	(3,275)	(1,241)
Cash flows provided by (used in) investing activities		(225,820)	(53,082)
Cash flows provided by (used in) financing activities			
Net (repayments) advances of borrowings: (Beginning 2020 - \$84,096 , Net cash flows - (84,096), Ending 2020 - \$nil)	15	(84,096)	84,096
Net issuance (redemption) of membership shares: (Beginning 2020 - \$17,295, Net cash flows - (\$1,427), Non-cash items - \$nil, Ending 2020 - \$15,868)	16	(1,427)	(1,847)
Repayment of lease liabilities: (Beginning 2020 - (\$14,782, Net cash flows - (\$1,863), Non-cash items - \$4,245 , Ending 2020 - \$17,164)	17	(1,863)	(2,202)
Capital contributions received from non-controlling interests: (Beginning 2020 - \$764 , Net cash flows - \$800, Non-cash items - \$237, Ending 2020 - \$1,801)	18	800	812
Cash flows provided by (used in) financing activities		(86,586)	80,859
Net increase in cash and cash equivalents during the year		33,887	54,566
Net foreign exchange difference on cash held		2,991	(311)
Cash and cash equivalents, beginning of year		266,522	212,267
Cash and cash equivalents, end of year	5	303,400	266,522

See accompanying notes to the consolidated financial statements

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2020

1. CORPORATE INFORMATION

Conexus Credit Union 2006 (the Credit Union), was established and continued pursuant to *The Credit Union Act, 1998 (The Act)* of the Province of Saskatchewan. The Credit Union serves members and non-members in the Province of Saskatchewan. The address of the Credit Union's registered office is 1960 Albert Street, Regina, Saskatchewan, Canada.

Credit Union Deposit Guarantee Corporation (*the Corporation*) is the deposit guarantor for Saskatchewan Credit Unions. The Corporation is also the primary regulator for Saskatchewan Credit Unions and SaskCentral. Together, these entities are considered Provincially Regulated Financial Institutions (PRFIs). *The Corporation* is mandated through provincial legislation, *The Credit Union Act, 1998* and *The Credit Union Central of Saskatchewan Act, 2016* in performing its duties. Provincial legislation also assigns responsibility for oversight of *the Corporation* to the Registrar of Credit Unions at the Financial and Consumer Affairs Authority of Saskatchewan. *The Corporation* was the first deposit guarantor in Canada and has successfully guaranteed deposits since it was established in 1953. By promoting responsible governance and prudent management of capital, liquidity and guaranteeing deposits, *The Corporation* contributes to confidence in Saskatchewan PRFIs. For more information about *the Corporation's* responsibilities and its role in promoting the strength and stability of Saskatchewan PRFIs, consult *the Corporation's* website at www.cudgc.sk.ca.

2. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

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

The consolidated financial statements for the year ended December 31, 2020 were authorized for issue by the Board of Directors on March 2, 2021.

The consolidated financial statements have been prepared on the historical cost basis except for the following items:

- Foreclosed property held for sale which is measured at the lesser of the loan balance at foreclosure and the net realizable value of the property.
- Financial instruments classified as fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI) which are measured at fair value.

The consolidated financial statements are presented in Canadian dollars (CDN \$), which is the Credit Union's functional currency, and have been rounded to the nearest thousand unless stated otherwise.

Certain comparative information has been reclassified, where appropriate, to conform to the current year's presentation. These reclassifications had no significant impact on the Credit Union's net assets or profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements, as summarized below, have been applied consistently over all periods presented in the consolidated financial statements.

A. Use of estimates and key judgements

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses during the reporting period. Accordingly, actual results may differ from those estimates.

The COVID-19 pandemic continues to evolve and the economic environment in which the Credit Union operates continues to be subject to sustained volatility. The duration of the pandemic and the effectiveness of steps undertaken by Canadian governments in response to the pandemic remain uncertain. The current environment requires particular complex judgements and estimations in the consolidated financial statements detailed in Note 3Di.

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. The most significant uses of judgements and estimates are as follows:

- **Consolidation:** determining whether the Credit Union has control, joint control or significant influence over its investees (Note 3B).

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

- **Classification of financial assets:** assessment of the business model within which a financial asset is held and whether the cash flows represent solely payments of principal and interest (Note 3Cii)
- **Fair value measurement:** determining the fair value for certain assets and liabilities which require significant unobservable inputs (Note 3E).
- **Allowance for credit losses:** determining the appropriate inputs into the expected credit loss model, including the estimates of probability of default (PD)/loss given default (LGD)/exposure at default (EAD) and incorporation of forward-looking information and establishing the criteria for determining when there has been a significant increase in credit risk (Note 3Di).

B. Basis of consolidation

i. Subsidiaries

The consolidated financial statements contain the assets, liabilities, income and expenses of subsidiaries after eliminating inter-company transactions and balances. Subsidiaries are entities that are controlled by the Credit Union as evidenced by:

- Power over the investee, meaning the ability to direct the investee's relevant activities;
- Exposure, or right to, the variable returns of the investee; and
- The ability to use its power over the investee to affect its returns.

The Credit Union's subsidiaries may include certain structured entities which were created to achieve a narrowly defined set of objectives and activities which can be broadly classified as securitization vehicles and investment funds. For securitization vehicles, the assessment of control focuses the ability of the Credit Union to direct the relevant activities of the vehicle including the selection of assets to be securitized and management of distressed assets. For investment funds, the assessment is based on the aggregate economic interests the Credit Union holds in the fund (both direct holdings and management fees) and the nature of the investors' removal rights.

The Credit Union reassesses whether it controls an entity if the facts and circumstances indicate that there are changes to one or more of these three elements of control.

The following entities are included in the consolidated financial statements of the Credit Union:

	Head Office	Ownership Interest	
		2020	2019
Protexus Holdings Inc.	Regina, SK	100%	100%
Pivot Trust	Toronto, ON	100%	100%
Conexus Venture Capital Inc.	Regina, SK	100%	100%
CVC Fund 1 LP	Regina, SK	78.95%	78.95%

ii. Non-controlling interests

Non-controlling interests represents the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Credit Union. Non-controlling interests are presented separately in the consolidated statement of comprehensive income and the consolidated statement of financial position.

The non-controlling interests presented in the consolidated statement of financial position are classified as a financial liability due to the associated subsidiary being a limited life entity with an obligation to distribute its net assets to the unitholders upon liquidation.

iii. Associates and joint ventures

Investment in associates include entities over which the Credit Union has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is an arrangement whereby the Credit Union has joint control over an entity and rights to the net assets of the entity.

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint control is the contractually agreed sharing of control of an entity, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Investment in associates and joint ventures are accounted for using the equity method and are recognized initially at cost. The carrying value of the investment is subsequently adjusted for the Credit Union's share of these entities' profits or losses less dividends or distributions received.

The following associates and joint ventures are recognized in the consolidated statement of financial position:

	Classification	Ownership Interest	
		2020	2019
CU Dealer Finance Corp.	Regina, SK	40%	40%
Thrive Wealth Management Ltd.	Regina, SK	50%	50%
APEX Investment GP Inc.	Regina, SK	25%	25%

C. Financial instruments

i. Recognition and initial measurement

Financial assets and financial liabilities are recognized when the Credit Union becomes a party to the contractual provisions of the instrument and are initially measured at the trade date fair value. Transaction costs on financial instruments classified as FVTPL are expensed as incurred. For all other classifications of financial instruments, initial transaction costs directly attributable to the purchase or issuance of the instrument are capitalized.

ii. Classification and subsequent measurement

a) Financial assets: debt instruments

The classification of financial assets which meet the definition of debt, including loans and certain investment securities, is based upon an assessment of the following two criterion: (1) the cash flow characteristics of the debt instrument; and (2) the business model used to manage the debt instrument.

The assessment of cash flow characteristics focuses on whether the cash flows arising from the asset represent solely payment of principal and interest (SPPI). Principal is defined as the fair value of the asset at initial recognition. Interest for the purpose of the assessment is defined as the consideration for the time value of money plus other risks inherent in a basic lending arrangement, the most significant of which is credit risk.

The business model assessment is determined in a manner that reflects how groups of financial assets are managed in order to generate cash flows, that is, they reflect whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Determining business models requires the use of judgement and is based on all relevant evidence available at the date of the assessment. Financial assets are not reclassified following their initial recognition, unless the business model for managing those financial assets changes.

The application of the cash flow characteristics and business model assessments result in financial asset debt instruments being classified in one of the following measurement categories:

- **Amortized cost:** a debt instrument with cash flows representing SPPI and held within a business model with an objective of holding to collect contractual cash flows. Financial assets at amortized cost are measured subsequent to initial recognition 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 taking into account any direct and incremental discounts, premiums, transaction costs and fees on acquisition. Amortization of these premiums, discounts and other direct acquisition costs are included within interest income in the consolidated statement of comprehensive income.

Impairment of debt instruments measured at amortized cost is calculated using the expected credit loss (ECL) approach. Debt instruments, including loans and certain investments are presented net of the related allowance for impairments on the consolidated statement of financial position.

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

- **FVOCI:** a debt instrument with cash flows representing SPPI and held within a business model with an objective to both collect cash flows and sell financial assets. Subsequent to initial recognition, unrealized gains and losses on debt instruments measured at FVOCI are recorded in other comprehensive income (OCI) with premiums, discounts and other direct acquisition costs being amortized over the expected life of the asset to interest income in the consolidated statement of comprehensive income using the effective interest method.
- **FVTPL:** a debt instrument with cash flows that do not represent SPPI, which is held for trading purposes and/or is held within a business model with a primary objective that does not include the collection of cash flows. Subsequent to initial recognition, unrealized gains and losses on debt instruments measured at FVTPL are recognized within other income in the consolidated statement of comprehensive income.

Regardless of the cash flow characteristics or business model, debt instruments may be designated at FVTPL upon initial recognition if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise. The Credit Union has not designated any of its debt instruments as at FVTPL.

b) Financial assets: equity instruments

Financial assets which meet the definition of equity are measured at FVTPL, unless an irrevocable election is made to designate them at FVOCI upon initial recognition (on an instrument-by-instrument basis). The Credit Union has used this election for its shares in SaskCentral as this investment is held indefinitely for regulatory purposes.

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

For equity instruments measured at FVOCI, both realized and unrealized gains and losses on these instruments are recorded in OCI and are not subsequently reclassified to the consolidated statement of comprehensive income. Dividends received are recorded in other income in the consolidated statement of comprehensive 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 comprehensive income upon sale of the security.

c) Financial liabilities

Financial liabilities are classified and measured at amortized cost or FVTPL. A financial liability is classified as FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. 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 comprehensive income. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

d) Overview of financial instrument classifications

The following table summarizes the classifications of the Credit Union's various financial instruments:

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

	Classification	Description
Financial Assets	FVTPL	Investment securities <ul style="list-style-type: none"> • Certain statutory liquidity deposits • Certain equity securities Derivative assets
	FVOCI	Investment securities <ul style="list-style-type: none"> • Certain non-statutory debt securities • Certain equity securities
	Amortized cost	Cash and cash equivalents Investment securities <ul style="list-style-type: none"> • Certain statutory liquidity deposits • Certain non-statutory debt securities Loans and advances Accounts receivable
Financial Liabilities	FVTPL	Derivative liabilities
	Amortized Cost	Deposits Securitization liabilities Borrowings Membership shares and equity accounts Accounts payable

iii. Derecognition

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or when the Credit Union 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 not retained or transferred, the Credit Union 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 Credit Union 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, a gain or loss is recognized in net income for an amount equal to the difference between the carrying amount of the derecognized 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.

iv. Modification

If the terms of a financial instrument are modified, the Credit Union evaluates whether the cash flows of the modified instrument are substantially different by comparing the present value of the original cash flows to the revised cash flows discounted at the effective interest rate. If the cash flows are substantially different, then the contractual rights to the cash flows from the original financial instrument are deemed to have expired. In this case, the original financial asset or liability is derecognized and a new financial asset or liability is recognized in the consolidated statement of financial position at fair value.

If the cash flows of the modified financial instrument carried at amortized cost are not substantially different, then the modification does not result in derecognition and the gross carrying amount of the asset or liability is adjusted to match the present value of the revised contractual cash flows. The difference between the original and revised gross carrying amount is recognized as a modification gain or loss in the consolidated statement of comprehensive income. If such a modification is carried out on a credit-impaired (Stage 3) loan, then the gain or loss is included within the provision for credit losses. In all other cases, it is recorded as other income.

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

v. Derivative financial instruments and hedge accounting

Derivative financial instruments are financial contracts whose values are derived from an underlying interest rate, foreign exchange rate, equity instrument, commodity or index. In the ordinary course of business, the Credit Union enters into derivative transactions to manage risks relating to movements in interest rates, foreign exchange rates and equity indices and for asset/liability management purposes.

Derivative financial instruments are classified as FVTPL and recorded at fair value in the consolidated statement of financial position as either a derivative asset (for positive fair values) or a derivative liability (for negative fair values). Unrealized gains/losses are included in the consolidated statement of comprehensive income within gain on financial instruments unless they are designated in a qualifying hedge accounting relationship. Realized gains/losses are recorded within net interest income.

a) Hedge accounting qualification

The Credit Union designates certain derivatives as hedging instruments where the derivative is highly effective in offsetting either changes in the fair value or cash flows attributable to the hedged item. All of the Credit Union's hedge accounting relationships are designated as cash flow hedges.

At the inception of the hedge accounting relationship, the Credit Union documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Credit Union documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationship meets all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the documented hedge ratio matches the actual ratio of the hedged item and hedging instrument.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Credit Union adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

The Credit Union discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively.

b) 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 other comprehensive income (OCI) while the ineffective portion is recorded within other income on the consolidated statement of comprehensive income. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting (after rebalancing, if applicable), 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 profit or loss. When a forecast transaction is no longer expected to occur, the amounts previously recorded in OCI are immediately reclassified to other income.

D. Impairment

i. Financial assets

The Credit Union recognizes a loss allowance for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments (loans and certain investment securities),
- undrawn lines of credit,
- loan commitments to extend credit; and
- letters of credit.

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

In instances where a loan and advance includes both a drawn and undrawn component, such as a line of credit and loan commitment, the Credit Union presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

a) Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured using a three-stage approach as follows:

- **Stage 1:** where there has not been a significant increase in credit risk since initial recognition or the financial instrument is determined to have low credit risk, the 12 month ECL is recorded as the present value of all cash shortfalls over 12 months after the reporting period;
- **Stage 2:** when a financial instrument experiences a significant increase in credit risk subsequent to origination but is not considered to be in default, the lifetime ECL is recorded as the present value of all cash shortfalls over the remaining estimated life of the financial instrument; and
- **Stage 3:** when a financial instrument is considered to be in default, the lifetime ECL is computed as the difference between the gross carrying amount and the present value of estimated future cash flows.

The ECL on undrawn lines of credit and loan commitments to extend credit are computed as the present value of the difference between the contractual cash flows that are due to the Credit Union if the commitment is drawn down and the cash flows that the Credit Union expects to receive. The ECL on letters of credit are computed as the expected payments to reimburse the holder less any amounts that the Credit Union expects to recover.

b) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Credit Union compares the risk of default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. The criteria for determining whether credit risk has increased significantly varies by portfolio and includes quantitative changes in internal credit risk ratings and qualitative factors, including a backstop based on delinquency. A significant increase in credit risk is deemed to have occurred if any of the following criteria have been met:

- the financial asset is 30 days past due, unless the Credit Union has reasonable and supportable information that demonstrates otherwise
- the internal credit risk rating has deteriorated by 4 or more rating points for loans
- qualitative indicators that the Credit Union considers may also be indicative of a significant increase in credit risk

The Credit Union assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- the financial instrument has a low risk of default,
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term,
- adverse changes in economic and business conditions in the longer term may, but will not necessarily reduce the ability of the borrower to fulfill its contractual cash flow obligations; and
- an investment security has a credit risk rating equivalent to the globally understood definition of "investment grade".

For undrawn lines of credit, loan commitments to extend credit and letters of credit, the date that the Credit Union becomes a party to the irrevocable commitment is considered the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a loan commitment, the Credit Union also considers changes in the internal credit risk ratings of the loan to which a loan commitment relates. For financial guarantee contracts, the Credit Union considers the changes in the risk that the specified debtor will default on the contract.

The Credit Union regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increases in credit risk before the amount becomes past due.

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

In response to the COVID-19 pandemic, the Credit Union granted payment deferral requests from eligible members. Utilization of a payment deferral on its own does not represent a significant increase in credit risk for an individual borrower, nor are facilities with payment deferrals considered past due. The Credit Union applied credit judgement to determine significant increases in credit risk for particularly impacted sectors affected by the COVID-19 pandemic.

c) Forward-looking information

The Credit Union incorporates forward-looking information into its measurement of ECL. The Credit Union formulates a “base case” view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and the Bank of Canada, forecasts by large Canadian banks and financial institutions and other selected private sector and expert forecasters.

The Credit Union has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used included the Canadian unemployment rate, Canadian equity, and the Canadian oil price for the years ending December 31, 2020 and 2019. As described above, all scenarios are designed to include the impact of the COVID-19 pandemic as at December 31, 2020, reflective of current market conditions.

For the year ending December 31, 2019, the Credit Union probability-weighted the “base case” scenario most heavily as it represents the most likely outcome and is aligned with information used by the Credit Union for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. For the year ending December 31, 2020, the Credit Union has reflected the continued uncertainty and downside risk of a prolonged recovery due to COVID-19 by increasing the weight of the pessimistic scenario. The weightings assigned to each scenario were consistent across portfolios, with a probability of 40% (2019 - 60%) applied to the “base case” scenario, 50% (2019 - 20%) applied to the pessimistic scenario, and 10% (2019 - 20%) applied to the optimistic scenario. The economic scenarios used in the determination of ECL’s at December 31, 2020 and December 31, 2019 include the following ranges of macroeconomic factors:

2020						
% change ⁽¹⁾	12 month Forecast			5 year Forecast		
	Baseline	Upside	Downside	Baseline	Upside	Downside
Canadian equity index	3.57%	14.88%	-12.64%	18.18%	26.47%	13.57%
Canadian unemployment rate	-8.06%	-18.52%	1.13%	-23.75%	-26.77%	-21.08%
Canadian oil price	21.77%	36.05%	2.97%	56.02%	70.61%	50.06%

2019						
% change ⁽¹⁾	12 month Forecast			5 year Forecast		
	Baseline	Upside	Downside	Baseline	Upside	Downside
Canadian equity index	-8.22%	4.06%	-15.59%	8.72%	13.83%	1.13%
Canadian unemployment rate	9.34%	-5.60%	20.29%	18.13%	14.34%	22.37%
Canadian oil price	5.52%	32.67%	-0.07%	13.95%	35.16%	9.27%

⁽¹⁾ The % change represents the change in the macro economic factor as a % difference from the most recent publicly available result as of December 31, 2019 and December 31, 2020.

d) Definition of credit-impaired

The Credit Union’s definition of default is consistent across credit management and accounting policies. A financial asset is “credit impaired” (Stage 3) when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- a restructuring of a loan or advance by the Credit Union on terms that the Credit Union would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for a security because of financial difficulties; or

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

- a loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

e) Write-off policy

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Credit Union determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Credit Union's procedures for recovery of amounts due.

ii. *Non-financial assets*

At each reporting date, the Credit Union reviews its non-financial 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.

The recoverable amount is the higher of its fair value less costs to sell, if determinable, and the value-in-use. Value-in-use is estimated based on discounted net cash flows from continuing use and the ultimate disposal of an asset. Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is performed on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows. 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.

If the carrying value of an asset or cash-generating unit exceeds the recoverable amount, an impairment loss equal to the difference is recognized in the consolidated statement of comprehensive 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.

E. 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 between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Credit Union has access at that date.

When available, the Credit Union measures the fair value of a financial instrument using the quoted price (unadjusted) in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, the Credit Union uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The Credit Union classifies the fair value measurement of its financial instruments using a three-tier fair value hierarchy, based on the lowest level input that is significant to that fair value measurement:

- **Level 1:** valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- **Level 2:** valuations based on inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly; or
- **Level 3:** valuations based on unobservable inputs in which there is little or no market data, which require the Credit Union to develop its own assumptions.

F. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits at call with other financial institutions and other short-term highly liquid investments with original maturities of three months or less.

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Foreclosed property held for resale

Foreclosed property held for resale consists of land, buildings and other assets acquired through foreclosure on defaulted loans. Foreclosed property is included within loans and advances in the consolidated statement of financial position and is measured at the lower of: (1) the outstanding balance of the loan at the date foreclosure/repossession plus subsequent costs incurred; (2) fair value less estimated costs of disposal.

H. Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, labour and any other costs, including borrowing costs, directly attributable to bringing the asset to a working condition for its intended use.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components). Additions and subsequent expenditures are capitalized if they enhance the future economic benefits expected to be derived from the assets. All other costs are expensed as part of general business expenses.

Depreciation of property and equipment is recognized using the straight-line method to write down the cost of the assets to their residual values over their estimated useful lives. Land is not depreciated. Depreciation expense is included in either general business expense or occupancy expense in the consolidated statement of comprehensive income based on the nature and use of the underlying asset. Gains or losses arising on disposal of property and equipment are included in other income.

The estimated useful lives by major category of property and equipment are as follows:

Buildings	10 to 40 years
Leasehold improvements	5 to 10 years
Computer equipment	4 to 5 years
Other	2 to 15 years

Estimates of residual values and useful lives are reviewed annually and adjusted if appropriate.

I. Investment property

Investment property consists of land and buildings held to earn rental income. Investment property is measured at cost less accumulated depreciation and accumulated impairment losses. Property held for use in the supply of service to members or for administrative use that has a portion that earns rental income is allocated between investment property and property and equipment, based on the floor space usage.

Depreciation is recorded in general business expense in the consolidated statement of comprehensive income on a straight-line basis over the estimated useful life, commencing in the month the asset becomes available for use. The estimated useful lives of investment property are determined on the same basis as those of property and equipment above. Depreciation methods, residual values and estimates of useful lives are reviewed annually.

J. Goodwill

Goodwill is measured as the excess of the fair value of consideration given over the Credit Union's proportionate share of the fair value of the net identifiable assets acquired in a business combination at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses, if any.

K. Intangible assets

Intangible assets with a finite life are measured at cost less accumulated amortization and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Amortization is calculated using the straight-line method over the estimated useful life of the asset and is recorded under general business expenses in the consolidated statement of comprehensive income.

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The estimated useful lives by major category of intangible assets are as follows:

Credit card customer relationship	15 years
Software	3 to 5 years
Other	10 to 20 years

Estimates of residual values and useful lives are reviewed annually and adjusted if appropriate.

The Credit Union does not have any intangible assets with indefinite lives and has not recognized any internally generated intangible assets.

L. Leases

i. As lessee

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

Lease liabilities are initially measured at the present value of the future 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 Credit Union'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 Credit Union will exercise the option. Variable lease payments which are not based upon a rate or index are excluded from the measurement of the lease liability and are recognized in occupancy expense as they are incurred.

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 depreciated on a straight-line basis over the term of the lease or the estimated useful life of the asset determined on the same basis as the Credit Union's other property and equipment noted above, whichever is shorter. Right-of-use assets are included within property and equipment in the consolidated statement of financial position with depreciation being recognized in occupancy expense in the consolidated statement of comprehensive income.

Changes in facts and circumstances which impact the future lease payments, including whether an option is reasonably certain to be exercised, result in a remeasurement of the lease liability. When a remeasurement occurs, a corresponding adjustment is made to the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced below zero.

ii. As lessor

At inception, the Credit Union 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.

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

The Credit Union has not entered into any finance leases as a lessor.

M. Membership shares and equity accounts

Membership shares and equity accounts are redeemable upon withdrawal or termination of membership, subject to set-off by the Credit Union for any debt of the member. Under *The Act*, there is no provision for holders of membership shares or equity accounts to receive the remaining property of the Credit Union upon liquidation or dissolution. These terms and conditions result in membership shares and equity accounts being classified as liabilities in the consolidated statement of financial position.

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Provisions

A provision is recognized if, as a result of a past event, the Credit Union 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. The amount recognized as a provision is the present value of the expected amount required to settle the obligation, taking into account the risks and uncertainties surrounding the obligation.

O. Commissions and fee income

Commissions and fee income arising from contracts with customers is measured based on the consideration specified in a contract and excludes amounts collected on behalf of third parties. The Credit Union recognizes its commissions and fees as revenue when it transfers control over a product or service to a customer.

The following is a description of the principal activities from which the Credit Union generates its commissions and fees including the nature of performance obligations, the timing of when these obligations are satisfied and the determination of the transaction price:

- **Service fees and loan fees:** consists of fees paid by members in exchange for transaction processing and other support services relating to deposit and/or loan accounts. These activities are typically ad-hoc in nature with revenue recognition and payment occurring upon completion of the requested task.
- **Loan insurance commissions:** consists of commissions earned from selling loan insurance products on behalf of third parties. The Credit Union's performance obligation is limited to the initial sale of the insurance product with revenue being recognized at the point-in-time that the contract is signed between the member and the insurer.
- **Credit card fees:** consists of interchange fees and annual fees earned from the Credit Union's various credit card programs. Annual fees are paid at the beginning of the annual contractual period and are recognized as revenue over time as the Credit Union provides the cardholder access to the credit card programs.

Interchange fees are collected at the time a purchase is made by the cardholder and is allocated between two distinct services: payment processing and a reward points program. The transaction price allocated to payment processing is recognized at the point-in-time that each transaction is completed.

The transaction price allocated to the rewards points program is initially recognized as a liability based on the stand-alone selling price per point and the expected point redemptions. The stand-alone selling price per point is estimated based on the actual cost of goods/services offered as rewards under the program relative to the points required to be redeemed to acquire those goods/services. The expected point redemptions are based on the Credit Union's historical experience. Revenue is then recognized over time as point redemptions are made.

- **Wealth management fees:** consists primarily of commissions and fees earned through member referrals made to Thrive Wealth Management Ltd. The transaction price for wealth management fees is, in part, based on the total assets under management of the Credit Union's member referrals and is therefore highly dependent upon factors outside of the Credit Union's control. Consequently, revenue from wealth management services is recognized over the relevant contractual period as referrals are made and the uncertainty of the transaction price is resolved.

P. Employee benefits

Short-term employee benefits including salaries and wages, statutory payroll contributions, paid annual vacation leave and bonuses are accounted for on an accrual basis over the period in which the employee provided the related services.

Termination benefits are recognized when the Credit Union is committed to terminating the employment of a current employee according to a formal plan without possibility of withdrawal.

Post-employment benefits consist of fixed contributions made to a defined contribution superannuation plan, which provides benefits for employees upon retirement or death. The Credit Union has no financial interest in the plan and has no legal or constructive obligation to the plan beyond the payment of these contributions. The total contributions made by the Credit Union to the plan during the year which are included within personnel expense is \$4,222, (2019 - \$3,959).

Employee benefits are recognized within personnel expenses in the consolidated statement of comprehensive income.

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2020

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accrued and unpaid amounts are included in accounts payable and other liabilities in the consolidated statement of financial position.

Q. Income taxes

Income tax expense comprises current and deferred tax and is recognized in profit or loss except to the extent that it relates to items recognized directly in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustments to tax payable in respect of previous years.

Deferred tax is determined using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated statement of financial position. Deferred tax is measured using tax rates that are expected to be in effect in the period the asset is realized, or the liability is settled, based on the tax rate and tax laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities and they relate to income taxes levied by the same authority on the same taxable entity.

R. Foreign currency

Monetary assets or liabilities denominated in foreign currencies are translated to Canadian dollars at the rate of exchange on the reporting date. Income and expenses denominated in foreign currencies are translated to Canadian dollars at the average rate of exchange throughout the year. Gains or losses arising on the translation of foreign currencies are recorded in other income on the consolidated statement of comprehensive income.

S. Government grant revenue

Government grants are recognised in other income (Note 22) over the periods in which the Credit Union expenses the related costs for which the grants are intended to compensate. This includes the Canada Emergency Wage Subsidy (CEWS) program through the Government of Canada.

4. ACCOUNTING CHANGES

A. Current accounting changes

Changes to IFRS standards which became effective in 2020 include various minor changes and amendments to existing standards. These changes have all been reviewed to determine their effect on the Credit Union. It has been determined that none of these minor changes and amendments resulted in any significant changes to the consolidated financial statements of the Credit Union.

B. Future accounting changes

A number of new standards and amendments are not yet effective for the year ended December 31, 2020 and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Credit Union.

5. CASH AND CASH EQUIVALENTS

	2020	2019
Cash on hand	25,534	21,559
Deposits at call - SaskCentral	22,369	1,531
Deposits at call - Other	246,173	233,940
	294,076	257,030
Restricted cash	9,324	9,492
Total cash and cash equivalents	303,400	266,522

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2020

5. CASH AND CASH EQUIVALENTS (continued)

Restricted cash is comprised of cash reserves for the Credit Union's securitization programs, credit card settlement accounts held in trust, and collateral posted for derivatives. Restricted cash is not available for use in the Credit Union's day-to-day operations.

6. INVESTMENT SECURITIES

	Classification	2020	2019
Debt Securities			
SaskCentral			
Redeemable statutory liquidity deposits	FVTPL	348,286	253,675
Non-redeemable statutory liquidity deposits	Amortized Cost	196,392	252,864
Federal and provincial government	FVOCI	12,470	24,868
Chartered banks			
Canadian	FVOCI	254,176	71,693
US	Amortized Cost	21,306	30,758
		832,630	633,858
Accrued interest		2,198	2,591
Allowance for credit losses		(180)	(62)
Total debt securities		834,648	636,387
Equity securities			
SaskCentral shares	FVOCI	39,330	37,567
Investment funds	FVTPL	25,819	22,638
Total equity securities		65,149	60,205
Total investment securities		899,797	696,592
Investment securities by measurement category:			
FVTPL		374,105	276,313
FVOCI		307,615	134,832
Amortized cost		218,077	285,447

7. LOANS AND ADVANCES

	2020			2019		
	Principal	Allowance	Net	Principal	Allowance	Net
Consumer loans						
Residential mortgage guaranteed	1,282,081	(393)	1,281,688	1,294,295	(373)	1,293,922
Residential mortgage conventional	840,470	(603)	839,867	847,402	(459)	846,943
Non mortgage and credit cards	703,012	(3,627)	699,385	771,313	(5,439)	765,874
Commercial loans						
Mortgage	1,870,167	(17,098)	1,853,069	1,805,585	(7,963)	1,797,622
Non mortgage	526,459	(9,643)	516,816	631,205	(7,259)	623,946
Government guaranteed	77,435	(430)	77,005	87,719	(357)	87,362
Loans and advances, net of allowance	5,299,624	(31,794)	5,267,830	5,437,519	(21,850)	5,415,669
Foreclosed property held for resale			4,028			6,169
Accrued interest receivable			32,538			24,124
Total loans and advances			5,304,396			5,445,962

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2020

8. ALLOWANCE AND PROVISION FOR CREDIT LOSSES

	2020			
	Stage 1	Stage 2	Stage 3	Total
Residential mortgages				
Balance, beginning of year	25	79	728	832
Allowance for credit losses (recoveries)				
Re-measurement	(25)	(32)	1,779	1,722
Changes in models/methodologies	28	88	-	116
Newly originated or purchased assets	12	-	-	12
Derecognized financial assets and maturities	(2)	(4)	-	(6)
Transfer to (from):				
Stage 1	(4)	4	-	-
Stage 2	19	(19)	-	-
Stage 3	-	-	-	-
Total impairment losses (recoveries)	28	37	1,779	1,844
Write-offs	-	-	(1,713)	(1,713)
Recoveries	-	-	33	33
Balance, end of year	53	116	827	996
Consumer non mortgage loans				
Balance, beginning of year	1,112	955	3,372	5,439
Allowance for credit losses (recoveries)				
Re-measurement	(536)	(356)	1,255	363
Changes in models/methodologies	300	505	-	805
Newly originated or purchased assets	245	-	-	245
Derecognized financial assets and maturities	(80)	(73)	(11)	(164)
Transfer to (from):				
Stage 1	(107)	105	2	-
Stage 2	283	(290)	7	-
Stage 3	-	5	(5)	-
Total impairment losses (recoveries)	105	(104)	1,248	1,249
Write-offs	-	-	(3,676)	(3,676)
Recoveries	-	-	615	615
Balance, end of year	1,217	851	1,559	3,627
Commercial loans				
Balance, beginning of year	184	4,820	10,575	15,579
Allowance for credit losses (recoveries)				
Re-measurement	(209)	321	19,927	20,039
Newly originated or purchased assets	741	-	-	741
Derecognized financial assets and maturities	(14)	(712)	(1,007)	(1,733)
Transfer to (from):				
Stage 1	(697)	374	323	-
Stage 2	212	(581)	369	-
Stage 3	-	45	(45)	-
Total impairment losses (recoveries)	33	(553)	19,567	19,047
Write-offs	-	-	(7,562)	(7,562)
Recoveries	-	-	107	107
Balance, end of year	217	4,267	22,687	27,171

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2020

8. ALLOWANCE AND PROVISION FOR CREDIT LOSSES (continued)

	2019			
	Stage 1	Stage 2	Stage 3	Total
Residential mortgages				
Balance, beginning of year	16	85	473	574
Allowance for credit losses (recoveries)				
Re-measurement	(12)	18	1,148	1,154
Newly originated or purchased assets	3	-	-	3
Derecognized financial assets and maturities	(1)	(4)	-	(5)
Transfer to (from):				
Stage 1	(2)	2	-	-
Stage 2	21	(22)	1	-
Stage 3	-	-	-	-
Total impairment losses (recoveries)	9	(6)	1,149	1,152
Write-offs	-	-	(924)	(924)
Recoveries	-	-	30	30
Balance, end of year	25	79	728	832
Consumer non mortgage loans				
Balance, beginning of year	760	810	3,653	5,223
Allowance for credit losses (recoveries)				
Re-measurement	195	269	4,494	4,958
Newly originated or purchased assets	100	-	-	100
Derecognized financial assets and maturities	(25)	(38)	(73)	(136)
Transfer to (from):				
Stage 1	(51)	51	-	-
Stage 2	133	(138)	5	-
Stage 3	-	1	(1)	-
Total impairment losses (recoveries)	352	145	4,425	4,922
Write-offs	-	-	(5,184)	(5,184)
Recoveries	-	-	478	478
Balance, end of year	1,112	955	3,372	5,439
Commercial loans				
Balance, beginning of year	100	4,318	6,044	10,462
Allowance for credit losses (recoveries)				
Re-measurement	(118)	880	7,708	8,470
Newly originated or purchased assets	450	-	-	450
Derecognized financial assets and maturities	(6)	(333)	(170)	(509)
Transfer to (from):				
Stage 1	(438)	181	257	-
Stage 2	174	(458)	284	-
Stage 3	22	232	(254)	-
Total impairment losses (recoveries)	84	502	7,825	8,411
Write-offs	-	-	(3,354)	(3,354)
Recoveries	-	-	60	60
Balance, end of year	184	4,820	10,575	15,579

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2020

8. ALLOWANCE AND PROVISION FOR CREDIT LOSSES (continued)

The following table summarizes the provision for credit losses included in the consolidated statement of comprehensive income for the year:

	2020	2019
Residential mortgages	1,844	1,152
Consumer non mortgage loans	1,249	4,922
Commercial loans	19,047	8,411
Investment securities	118	29
Total provision for credit losses	22,258	14,514

9. DERIVATIVE FINANCIAL INSTRUMENTS

	Maturities of derivatives (notional amount)			Net fair value					
	Under 1 year	1 to 5 years	Over 5 years	2020	2019	2020		2019	
				Total	Total	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	8,073	83,427	44,311	135,811	49,760	162	4,462	452	993
Index-linked options	13,982	35,868	-	49,850	48,138	3,926	3,926	4,859	4,859
Interest rate swaps designated as cash flow hedges	-	-	-	-	70,000	-	-	640	-
Total	22,055	119,295	44,311	185,661	167,898	4,088	8,388	5,951	5,852

A. Types of derivative financial instruments

Interest rate swaps

The Credit Union enters into interest rate swaps with Concentra Bank and Desjardins to manage exposure to interest rate risk. Interest rate swaps are contractual agreements between two parties to exchange a series of cash flows based on agreed upon rates to a notional amount. Generally, counterparties exchange a fixed and floating interest rate payment to manage exposure to interest rate risk by modifying the interest rate characteristics of assets or liabilities.

Index-linked options

The Credit Union offers index-linked deposit products to its members that pay interest to the depositors at the end of the term, based on stock market index performance. The Credit Union has entered into index-linked options with SaskCentral and Desjardins that have equivalent maturities to offset the exposure associated with these products. The Credit Union pays a fixed amount based on the notional amount at the inception of the index-linked option contract. At the end of the term the Credit Union receives from SaskCentral and Desjardins payments equal to the amount that will be paid to the depositors based on the performance of the respective indices.

A. Hedge accounting

Designated cash flow hedges

In accordance with its risk management strategy, the Credit Union had entered into an interest rate swap to hedge the risk of variable interest cash flows arising from changes in the underlying benchmark rate of a Desjardins term facility on a 1:1 basis during 2019. The critical terms of the interest rate swap match those of the term debt facility resulting in the Credit Union effectively exchanging the variable rate interest cash flows of the debt for fixed interest cash flows from the swap. Hedge accounting on this transaction was discontinued in 2020 as the Desjardins term facility was exited in 2020.

The Credit Union determines the hedge ratio by comparing the notional amount of the derivatives to the principal of the debt facility. As the critical terms of the hedging instrument and hedged items match, ineffectiveness is limited to the counterparty credit risk on the hedging instrument. This risk is minimized by entering into derivatives with highly rated counterparties.

The Credit Union assesses hedge effectiveness by comparing the changes in fair value of the hedging instrument to the fair value of a hypothetical derivative with matching terms adjusted to exclude the effects of counterparty credit risk. The fair value of the hedging instrument as at December 2019 was \$640 and the fair value of the hedging instrument adjusted for credit risk as at December 2019 was \$636, resulting in hedge ineffectiveness of \$4.

The ineffective portion of the hedge is recognized within other income (Note 22).

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2020

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

B. Offsetting derivative financial instruments

The derivatives entered into by the Credit Union are subject to International Swap and Derivatives Association Master Agreements (ISDAs) with its various derivative counterparties which define the rights and obligations of the Credit Union with respect to offsetting/netting derivative positions.

The right of offset is conditional upon the default of the counterparty or occurrence of other predetermined events and therefore do not meet the net/simultaneous settlement criteria that would allow for the offsetting of assets and liabilities in the consolidated statement of financial position until such time that the relevant conditions are met. If these netting arrangements were enforceable at year end, the potential impact would be \$162 (2019 - \$1,092) of derivative assets being offset against derivative liabilities in the consolidated statement of financial position.

10. TRANSFERS OF FINANCIAL ASSETS

A. Securitizations not qualifying for derecognition

Mortgage-Backed Securities

The Credit Union participates in the Canada Mortgage and Housing Corporation (CMHC) sponsored National Housing Act Mortgage-Backed Securities (MBS) program where the Credit Union assigns all legal rights, interest and title in certain insured residential mortgages to CMHC in exchange for MBS securities which are then sold to third party investors.

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 Credit Union 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 MBS certificates (retained interest). As a result, the sale of the 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 statement of financial position with matching securitization liabilities being established based on the proceeds received on the date of the transfer.

Auto Loan Securitization

The Credit Union sells co-ownership interests in a revolving pool of auto loans to Pivot Trust, an intermediate securitization vehicle. Pivot Trust funds the purchases through a third party loan which is secured by the specifically pledged co-ownership interests. The Credit Union continues to service the loans post-transfer in exchange for the excess spread generated by the securitization vehicle and provides a limited credit enhancement to the third party loan in the form of overcollateralization.

The Credit Union has determined that it controls Pivot Trust as it is exposed to the majority of the entity's variable returns through the excess spread and credit enhancement and acts as servicer thereby directing the relevant activities which most significantly impact Pivot Trust's returns. Accordingly, the Credit Union consolidates Pivot Trust resulting in the transferred assets and secured loan being recognized in the consolidated statement of financial position within loans and advances and securitization liabilities respectively.

Summary of securitized assets and securitization liabilities

	Fair Value		Carrying Value	
	2020	2019	2020	2019
Mortgage-backed securities				
Securitized residential mortgages	651,095	793,699	642,163	793,171
Securitization liabilities	654,471	786,960	638,321	787,800
Net position	(3,376)	6,739	3,842	5,371
Auto loans securitization				
Securitized auto loans	128,742	143,026	139,145	153,736
Securitization liabilities	129,879	143,093	129,437	143,010
Net position	(1,137)	(67)	9,708	10,726
Total securitization liabilities	784,350	930,053	767,758	930,810

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2020

10. TRANSFERS OF FINANCIAL ASSETS (continued)

B. Derecognized loan syndications

The Credit Union syndicates and transfers loans to various other financial institutions primarily to create liquidity, manage credit risk and manage regulatory capital. The investors have no recourse against the Credit Union for any fair value or credit losses experienced on the syndicated loans which results in the Credit Union transferring substantially all of the risks and rewards. The transfer of risks and rewards results in these syndications qualifying for derecognition and the Credit Union has therefore removed the transferred financial loans from its consolidated statement of financial position.

All loans are syndicated on a fully serviced basis. The Credit Union receives a fee for continuing to service the loans post-transfer which is expected to adequately compensate it for its cost of servicing. These servicing arrangements are therefore accounted for as executory contracts and the Credit Union has not recognized a servicing asset or liability in its consolidated statement of financial position.

The following table provides quantitative information about these derecognized syndications and the Credit Union's continuing involvement. Included in the following table is quantitative information on loans serviced through the Canada Emergency Benefit Account (CEBA) with an outstanding balance of \$91,212 (2019 - \$nil).

	2020	2019
Syndication Activity		
Principal balance of loans syndicated and derecognized during the year	91,587	12,786
(Loss) gain on loans syndicated and derecognized during the year	(15)	36
Continuing Involvement		
Outstanding principal balance of derecognized loans subject to servicing agreements at year end	508,556	490,237
Cumulative servicing income earned on derecognized loans during the year	1,110	1,110

11. PROPERTY AND EQUIPMENT

	Land	Buildings	Leasehold Improvements	Computer Equipment	Other	Total
Cost						
Balance at December 31, 2018	8,146	62,884	13,158	11,666	6,439	102,293
Additions	-	24,041	925	1,837	862	27,665
Disposals	(245)	(755)	(3,234)	(1,496)	(1,305)	(7,035)
Transfer to investment property	-	(2,250)	-	-	-	(2,250)
Balance at December 31, 2019	7,901	83,920	10,849	12,007	5,996	120,673
Additions	-	11,179	3,307	3,050	2,088	19,624
Disposals	-	(19)	(40)	(2,688)	(309)	(3,056)
Balance at December 31, 2020	7,901	95,080	14,116	12,369	7,775	137,241
Accumulated depreciation						
Balance at December 31, 2018	-	21,435	8,006	8,185	4,223	41,849
Disposals	-	(602)	(3,194)	(1,496)	(1,266)	(6,558)
Depreciation	-	1,922	1,261	1,646	934	5,763
Balance at December 31, 2019	-	22,755	6,073	8,335	3,891	41,054
Disposals	-	(8)	(36)	(2,688)	(305)	(3,037)
Depreciation	-	2,683	2,831	1,787	984	8,285
Balance at December 31, 2020	-	25,430	8,868	7,434	4,570	46,302
Net Book Value						
Balance at December 31, 2019	7,901	61,165	4,776	3,672	2,105	79,619
Balance at December 31, 2020	7,901	69,650	5,248	4,935	3,205	90,939

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2020

12. INVESTMENT PROPERTY

	2020	2019
Cost		
Balance, beginning of year	8,734	-
Additions	1,914	6,484
Transfer from property and equipment	-	2,250
Balance, end of year	10,648	8,734
Accumulated depreciation		
Balance, beginning of year	-	-
Depreciation	192	-
Balance, end of year	192	-
Carrying value, end of year	10,456	8,734

The fair value of the investment property above as at December 31, 2020 is \$11,240 (2019 - \$8,894). The fair value has been arrived at on the basis of a valuation completed by management and a third party appraiser.

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

A summary of the unobservable inputs (Level 3) used to determine the fair value of the investment property is as follows:

Income Approach	2020	2019
Rent per square foot	\$25-\$44	\$25-\$44
Parking rates per month	\$150-\$220	\$150-\$220
Vacancy rate	1.00%	7.81%
Capitalization rate	5.50%	5.88%

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2020

13. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Software	Credit card customer relationship	Other	Total
Cost					
Balance at December 31, 2018	1,234	10,487	8,832	1,672	22,225
Additions	-	1,241	-	-	1,241
Disposals	-	(11)	-	-	(11)
Balance at December 31, 2019	1,234	11,717	8,832	1,672	23,455
Additions	-	3,275	-	-	3,275
Disposals	-	(3,420)	-	-	(3,420)
Balance at December 31, 2020	1,234	11,572	8,832	1,672	23,310
Accumulated amortization					
Balance at December 31, 2018	-	8,904	579	424	9,907
Disposals	-	(11)	-	-	(11)
Amortization	-	1,133	579	69	1,781
Balance at December 31, 2019	-	10,026	1,158	493	11,677
Disposals	-	(3,420)	-	-	(3,420)
Amortization	-	1,041	579	294	1,914
Balance at December 31, 2020	-	7,647	1,737	787	10,171
Net Book Value					
Balance at December 31, 2019	1,234	1,691	7,674	1,179	11,778
Balance at December 31, 2020	1,234	3,925	7,095	885	13,139

The carrying amount of intangible assets includes assets under development at December 31, 2020 of \$2,522 (2019- \$nil).

14. DEPOSITS

	2020	2019
Demand	2,793,366	2,320,204
Term	1,653,970	1,791,488
Registered plans	784,287	762,651
	5,231,623	4,874,343
Accrued interest	21,214	27,677
Total deposits	5,252,837	4,902,020

15. BORROWINGS

	2020	2019
SaskCentral line of credit	-	14,173
Desjardins term facility	-	69,923
Total borrowings	-	84,096

SaskCentral line of credit

The Credit Union has two authorized lines of credit with SaskCentral in the amount of \$95,000 (2019 - \$95,000) and \$7,000 in U.S. funds (2019 - \$7,000). The interest rate on both lines of credit is the SaskCentral prime interest rate plus or minus the applicable discount or margin. A General Security Agreement and an assignment of book debts are pledged as security on both lines of credit.

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

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15. BORROWINGS (continued)

Desjardins revolving facility

The Credit Union has a 364 day revolving credit facility with Desjardins renewable annually, with a maximum credit available of \$150,000 (2019 - \$150,000). The credit facility is structured as either due on demand or repayable for periods of one to three months for each advance. Interest is calculated and depends on the facility, security and duration chosen. The credit facility is secured by collateral in the form of insured residential mortgages with a carrying value of \$150,906 (2019 - \$150,166). At the end of the year, the amount outstanding was \$nil (2019 - \$nil).

Desjardins term facility

The Credit Union had a non-revolving term facility with Desjardins with a maximum authorized limit of \$70,000. The borrowing was secured by collateral in the form of uninsured residential mortgages with a carrying value of \$70,084 as at December 31, 2019. The interest rate on the term borrowing reset monthly based on one-month CDOR plus or minus the applicable discount or margin. The Credit Union paid out this facility in 2020.

Other

Desjardins has issued an authorized letter of credit of \$176 (2019 - \$881) on behalf of the Credit Union related to the performance guarantees for ongoing construction of property and equipment. Advances made under the letter of credit carry an interest rate of one-month CDOR (2019 – one-month CDOR) plus or minus the applicable discount or margin. At the end of the year the amount advanced under the letter of credit was \$nil (2019 - \$nil).

16. MEMBERSHIP SHARES AND EQUITY ACCOUNTS

Membership shares and equity accounts are as provided for by *The Act* and administered according to the bylaws and policy of the Credit Union, which sets out the rights, privileges, restrictions and conditions. The Credit Union is authorized to issue an unlimited number of membership shares with a par value of 5 dollars (\$5) per share. Membership shares are non-transferable and are redeemable at par value.

Member equity accounts represent amounts allocated from the Credit Union's retained earnings to individual members. In accordance with *The Act*, member equity accounts rank equally with membership shares issued by the Credit Union. These accounts are not guaranteed by *the Corporation*.

Allocations from retained earnings are approved annually by the Board of Directors on the basis of patronage. Patronage allocations are credited either to members' equity accounts or in the form of cash distributions.

The Credit Union has a no-fee account for members called a No-Fee chequing account. This account provides significant, ongoing financial benefits to members of the Credit Union and is the primary alternative for the distribution of excess earnings back to members.

The following table summarizes share capital information:

	2020	2019
Membership shares		
Balance, beginning of year	627	629
New membership shares issued	44	51
Membership shares redeemed	(26)	(53)
Balance, end of year	645	627
Member equity accounts		
Balance, beginning of year	16,668	18,513
Patronage cash distributions paid to members	(1,445)	(1,845)
Balance, end of year	15,223	16,668
Total membership shares and equity accounts	15,868	17,295

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2020

17. LEASES

A. Right-of-use assets

	Land	Buildings	Other	Total
Cost				
Balance at January 1, 2019	3,232	15,809	628	19,669
Additions	-	474	71	545
Disposals	-	(256)	(4)	(260)
Balance at December 31, 2019	3,232	16,027	695	19,954
Additions	-	41	4,206	4,247
Disposals	-	(1)	-	(1)
Balance at December 31, 2020	3,232	16,067	4,901	24,200
Accumulated depreciation				
Balance at January 1, 2019	-	-	-	-
Depreciation	(36)	(2,190)	(99)	(2,325)
Balance at December 31, 2019	(36)	(2,190)	(99)	(2,325)
Depreciation	(36)	(2,024)	(155)	(2,215)
Balance at December 31, 2020	(72)	(4,214)	(254)	(4,540)
Net book value				
Balance at December 31, 2019	3,196	13,837	596	17,629
Balance at December 31, 2020	3,160	11,853	4,647	19,660

B. Lease payments and expense

	2020	2019
Interest expense on lease liabilities	630	611
Expenses relating to short-term leases and low value assets	32	58
Expenses relating to variable lease payments	1,597	1,727
Total amounts recognized in profit or loss	2,259	2,396
Repayment of lease liabilities	1,863	2,202
Total cash outflow for leases	4,122	4,598

The variable lease payments that are not included in the calculation of the lease liability include operating costs associated with the lease that are not based on an index or rate. The lease liability carrying value as at December 31, 2020 is \$17,164 (2019 - \$14,782).

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

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18. NON-CONTROLLING INTERESTS

CVC Fund 1 LP

The following table summarizes the financial information relating to the Credit Union's subsidiary that has a non-controlling interest (NCI), before any intra-group eliminations:

	2020	2019
NCI percentage	21.05%	21.05%
Assets	8,581	3,648
Liabilities	27	20
Net assets	8,554	3,628
Carrying value of NCI	1,801	764
Revenue	1,589	8
Expenses	464	235
Net income (loss) for the year	1,125	(227)
Net income (loss) allocated to NCI	237	(48)

19. ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2020	2019
Settlement items in-transit	35,365	39,805
Payroll related amounts	7,057	9,112
Other payables	9,239	9,541
Unclaimed balances	1,255	1,498
Total accounts payable	52,916	59,956
Credit card reward points liability	4,550	4,405
Other deferred income	354	319
Total accounts payable and other liabilities	57,820	64,680

20. INTEREST INCOME AND INTEREST EXPENSE

	2020	2019
Interest income		
Loans and advances	214,698	233,490
Investment securities	10,809	13,665
Cash and cash equivalents	2,141	2,939
Total interest income	227,648	250,094
Interest expense		
Deposits	54,735	70,129
Securitization liabilities	19,828	20,284
Other	2,847	1,487
Total interest expense	77,410	91,900
Net interest income	150,238	158,194
Interest income and (expense) recognized using the effective interest method:		
Financial assets at amortized cost	221,182	243,473
Financial assets at FVOCI	3,484	2,465
Financial liabilities at amortized cost	(77,410)	(91,900)

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

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21. COMMISSIONS AND FEE INCOME

	2020	2019
Revenue recognized at a point-in-time		
Service fees	7,091	8,702
Loan fees	3,896	2,898
Loan insurance fees	3,282	4,401
Payment and credit card revenue	1,032	2,171
Other	4,910	4,784
Revenue recognized over time		
Payment and credit card revenue	751	760
Wealth management income	11,540	10,515
Other	1,711	1,750
Total commissions and fee income	34,213	35,981

22. OTHER INCOME

	2020	2019
Unrealized and realized (losses) on FVTPL investment securities	(410)	(637)
Unrealized and realized (losses) gains on derivative financial instruments	(4,745)	127
Ineffective portion of unrealized gains on cash flow hedge (Note 9)	-	4
Realized gains on FVOCI investment securities	-	123
Realized gains on loans and advances	447	699
Total (loss) gain on financial instruments	(4,708)	316
Dividend income	3,622	4,473
Foreign exchange revenue	603	1,024
Canada Emergency Wage Subsidy	8,573	-
Other	1,045	1,721
Total other income	9,135	7,534

23. INCOME TAX

	2020	2019
Components of income tax expense:		
Current income tax expense on profit for current year	2,031	8,688
Deferred income tax expense (recovery) on origination and reversal of temporary differences	2,183	(1,425)
	4,214	7,263
Income taxes included in other comprehensive income:		
Net unrealized gains (losses) on FVOCI investment securities		
Current income tax expense	427	286
Cash flow hedges		
Current income tax expense	-	153
	427	439
Total income tax reported in the consolidated financial statements:	4,641	7,702

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

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23. INCOME TAX (continued)

	2020	2019
Reconciliation of income tax expense:		
Profit before income tax	22,895	36,171
Combined federal and provincial income tax rate	27.0%	27.0%
Income taxes at statutory rate	6,182	9,766
Income tax expense adjusted for the effect of:		
Non-deductible expenses	26	148
Non-taxable dividend income	(274)	(249)
Credit Union rate reduction	-	(283)
Deferred income tax expense resulting from tax rate changes	-	28
Other	(1,720)	(2,147)
	4,214	7,263
Effective rate of tax	18%	20%
	2020	2019
The deferred tax asset is comprised of the following:		
Property and equipment	-	757
Allowance for credit losses	2,668	3,140
Lease liabilities	4,634	3,991
Total deferred tax assets	7,302	7,888
The deferred tax liability is comprised of the following:		
Property and equipment	1,289	-
Intangible assets	2,155	2,390
Right of use assets	4,455	3,897
Loans and advances	221	70
Other	91	258
Total deferred tax liability	8,211	6,615
Net deferred tax (liability) asset	(909)	1,273

24. CAPITAL MANAGEMENT

The Credit Union manages capital in accordance with its capital management plan and Board approved capital policies. The capital plan is developed in accordance with the regulatory capital framework and is reviewed and approved annually by the Audit and Conduct Review Committee of the Board of Directors.

Credit Union Deposit Guarantee Corporation (*the Corporation*), the regulator of Saskatchewan credit unions, has prescribed capital adequacy measures and minimum capital requirements. The capital adequacy rules issued by *the Corporation* have been 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. The Credit Union has been designated as a provincially systemically important financial institution (P-SIFI) and is subject to a common equity tier 1 capital surcharge of 1% of risk-weighted assets. The surcharge will require 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 will be 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: total eligible capital to risk-weighted assets (risk-weighted capital ratio); common equity tier 1 capital to risk-weighted assets; total tier 1 capital to risk-weighted assets; and minimum leverage ratio. Regulatory standards require credit unions designated as a P-SIFI to maintain minimum capital adequacy tests as follows: risk-weighted capital ratio of 11.5% (2019 - 11.5%), common equity tier 1 capital to risk-weighted assets of 8.0% (2019 - 8.0%), total tier 1 capital to risk-weighted assets of 9.5% (2019 - 9.5%) and minimum leverage ratio of 5% (2019 - 5%).

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

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24. CAPITAL MANAGEMENT (continued)

Risk-weighted assets are calculated in accordance with the rules established by *the Corporation* for balance sheet and off-balance sheet risks. Credit risk, derivatives and off-balance sheet commitments, and operational risk are considered in calculating risk-weighted assets. Based on the prescribed risk of each type of asset, a weighting is assigned.

Common equity tier 1 capital is defined as a credit unions' primary capital and is comprised of the highest quality of capital elements while tier 2 is secondary capital and falls short of meeting tier 1 requirements for permanence or freedom from mandatory charge. Common equity tier 1 capital at the Credit Union includes retained earnings, contributed surplus, and AOCI. Total tier 1 capital is common equity tier 1 capital less deductions for goodwill, intangible assets, unconsolidated substantial investments and certain deferred tax assets. Tier 2 capital at the Credit Union includes the stage 1 and stage 2 ECL to a maximum of 1.25% of risk-weighted assets and qualifying membership shares and other investment shares issued by the Credit Union that meet the criteria for inclusion in tier 2 capital.

The risk-weighted capital ratio is calculated as the sum of total tier 1 and tier 2 capital divided by risk-weighted assets. The minimum leverage ratio is calculated as the sum of total tier 1 and tier 2 capital divided by total assets less deductions from capital plus specified off-balance sheet exposures.

The following table summarizes information about the Credit Union's capital and key ratios:

	2020	2019
Eligible capital		
Common equity tier 1 capital before deductions	553,045	533,930
Total tier 2 capital	22,747	24,531
Total eligible capital before deductions	575,792	558,461
Deductions from eligible capital		
Intangible assets	11,905	10,544
Goodwill	1,234	1,234
Investments in associates	335	935
Total deductions from eligible capital	13,474	12,713
Total eligible capital	562,318	545,748
Total risk-weighted assets	3,951,494	4,073,664
Total eligible capital to risk-weighted assets	14.23%	13.40%
Common equity tier 1 capital to risk-weighted assets	13.65%	12.79%
Total tier 1 capital to risk-weighted assets	13.65%	12.79%
Leverage ratio	8.30%	8.19%

The Corporation also prescribes an internal capital adequacy assessment process (ICAAP) to address unique credit union conditions. 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 the Credit Union's risk profile and capital requirements.

If a credit union is not in compliance with *the Corporation* Standards or Regulatory Guidance Documents including capital requirements, *the Corporation* may take any necessary action. Necessary action may include, but is not limited to:

- Reducing or restricting a credit union's authorities and limits;
- Subjecting a credit union to preventative intervention;
- Issuing a compliance order;
- Placing a credit union under supervision or administration; or
- Issuing an amalgamation order

Throughout 2020 and 2019, the Credit Union complied with all internal and external capital requirements.

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2020

25. FINANCIAL RISK MANAGEMENT

The following note presents information about the Credit Union's exposure to risks from its financial instruments and the objectives, policies and processes for measuring and managing risk.

A. Credit risk

Credit risk is the risk of financial loss to the Credit Union if a customer or counterparty to a financial instrument fails to meet its obligations and arises principally from the Credit Union's loans and advances to customers and debt investment securities.

i. Objectives, policies and processes

The Board of Directors is responsible for the oversight of credit risk and establishes policies governing the lending practices of the Credit Union. The Credit Union has established a separate department, the Credit Management Centre (CMC), to manage the Credit Union's credit risk including the following key activities:

- Developing lending policies for the Credit Union's two major portfolios (consumer and commercial) covering collateral requirements, credit assessments, risk ratings and reporting requirements.
- Defining parameters for credit diversification by setting prudent limits for credit exposures by loan type, borrower industry and connected borrowers.
- Establishing an appropriate delegation of authority for the approval of new loans and renewals. Credit requests above the CMC limits are referred to the Executive Credit Committee (ECC) for approval.
- Providing approval and underwriting support to lenders for loans that are considered to be complex, unusual, higher risk or problematic.
- Developing and maintaining an internal risk rating framework and credit review process to ensure regular monitoring of loans within the portfolio and enhanced monitoring for loans which carry a higher than average risk.

Each business unit is required to implement the above noted credit policies and procedures established by the CMC with credit approval authorities delegated from the Board of Directors. Regular audits of business units and credit processes are undertaken by Internal Audit.

ii. Risk measurement

For its loans and advances, the Credit Union uses an internal credit risk rating system designed to assess and measure the risk inherent within its portfolio. The internal risk rating system considers both qualitative and quantitative factors to assess the credit worthiness of the borrower and quality of collateral underlying the loan. When making loans to individuals or closely held business, the Credit Union will supplement its internal risk rating assessment with credit scores provided by Transunion. Risk ratings are updated annually as part of the normal credit review process or more frequently whenever facts and circumstances indicate a decline in the credit quality of the loan. External credit scores are updated quarterly as part of the Credit Union's ECL calculation.

For investments and derivatives, the Credit Union relies on external ratings provided by the Dominion Bond Rating Service to assess credit risk and has established processes and procedures to monitor the credit ratings of its counterparties on a monthly basis.

The following table provides an overview/summary of the Credit Union's risk rating framework:

Risk assessment	Commercial loan (internal risk ratings)	Consumer loan (credit scores)	Investment securities and derivatives (external ratings)
Low	1 - 4	> 660	AAA - BBB
Moderate	5 - 7	429 - 660	BB - CCC
High	8	< 429	< CCC

Conexus Credit Union Notes to the Consolidated Financial Statements

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For the year ended December 31, 2020

25. FINANCIAL RISK MANAGEMENT (continued)

The following table sets out the information about the credit quality of the Credit Union's non-derivative financial assets and undrawn commitments by risk rating category, excluding statutory liquidity deposits and equity investments:

	2020			Total
	Stage 1	Stage 2	Stage 3	
Residential mortgages				
Low risk:	1,566,565	342,268	-	1,908,833
Moderate risk:	-	205,026	-	205,026
High risk:	-	-	8,692	8,692
Total residential mortgages	1,566,565	547,294	8,692	2,122,551
Allowance for credit losses	(53)	(116)	(827)	(996)
Consumer non mortgage loans				
Low risk:	519,578	120,596	-	640,174
Moderate risk:	1,782	58,485	-	60,267
High risk:	-	-	2,571	2,571
Total consumer non mortgage loans	521,360	179,081	2,571	703,012
Allowance for credit losses	(623)	(702)	(1,562)	(2,887)
Commercial loans				
Low risk:	1,346,388	301,638	-	1,648,026
Moderate risk:	13,605	711,121	-	724,726
High risk:	-	-	101,309	101,309
Total commercial loans	1,359,993	1,012,759	101,309	2,474,061
Allowance for credit losses	(107)	(4,089)	(21,743)	(25,939)
Undrawn Commitments				
Low risk:	915,849	91,478	-	1,007,327
Moderate risk:	12,258	102,759	-	115,017
High risk:	-	-	29,032	29,032
Total undrawn commitments	928,107	194,237	29,032	1,151,376
Allowance for credit losses	(704)	(327)	(941)	(1,972)
Debt securities (excluding statutory liquidity)				
Low risk:	436,903	-	-	436,903
Total debt securities (excluding statutory liquidity)	436,903	-	-	436,903
Allowance for credit losses	(180)	-	-	(180)

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For the year ended December 31, 2020

25. FINANCIAL RISK MANAGEMENT (continued)

	2019			
	Stage 1	Stage 2	Stage 3	Total
Residential mortgages				
Low risk:	1,514,683	377,337	-	1,892,020
Moderate risk:	-	239,600	-	239,600
High risk:	-	-	10,077	10,077
Total residential mortgages	1,514,683	616,937	10,077	2,141,697
Allowance for credit losses	(25)	(79)	(728)	(832)
Consumer non mortgage loans				
Low risk:	542,814	140,408	-	683,222
Moderate risk:	3,086	80,664	-	83,750
High risk:	-	-	4,341	4,341
Total consumer non mortgage loans	545,900	221,072	4,341	771,313
Allowance for credit losses	(365)	(727)	(3,372)	(4,464)
Commercial loans				
Low risk:	1,440,539	338,051	-	1,778,590
Moderate risk:	17,485	630,068	-	647,553
High risk:	-	-	98,366	98,366
Total commercial loans	1,458,024	968,119	98,366	2,524,509
Allowance for credit losses	(67)	(4,569)	(10,220)	(14,856)
Undrawn Commitments				
Low risk:	882,453	74,458	-	956,911
Moderate risk:	15,155	90,505	-	105,660
High risk:	-	-	18,437	18,437
Total undrawn commitments	897,608	164,963	18,437	1,081,008
Allowance for credit losses	(864)	(479)	(355)	(1,698)
Debt securities (excluding statutory liquidity)				
Low risk:	332,741	-	-	332,741
Total debt securities (excluding statutory liquidity)	332,741	-	-	332,741
Allowance for credit losses	(62)	-	-	(62)

In addition to the items above, the Credit Union has cash of \$246,173 (2019 - \$233,940) on deposit with highly rated financial institutions that maintain a minimum rating of BBB (2019 - BBB).

For derivative financial instruments, credit risk is limited to the positive fair values of the instruments as this represents the cost to replace these contracts at prevailing market rates if a default occurred. Consequently, the derivative assets recognized in the consolidated statement of financial position represent the gross credit exposure of the Credit Union as at December 31, 2020 for these financial instruments. The Credit Union mitigates exposures by limiting the counterparties to interest rate contracts to three counterparties (Desjardins, SaskCentral and Concentra) who maintain a minimum rating of A (2019 - A). In determining the credit quality of derivative instruments both the Credit Union's own credit risk and the risk of the counterparty are considered elements of the credit quality.

iii. Collateral

The Credit Union has documented policies and procedures in place for the valuation of financial and non-financial collateral. Valuations of collateral are performed periodically to ensure they remain reasonable. The collateral and other credit enhancements held by the Credit Union as security for loans include;

- mortgages over residential lots and properties,
- recourse to business assets such as real estate, equipment, inventory and accounts receivable,
- recourse to the commercial real estate properties being financed, and
- recourse to liquid assets, guarantees and securities.

Conexus Credit Union Notes to the Consolidated Financial Statements

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For the year ended December 31, 2020

25. FINANCIAL RISK MANAGEMENT (continued)

In some cases, the Credit Union obtains third-party guarantees and insurance to reduce the risk of loan default. In total, 22% (2019 - 22%) of the Credit Union's loan portfolio is guaranteed by a federal government program or agency. The largest of these guarantees is in the residential mortgage portfolio, which is guaranteed by either Sagen at 13% (2019 - 13%) or Canada Mortgage and Housing Corporation (CMHC), a government owned corporation, at 7% (2019 - 7%). Other noteworthy guarantors include the Government of Canada's Canada Small Business Financing Program (CSBFP) for small business loans at 1% (2019 - 1%) and the Government of Canada's Canadian Agricultural Loans Act (CALA) program for farm improvement loans at 1% (2019 - 1%) of total loans.

The following table summarizes the outstanding loan balances by type of collateral held as security ranked in descending order of quality. In instances where a loan has multiple forms of collateral, it has been grouped based on the highest quality collateral held:

	2020	2019
Fully secured by government guarantee or default insurance	75,718	86,013
Fully or partially secured by tangible mortgage assets ⁽¹⁾	4,236,662	4,254,537
Fully or partially secured by tangible non mortgage assets	691,392	736,998
Unsecured	295,852	359,971
	5,299,624	5,437,519

(1) Includes both loans and lines of credit secured by mortgage assets

The below table outlines additional information with respect to collateral for credit-impaired (stage 3) and foreclosed loans:

	2020	2019
Credit-impaired (Stage 3) loans		
Fair value of collateral held as security for stage 3 loans	157,624	159,785
Stage 3 loans without an allowance due to adequate security	70,401	79,479
Foreclosed loans		
Assets acquired via enforcement of security during the year	6,533	9,860
Contractual amount outstanding on financial assets written off still subject to enforcement activity	4,107	3,645

The Credit Union has estimated the fair value of collateral based on management's knowledge of local real estate market conditions and on an updated assessment of the security appraisal, where appropriate. It is not practical to disclose all possession of collateral the Credit Union holds as security due to the variety and number of assets. The policy of the Credit Union is to sell the assets at the earliest reasonable opportunity after measures to assist the customer to repay the debts have been exhausted.

B. Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in external market prices. The primary market risk exposure of the Credit Union is interest rate risk, specifically, from timing differences in the re-pricing of assets and liabilities, both on and off-balance sheet. The Credit Union's currency risk primarily arises from U.S. dollar deposits made by members.

i. Objectives, policies and processes

The Board of Directors provides oversight for the management of market risk through the establishment of specific policies and risk limits. These limits are based on the impact of a change in interest rates on annual net interest income and economic value of members' equity. Limits are also based on the aggregate holdings in unhedged on-balance sheet foreign currency.

The Management Risk Committee (MRC) is responsible for establishing targets related to interest rate risk and currency risk in accordance with Board policy. The MRC provides ongoing monitoring of the Credit Union's market risk position through various tools and processes discussed further below.

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25. FINANCIAL RISK MANAGEMENT (continued)

ii. Risk measurement

Interest rate risk

The impact of movements in interest rates on the financial position and earnings of the Credit Union is measured through a number of sophisticated tests, namely: income simulation, static gap analysis, value at risk (economic value of equity) and duration analysis. Using rate sensitivity analysis with probable rate scenarios, interest rate risk is managed to comply with the Credit Union's policy requirement. For 2020, the Credit Union's interest rate risk was within acceptable levels, as measured by Board approved parameters.

Stress testing and scenario analysis is performed and measured in relation to policy limits as part of the monthly interest rate risk simulation process. These tests include the effects of most likely and stressed movements in interest rates on the financial position of the Credit Union and its current and projected net earnings. Interest rate risk stress testing includes illustrating the impact of the most likely scenario (based on the Credit Union's rate forecast), a flat rate scenario, declining rate scenario (3% decline in prime rate over one year to a floor of 0%), rising rate scenario (3% increase in prime rate over one year), a shock down of 100 basis points, and a shock up of 100 basis points (100 basis points is equal to 1 percent). For 2020, the Credit Union started conducting the stress tests prescribed in the Office of the Superintendent of Financial Institutions (OSFI) Interest Rate Risk in the Banking Book (IRRBB) guidance (OSFI B-12).

The following table illustrates the potential impact of an immediate and sustained 100 basis point change in interest rates on net income, other comprehensive income and economic value of equity. These measures are based upon assumptions made by management such as asset growth and funding mix.

	2020	2019
100-basis-point increase in interest rate:		
Impact on net income	8,623	8,895
Impact on other comprehensive income	(343)	(1,433)
Impact on economic value of equity	-8.35%	-6.75%
100-basis-point decrease in interest rate:		
Impact on net income	(6,154)	(5,680)
Impact on other comprehensive income	209	1,462
Impact on economic value of equity	12.06%	5.30%

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25. FINANCIAL RISK MANAGEMENT (continued)

The following table details the Credit Union's exposure to interest rate risk as measured by the mismatch or gap, between the maturities or re-pricing dates of interest rate sensitive assets and liabilities, which have been reflected in the stress testing results above:

	2020							
	Yield	Floating	1 to under 3 months	3 months to under 1 year	1 year to under 5 years	5 years and over	Non-interest sensitive	Total
Assets								
Cash and cash equivalents	0.41%	265,929	-	-	-	-	37,471	303,400
Investment securities	1.36%	363,289	56,072	221,251	192,015	-	67,170	899,797
Loans and advances	3.92%	1,038,721	204,012	856,560	2,960,848	122,376	121,879	5,304,396
Derivative financial instruments	-	-	605	837	2,484	162	-	4,088
Other non-interest sensitive assets	-	-	-	-	-	-	164,925	164,925
Total assets		1,667,939	260,689	1,078,648	3,155,347	122,538	391,445	6,676,606
Liabilities								
Deposits	0.78%	1,995,008	1,297,067	1,276,839	663,584	3,296	17,043	5,252,837
Securitization liabilities	2.13%	-	22,008	99,883	607,801	41,908	(3,842)	767,758
Derivative financial instruments	-	-	623	859	4,684	2,222	-	8,388
Lease liabilities	3.99%	-	248	1,139	6,416	9,361	-	17,164
Other non-interest sensitive liabilities	-	-	-	-	-	-	77,414	77,414
Total liabilities		1,995,008	1,319,946	1,378,720	1,282,485	56,787	90,615	6,123,561
Total members' equity		-	-	-	-	-	553,045	553,045
Asset/liability gap		(327,069)	(1,059,257)	(300,072)	1,872,862	65,751	(252,215)	-
Notional amount of derivatives								
Pay side instruments	1.80%	-	(11,203)	(10,852)	(119,295)	(44,311)	-	(185,661)
Receive side instruments	1.13%	-	141,136	8,657	35,868	-	-	185,661
Off balance sheet gap		-	129,933	(2,195)	(83,427)	(44,311)	-	-
Interest rate gap position		(327,069)	(929,324)	(302,267)	1,789,435	21,440	(252,215)	-

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25. FINANCIAL RISK MANAGEMENT (continued)

2019

	Yield	Floating	1 to under 3 months	3 months to under 1 year	1 year to under 5 years	5 years and over	Non-interest sensitive	Total
Assets								
Cash and cash equivalents	1.91%	238,556	-	-	-	-	27,966	266,522
Investment securities	2.76%	266,175	50,072	135,918	181,692	-	62,735	696,592
Loans and advances	4.36%	1,226,071	222,095	900,859	2,885,889	86,453	124,595	5,445,962
Derivative financial instruments	-	-	325	1,203	3,971	452	-	5,951
Other non-interest sensitive assets	-	-	-	-	-	-	139,414	139,414
Total assets		1,730,802	272,492	1,037,980	3,071,552	86,905	354,710	6,554,441
Liabilities								
Deposits	1.48%	1,730,961	321,762	1,292,747	826,363	3,161	727,026	4,902,020
Securitization liabilities	2.19%	-	23,367	139,012	723,587	50,215	(5,371)	930,810
Borrowings	2.97%	84,096	-	-	-	-	-	84,096
Derivative financial instruments	-	-	325	1,203	3,797	527	-	5,852
Lease liabilities	3.96%	-	336	1,425	6,444	6,577	-	14,782
Other non-interest sensitive liabilities	-	-	-	-	-	-	82,951	82,951
Total liabilities		1,815,057	345,790	1,434,387	1,560,191	60,480	804,606	6,020,511
Total members' equity		-	-	-	-	-	533,930	533,930
Asset/liability gap		(84,255)	(73,298)	(396,407)	1,511,361	26,425	(983,826)	-
Notional amount of derivatives								
Pay side instruments	1.96%	-	(5,216)	(10,500)	(125,087)	(27,095)	-	(167,898)
Receive side instruments	1.97%	-	124,976	10,500	32,422	-	-	167,898
Off balance sheet gap		-	119,760	-	(92,665)	(27,095)	-	-
Interest rate gap position		(84,255)	46,462	(396,407)	1,418,696	(670)	(983,826)	-

Re-pricing dates are based on the earlier of maturity or the contractual re-pricing date and effective interest rates, where applicable, represent the weighted average effective yield.

Currency risk:

The Credit Union measures currency risk based on the percentage of foreign denominated financial assets against similar foreign denominated financial liabilities on a daily basis. As at December 31, 2020, the percentage of foreign denominated financial assets is 106% (2019 - 105%) of foreign denominated financial liabilities, which is within acceptable levels, as measured by Board approved parameters.

Board policy for foreign currency risk tolerance limits aggregate holdings in unhedged on-balance sheet foreign currency to 2% of eligible capital. Investment securities permitted under the investment management policy may be purchased and held in U.S. dollars for the purpose of hedging U.S. dollar liabilities.

C. Liquidity risk

Liquidity risk arises from having insufficient funds to meet obligations as they come due at a reasonable cost. Liquidity risk stems from mismatched cash flows between assets and liabilities as well as firm commitments including commitments to extend credit and lease payments.

i. Objectives, policies and processes

The Risk Committee of the Board provides oversight for the management of liquidity risk through the establishment of relevant policies and risk limits. Board policies establish the level of acceptable liquidity risk and the Credit Union's processes and controls for managing liquidity with respect to the level of liquid assets, quality of liquid assets, concentration limits, cash flow mismatch limits and procedural control requirements with respect to measuring and monitoring liquidity risk.

Conexus Credit Union Notes to the Consolidated Financial Statements

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25. FINANCIAL RISK MANAGEMENT (continued)

The policies and limits are, in part, based on the Liquidity Adequacy Requirements and Liquidity Risk Management Principles prescribed by *the Corporation* which outline the guiding principles for an effective liquidity management framework and establish the minimum requirements for the quantity and quality of liquid assets that the Credit Union is required to maintain.

Oversight of liquidity risk and ongoing liquidity management is the responsibility of MRC, which is mandated to monitor limits with respect to liquidity in accordance with Board policy. Annually management prepares a liquidity risk management plan which includes:

- Establishing strategies and policies for managing liquidity risk;
- Maintaining a portfolio of high quality liquid assets;
- Measuring and monitoring short-term and long-term funding requirements;
- Managing diversification and market access to funds;
- Stress testing and contingency planning; and
- Internal controls over management practices and processes.

Fundamental to the Credit Union's liquidity management framework is the assessment of the adequacy of liquidity under both normal operating conditions and stressed conditions. Stress conditions encompass both systemic and idiosyncratic events. The Credit Union maintains a detailed liquidity contingency management plan to handle such events.

The Enterprise Risk Management (ERM) department is responsible for monitoring and reviewing compliance with established liquidity policies and procedures and the interdependence of liquidity risk to other organizational risks such as strategic risk and credit risk. A periodic review is also conducted by Internal Audit on the liquidity management processes and systems of the Credit Union.

ii. Risk measurement

Stress testing and scenario analysis is performed to assess the adequacy of liquidity. Contingency plans address liquidity management under scenario events and stressed conditions. Stress and scenario conditions include larger than predicted deposit withdrawals and borrowing levels, as well as market disruptions resulting in limited to no access to capital markets.

Liquidity risk is also measured with reference to the liquidity adequacy measures and minimum liquidity requirements prescribed by *the Corporation* based on the Basel III liquidity adequacy standards established by the Bank for International Settlements and adopted by financial institutions around the globe, including Canadian banks. The primary measures for liquidity adequacy at the Credit Union include the liquidity ratio, liquid asset ratio (LAR), liquidity coverage ratio (LCR), and the net cumulative cash flow (NCCF).

The liquidity ratio is calculated as available liquidity and cash inflows divided by cash outflows. Available liquidity is defined as investment securities that are immediately available as cash, investment securities marketable in an active secondary market, redeemable investment securities. The Credit Union seeks to maintain this ratio at greater than or equal to 150%.

The LAR measures current liquid assets as a percentage of total assets. The Credit Union seeks to maintain this ratio greater than or equal to 3%.

The LCR is calculated as the stock of high quality liquid assets (HQLA) divided by net cash outflows over a 30-day stress scenario. The Credit Union seeks to maintain this ratio greater than or equal to 120%. HQLA are assets that can be easily converted into cash at little or no loss of value and includes eligible investments held as liquidity reserve deposits at SaskCentral. *The Corporation* defines the LCR in the Standards of Sound Business Practices – Liquidity Adequacy Requirements, by grouping HQLA into either Level 1 or Level 2 categories and applying various weightings to reflect their value in stressed conditions. Level 1 assets are the highest quality assets whereas Level 2 assets are considered less liquid.

Net cash outflows is defined as total expected cash outflows minus total expected inflows; various categories of outflows are applied run-off rates while inflows are multiplied by rates they are expected to flow in under a stressed scenario. Regulatory standards require credit unions to maintain a minimum liquidity coverage ratio of 100%. The Credit Union maintains internal liquidity adequacy targets that exceeded regulatory requirements.

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25. FINANCIAL RISK MANAGEMENT (continued)

NCCF measures cash outflows and inflows under stressed conditions and ultimately determines a survival time horizon based on these cash flows. *The Corporation* has not yet prescribed NCCF adequacy requirements.

The following table summarized the Credit Union's liquidity coverage ratio at December 31:

	December 31, 2020		December 31, 2019	
	Total unweighted value	Total weighted value	Total unweighted value	Total weighted value
High-quality liquid assets				
Level 1 assets				
Cash and cash equivalents	72,341	72,341	33,125	33,125
SaskCentral - statutory liquidity deposits	387,383	387,383	325,968	325,968
Federal and provincial government	12,470	12,470	24,868	24,868
Total Level 1 assets	472,194	472,194	383,961	383,961
Level 2A assets				
SaskCentral - statutory liquidity deposits	40,196	34,166	46,011	39,110
Total Level 2A assets	40,196	34,166	46,011	39,110
Level 2B assets				
SaskCentral - statutory liquidity deposits	117,474	58,736	106,233	53,117
Total Level 2B assets	117,474	58,736	106,233	53,117
Total high-quality liquid assets	629,864	565,096	536,205	476,188
Cash Outflows				
Retail and small business deposits	3,141,657	149,502	2,910,977	112,540
Unsecured wholesale funding	2,089,966	287,508	1,963,366	222,089
Secured funding run-off	-	-	14,173	3,696
Additional requirements	1,191,433	70,818	1,132,243	78,058
Total cash outflows	6,423,056	507,828	6,020,759	416,383
Cash inflows				
Retail and small business customers	17,052	8,526	16,320	8,160
Other wholesale inflows	12,654	6,327	10,840	5,420
Receivable from financial institutions	229,599	229,599	233,397	233,397
Other contractual inflows	7,512	7,512	8,425	8,425
Total cash inflows	266,817	251,964	268,982	255,402
Total net cash outflows	6,156,239	255,864	5,751,777	160,981
Liquidity coverage ratio		220.86%		295.80%

The following table summarizes the Credit Union's remaining contractual maturity for its non-derivative financial liabilities and lease liabilities with agreed repayment periods. The table has been prepared using undiscounted cash flows of financial liabilities based on the earliest date on which the Credit Union can be required to pay.

The gross nominal cash flows represent the contractual undiscounted cash flows relating to the principal and interest on the financial liability. The amounts included below for variable interest rate instruments is subject to changes if variable interest rates differ to those estimates of interest rates determined at the end of the reporting period. Commitments to extend credit and undrawn lines of credit are classified by the earliest funding time frame provided by contract.

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25. FINANCIAL RISK MANAGEMENT (continued)

2020							
Liabilities	Less than 1 year	1 year to under 2 years	2 years to under 3 years	3 years to under 4 years	4 years to under 5 years	5 years and over	Total
Deposits	4,591,137	442,716	146,872	46,441	33,431	-	5,260,597
Lease liabilities	2,181	2,174	2,168	2,188	2,211	19,142	30,064
Secured debt	135,648	172,698	220,137	193,620	39,827	41,908	803,838
Membership shares and member equity accounts	15,868	-	-	-	-	-	15,868
Accounts payable and other liabilities	57,820	-	-	-	-	-	57,820
	4,802,654	617,588	369,177	242,249	75,469	61,050	6,168,187
Off-balance sheet items	Less than 1 month	1 to 3 months	3 months to 1 year	1-5 years	5 years and over	Total	
Undrawn lines of credit	400,570	-	-	-	-	400,570	
Commitments to extend credit	743,508	-	-	-	-	743,508	
	1,144,078	-	-	-	-	1,144,078	
2019							
Liabilities	Less than 1 year	1 year to under 2 years	2 years to under 3 years	3 years to under 4 years	4 years to under 5 years	5 years and over	Total
Borrowings	16,250	2,077	71,654	-	-	-	89,981
Deposits	4,084,773	516,950	181,281	93,523	42,063	3,161	4,921,751
Lease liabilities	2,381	1,999	1,993	1,988	2,010	7,031	17,402
Secured debt	179,208	157,600	197,495	229,998	167,339	50,215	981,855
Membership shares and member equity accounts	17,295	-	-	-	-	-	17,295
Accounts payable and other liabilities	64,680	-	-	-	-	-	64,680
	4,364,587	678,626	452,423	325,509	211,412	60,407	6,092,964
Off-balance sheet items	Less than 1 month	1 to 3 months	3 months to 1 year	1-5 years	5 years and over	Total	
Undrawn lines of credit	353,051	-	-	-	-	353,051	
Commitments to extend credit	714,152	-	-	-	-	714,152	
	1,067,203	-	-	-	-	1,067,203	

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

A. Summary of valuation methods and assumptions

The Credit Union uses a variety of valuation techniques to measure the fair value of its financial instruments including the use of relevant market prices (Level 1) and valuation models which rely on both observable (Level 2) and unobservable (Level 3) inputs based on 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 the methods and assumptions that were used to estimate fair values of financial instruments:

Cash and cash equivalents, accounts receivable and accounts payable are all short-term in nature and as such, their carrying values are assumed to approximate fair value.

The fair values of debt securities are based on quoted market prices when available. Alternatively, fair values are determined using discounted cash flow calculations based on interest rates being offered for similar investment securities or quoted market prices of similar investments.

The fair value of shares in SaskCentral are equal to the fixed redemption price as they are non-transferrable, and the credit risk of the issuer is very low.

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26. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The fair value of investment funds is based on the net asset values quoted by the fund managers. Due to the illiquid nature of the underlying assets held within these funds (private equity investments), the determination of the net asset value requires the use of significant unobservable inputs such as cash flow forecasts, discount rates and earnings multiples which results in these assets being classified at Level 3 in the fair value hierarchy.

The fair value of variable interest rate loans that reprice frequently is assumed to be approximated by the carrying values. For all other loans, the fair value is estimated using discounted cash flow calculations at market interest rates for groups of loans with similar terms and credit risk.

The fair value of deposits with variable interest rates or which are due on demand, is assumed to be approximated by the carrying value. For all other deposits, fair value is estimated using a discounted cash flow calculation based on current market interest rates for similar deposit offerings.

The Credit Union's borrowings consist of lines of credit which are due on demand and term loan facilities that reprice frequently. The fair value of these items is therefore assumed to equal the carrying value.

Fair values for securitization liabilities are estimated using discounted cash flow calculations at market interest rates for similar terms.

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

B. Fair value hierarchy

The following table summarizes the fair values and carrying values of the Credit Union's financial instruments, including the level within which they are classified in the fair value hierarchy, with the exception of financial instruments measured at amortized cost whose carrying value is a reasonable approximation of fair value:

	2020					
	Carrying value	Fair value	Difference	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)
Financial assets at FVTPL						
Derivative assets	4,088	4,088	-	-	4,088	-
Investment securities	374,105	374,105	-	-	348,286	25,819
Financial assets at FVOCI						
Investment securities	307,615	307,615	-	-	307,615	-
Financial assets at amortized cost						
Investment securities	218,077	218,481	404	-	218,481	-
Loans and advances	5,300,910	5,324,340	23,430	-	5,324,340	-
Total financial assets	6,204,795	6,228,629	23,834	-	6,202,810	25,819
Financial liabilities at FVTPL						
Derivative liabilities	8,388	8,388	-	-	8,388	-
Financial liabilities at amortized cost						
Deposits	5,252,837	5,272,708	19,871	-	5,272,708	-
Securitization liabilities	767,758	784,350	16,592	-	784,350	-
Total financial liabilities	6,028,983	6,065,446	36,463	-	6,065,446	-

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26. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	2019					
	Carrying value	Fair value	Difference	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)
Financial assets at FVTPL						
Derivative assets	5,951	5,951	-	-	5,951	-
Investment securities	276,313	276,313	-	-	253,675	22,638
Financial assets at FVOCI						
Investment securities	134,832	134,832	-	-	134,832	-
Financial assets at amortized cost						
Investment securities	285,447	285,664	217	-	285,664	-
Loans and advances	5,440,104	5,439,071	(1,033)	-	5,439,071	-
Total financial assets	6,142,647	6,141,831	(816)	-	6,119,193	22,638
Financial liabilities at FVTPL						
Derivative liabilities	5,852	5,852	-	-	5,852	-
Financial liabilities at amortized cost						
Deposits	4,902,020	4,906,381	4,361	-	4,906,381	-
Securitization liabilities	930,810	930,053	(757)	-	930,053	-
Borrowings	84,096	84,096	-	-	84,096	-
Total financial liabilities	5,922,778	5,926,382	3,604	-	5,926,382	-

There were no transfers between Level 1, Level 2 and/or Level 3 in 2020 or 2019.

C. Level 3 Financial Instruments

The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets which are recorded at fair value.

December 31, 2020	Opening				Realized gain/(loss)	Unrealized gain/(loss)	Ending balance
	balance	Transfers	Purchases	Redemptions			
Private equity fund investment	22,638	-	7,942	(4,351)	2,184	(2,594)	25,819
	22,638	-	7,942	(4,351)	2,184	(2,594)	25,819
December 31, 2019	Opening				Realized gain/(loss)	Unrealized gain/(loss)	Ending balance
	balance	Transfers	Purchases	Redemptions			
Private equity fund investment	21,302	-	7,796	(5,823)	3,336	(3,973)	22,638
	21,302	-	7,796	(5,823)	3,336	(3,973)	22,638

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 is shown in the table below:

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26. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Description	Fair value as at December 31, 2020	Valuation technique	Unobservable input
Private equity fund investment	25,819	Discounted cash flow	Discounted rate
		Asset-based	% of assets
		Multiple of EBITDA	EBITDA multiple
		Multiple of production	Production multiple
		Transaction	% variance
		Sum of parts	% variance
		Public price	% variance
		Multiple of cash flow	Cash flow multiple
		Capitalized income	Capitalization rate
		Cost	% variance
		Multiple of book value	Book value multiple
		Recent financing	Transaction price

Description	Fair value as at December 31, 2019	Valuation technique	Unobservable input
Private equity fund investment	22,638	Discounted cash flow	Discounted rate
		Asset-based	% of assets
		Multiple of EBITDA	EBITDA multiple
		Multiple of production	Production multiple
		Transaction	% variance
		Sum of parts	% variance
		Public price	% variance
		Multiple of cash flow	Cash flow multiple
		Capitalized income	Capitalization rate
		Cost	% variance
		Multiple of book value	Book value multiple
		Recent financing	Transaction price
		Sales proceeds	Sales proceeds
		NAV	% variance

27. COMMITMENTS AND CONTINGENCIES

A. Litigation and other contingencies

In the ordinary course of business, the Credit Union has legal proceedings brought against it and provisions are recorded when it becomes probable that the Credit Union will incur a loss and the amount can be reliably measured. It is the opinion of management that final determination of these claims will not have a material adverse impact on the Credit Union.

B. Commitments

Loan commitments

The following amounts represent the maximum amount of additional credit that the Credit Union could be obligated to extend at December 31:

	2020	2019
Undrawn lines of credit	400,570	353,051
Commitments to extend credit	743,508	714,152
Letters of credit	7,298	13,805
	1,151,376	1,081,008

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27. COMMITMENTS AND CONTINGENCIES (continued)

Statutory liquidity deposits

Pursuant to Regulation 18(1)(a), of *The Credit Union Regulations, 1999*, SaskCentral and CUDGC requires that the Credit Union maintain 10% of its total liabilities in specified liquidity deposits in SaskCentral. As of December 31, 2020, the Credit Union has met the requirement (2019 – requirement met).

Subsequent changes in the total liabilities of the Credit Union may result in a commitment to purchase additional statutory liquidity deposits.

SaskCentral membership

The bylaws of SaskCentral require the Credit Union to maintain membership shares in an amount equal to no less than 0.6% to a maximum of 1.0% of the Credit Union's assets. As a result, the Credit Union shall, following the December 31 each fiscal year and no later than June 30 of the following fiscal year, purchase or sell additional membership shares to maintain the limits prescribed by the SaskCentral bylaws.

Currently the Credit Union holds \$39,330 in membership shares of SaskCentral, or 23.31% (2019 - \$37,567; 22.7%) of the total issued and outstanding membership shares. Based on the Credit Union's total assets as at December 31, 2020 the Credit Union has an outstanding commitment to purchase \$840 (2019 – purchase \$1,760) of additional shares in SaskCentral.

Investment funds

As at December 31, 2020 the Credit Union is contractually committed to invest to purchase an additional \$17,264 (2019 - \$23,438) of units in specified investment funds to facilitate the purchase of additional assets by the fund (capital call). As the purchase price of the units will be based on the fair value of the fund on the date of the capital call, the fair value of the purchase commitment is \$nil and consequently no amount has been provided for in the consolidated statement of financial position.

Collateral requirements

In the ordinary course of business, the Credit Union has the obligation to post collateral to related counterparties for derivatives if the fair value of the derivatives falls below a pre-determined threshold. The pre-determined threshold is established in the Credit Support Annex schedule (CSA) of the ISDAs, which are entered into with each derivative counterparty. As at December 31, 2020 the pre-determined threshold was triggered under the Credit Union ISDAs and CSAs and the Credit Union has posted collateral of \$1,460 (2019 - \$nil).

Other commitments

The Credit Union has various other commitments that include community investments, information technology maintenance contracts and construction contracts. Total other commitments are as follows:

2021	11,256
2022	4,766
2023	2,736
2024	2,798
2025	2,708
Thereafter	3,507
Total other commitments	27,771

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28. RELATED PARTY TRANSACTIONS

Related parties of the Credit Union include subsidiaries, associates and joint ventures, key management personnel, close family members of key management personnel and entities controlled or subject to significant influence by key management personnel.

A. Associates and joint venture

The Credit Union provides banking and support services to its associates and joint venture CU Dealer Finance Corp and Thrive Wealth Management. These services include technology support, accounting, human resources, property management, marketing and communications and general management support. These transactions were conducted in the normal course of business and are measured at the consideration established and agreed to by the parties.

The summary of outstanding balances in the consolidated statement of financial position and transactions in the consolidated statement of comprehensive income with the Credit Union's associates and joint venture are as follows:

	2020	2019
CU Dealer Finance Corp.		
Deposits	1,239	2,407
Commissions and fee income	269	258
Thrive Wealth Management		
Deposits	2,828	2,637
Accounts payable and other liabilities	2,304	1,900
Commission and fee income	2,819	2,341
General business expense	9,258	8,638

The Credit Union has no outstanding balances and entered into no transactions with its other associate Apex Investment GP Inc. in 2020 and 2019.

B. Unconsolidated investment funds

The Credit Union has created various parallel and co-investment venture capital funds for the purpose of facilitating investor participation in Saskatchewan-based private companies. The Credit Union acts as the fund manager for these entities and, for certain funds where no ownership interest is held, has determined that it is acting as an agent on behalf of investors and therefore does not control or consolidate the funds.

The Credit Union has no financial interest in these funds outside of its management fee and consequently its loss exposure is limited to the uncollected fees at year-end. The total assets held within these funds as at December 31, 2020 which are not included in the consolidated statement of financial position are \$4,367 (2019 - \$2,089).

C. Key management personnel

Key management persons (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly. KMP of the Credit Union include executive management, select senior management and members of the Board who held offices during the financial year.

The aggregate compensation of KMP during the year includes amounts paid or payable and was as follows:

	2020	2019
Short-term employee benefits	4,555	4,069
Director remuneration	277	294
	4,832	4,363

The reported amounts exclude payments for the reimbursement of out-of-pocket expenses.

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28. RELATED PARTY TRANSACTIONS (continued)

Additional information regarding the short-term salaries, performance-based incentives and benefits of executive management included in the summary table above is as follows:

	2020				2019			
	Salaries	Performance incentive	Benefits	Total	Salaries	Performance incentive	Benefits	Total
Chief Executive Officer	506	168	93	767	480	120	86	686
Chief Financial Officer	248	82	62	392	235	80	58	373
Chief Risk and Compliance Officer	243	69	59	371	230	68	56	354
Executive VP - Operations	195	44	49	288	178	35	45	258
Executive VP - Business Banking	211	60	53	324	196	45	50	291
Executive VP - Retail Banking	211	60	54	325	198	48	51	297
Chief Employee Experience Officer	222	63	56	341	208	59	53	320
Chief Member Experience Officer	239	68	60	367	226	27	66	319
Chief Transformation Officer	248	70	62	380	233	67	58	358
Chief Digital Officer	247	69	62	378	232	66	58	356
	2,570	753	610	3,933	2,416	615	581	3,612

The performance-based incentive amounts are accrued as an expense in the fiscal year earned and paid to the individuals in the following year. The above table represents the timing of when amounts are actually paid as opposed to when they are accrued as personnel expenses on the consolidated statement of comprehensive income.

Loans and deposits with KMP and related persons/entities

The Credit Union follows the same operating policies and guidelines when underwriting loans and accepting deposits from KMP and related persons/entities as it uses for transactions with its arm's length third party members.

Although KMP may receive preferred rates of interest on their loans and deposits, these preferred rates are offered to all employees of the Credit Union as an employment benefit and therefore are not considered to be terms/conditions offered outside the normal course of business. Preferred interest rates are not offered to persons/entities related to KMP unless they have joint loans and deposits with a KMP.

There were no credit-impaired loans to KMP and related persons/entities during the year (2019 – no credit-impaired loans).

The aggregate lending and deposit balances to related parties during the year was as follows:

	2020	2019
Loans outstanding at, beginning of year ⁽¹⁾	5,775	5,505
Loans issued during the year	1,250	5,390
Loan repayments during the year	947	1,637
Loans outstanding at, end of year	6,078	9,258
Total interest income earned on loans	183	268
Total term, savings and demand deposits, end of year	4,446	3,138
Total interest expense on deposits	25	30

(1) Opening balance differs from the ending balance as a result of board member changes and KMP loans outstanding

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29. SUBSEQUENT EVENTS

On January 1, 2021 the Credit Union purchased the remaining 50% of shares in Thrive Wealth Management Ltd., for an ownership of 100% in order to create operational efficiencies. The acquisition qualifies as a business combination and management has determined that the Credit Union will control Thrive Wealth Management Ltd. Before eliminations the total assets and liabilities expected to be consolidated are \$4,807 and \$4,807, respectively. The purchase price will be paid in cash and is currently being finalized. The Credit Union is currently assessing the impact the purchase will have on amounts reported on the consolidated financial statements.