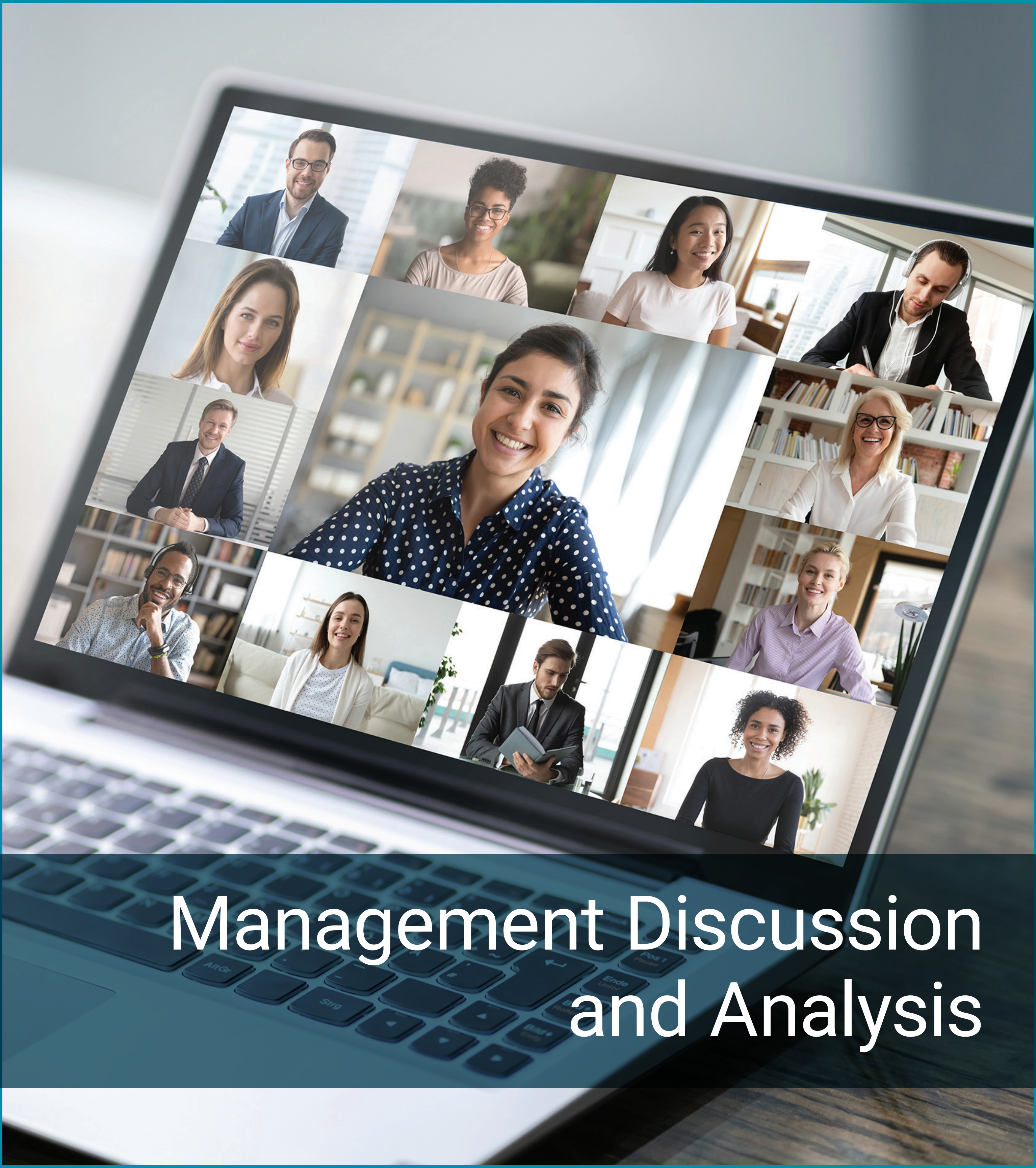


Management Discussion and Analysis

2022
Annual Report

Conexus Credit Union

Management Discussion and Analysis

This Management Discussion and Analysis (MD&A) enables readers to assess material changes in the financial condition and operating results of Conexus Credit Union (Conexus) for the year ending on December 31, 2022, compared with the prior year and plans. This MD&A is prepared in conjunction with the Consolidated Financial Statements and related Notes for the year ending December 31, 2022, and should be read together with those documents. The MD&A includes information up to February 10, 2023. Unless otherwise indicated, all amounts are expressed in Canadian dollars. Amounts for 2018, 2019, 2020, 2021 and 2022 have been primarily derived from Conexus' annual Consolidated Financial Statements, prepared in accordance with International Financial Reporting Standards (IFRS).

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

Economic Conditions
- 2022 economic and financial services conditions
- Economic and financial outlook for 2023

Financial Performance to Plan
- Financial management

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

Financial Performance Review
- Profitability
- Efficiency

Enterprise Risk Management
- Overview of significant risks

Caution Regarding Forward-Looking Statements

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

Factors That Might Affect Future Results

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

Economic Conditions

2022 Economic and Financial Services Conditions

2022 was a year filled with geopolitical distress, volatile energy prices, rising interest rates and skyrocketing inflation. Inflation climbed throughout 2022 to a point that has not been seen for decades. Many central banks across the globe had to swiftly increase their policy rates in response. Inflation climbed rapidly due to multiple factors including supply chain issues leading to shortages, energy prices fluctuating and growth from price drops due to COVID. Russia's invasion of Ukraine also weighed heavily on global economic activity and uncertainty throughout the year. Through all the volatility and turmoil, global GDP is still forecasted to hit roughly 3.25% in 2022. In the United States, the annual GDP growth rate forecasted for 2022 is currently approximately 1.90%. The labor market has continued to perform better than expected. Labor demand remains just off historic highs, while the pool of available workers continues to shrink as the participation rate has shown no improvement through 2022. Inflation has climbed to multidecade highs similar to countries around the world but began to slowly pull back near the end of 2022.

Forecasted Canadian GDP growth for 2022 currently sits at 3.50%, which is lower than that experienced in 2021. Canada has also faced inflation rates higher for similar reasons that we have seen globally. These rates have skyrocketed throughout the year and caused the Bank of Canada to take action in an attempt to slow inflation to its target rate of 2.00%. They relied on monetary policy and quantitative tightening. The overnight rate moved from 0.25% to 4.25% in 2022. Unemployment in Canada spiked in 2020 and has slowly fallen back now to below pre-pandemic levels. The current unemployment rate is 5.00% which is slightly higher than record low 4.9% seen in June and July of 2022.

In Saskatchewan, forecasted annual GDP growth for 2022 is currently at 5.50%, which marks the highest GDP growth rates across the nation. Inflation in the province currently sits at 6.70% growth when comparing December 2022 to December 2021. This rate sits close to the national average of 6.30%. Saskatchewan currently has an unemployment rate of 4.10%, which is second lowest only to Quebec and noticeably below the national average of 5.00%. Housing starts in Saskatchewan for 2022, as of November month-end, climbed to 3,511 which was 0.30% higher than that of 2021.

Economic and Financial Outlook for 2023

In the United States, we can expect to see GDP growth to shrink to 0.90% through 2023 based on economic forecasts. The combination of weaker growth along with lower participation rate should give way to a slower pace of hiring, putting upward pressure on the unemployment rate in 2023. Managing high inflation will continue to be a key theme in the US throughout 2023 as monetary policy may become more restrictive.

Forecasts are estimating the Canadian GDP growth to shrink dramatically in 2023 to approximately 0.70%, and potentially lower in 2024. Inflation will remain the main concern as prices remain elevated and the effects of restrictive monetary policy is taking longer than anticipated. Canada's inflation rate will likely continue to slowly fall throughout 2023 and 2024. Another concern for Canada this year is the potential of a recession as growth slows, real estate prices fall and yield curves remain inverted. Many are predicting that the Bank of Canada may have to lean on cutting rates in the back half of the year. These rate cuts are estimated to continue through 2024 as inflation pushes closer to the 2.00% target. The unemployment rate outlook reflects a peak of 6.50% that corresponds to 110 thousand job losses. There is a risk that Canadian employers may go further.

Similar to forecasts for the US and Canada, Saskatchewan's GDP is expected to pull back as well. The current estimates show forecasted real GDP to come in at 1.70% in 2023 and 1.20% in 2024. Saskatchewan probably won't be able to escape the gravitational pull on growth from sharply higher interest rates, especially with inflation-adjusted wages declining at a relatively rapid rate. However, given the Saskatchewan economy is less tied to the real estate market compared to other provinces and home prices have not fallen as sharply in the province, this should leave Saskatchewan in a slightly better position. Agriculture production is estimated to remain elevated along with oil and gas prices which should add another tailwind to the prairie provinces. Inflation will remain a concern through 2023 as rising prices can have a dramatic impact to the economy and input costs. The unemployment rate in Saskatchewan has been one of the lowest in the country and this is projected to continue through 2023 as the forecasted rate is 4.80%.

Financial Performance to Plan

Each year, Conexus develops a corporate plan through a comprehensive budget and planning process. The following table provides an overview of key financial measures compared to 2022 plan. Actual results for 2022, 2021, 2020, 2019 and 2018 have also been included for comparison.

In 2022, the sale of Concentra Bank to Equitable Bank has resulted in a dividend distribution from SaskCentral to Conexus of $68.77 million. This extraordinary gain was recorded as dividend income in the Consolidated Statement of Comprehensive Income and has been removed from the below 'Profitability and member return' metrics for year-over-year user comparison.

Financial Management

(In thousands of CDN $)	2022 Actual	2022 Plan	2021 Actual	2020 Actual	2019 Actual	2018 Actual
Growth						
Assets	6,760,856	6,960,036	6,705,481	6,676,606	6,554,441	6,260,155
Asset growth	0.83%	3.80%	0.43%	1.86%	4.70%	7.59%
Deposits	5,591,599	5,692,181	5,465,357	5,252,837	4,902,020	4,765,586
Deposit growth	2.31%	4.15%	4.05%	7.16%	2.86%	10.18%
Loans and advances	5,177,221	5,519,522	5,168,468	5,304,396	5,445,962	5,276,887
Loans and advances growth	0.17%	6.79%	-2.56%	-2.60%	3.20%	6.64%
Credit quality						
Delinquency greater than 90 days	0.91%	1.38%	1.27%	2.11%	1.82%	1.33%
Net impaired loans and advances	51,113	76,012	70,761	87,475	98,109	77,548
Allowance for credit losses	38,777	28,452	40,320	31,794	21,850	16,259
Impairment charges	20,120	18,854	30,255	22,258	14,514	16,100
Liquidity management						
Liquid assets [1]	976,286	896,174	930,872	901,883	871,380	827,161
Investment securities and interest bearing deposits	1,309,982	1,285,264	1,306,177	1,151,704	934,162	737,780
Liquidity coverage ratio (LCR)	162.00%	151.00%	158.34%	220.86%	295.80%	242.91%
Liquid assets as a % of total assets	14.44%	12.88%	13.88%	13.51%	13.29%	13.21%
Capital management						
Risk-weighted capital	16.70%	15.10%	15.32%	14.23%	13.40%	13.06%
Common equity tier 1 capital to risk-weighted assets	16.11%	14.63%	14.75%	13.65%	12.79%	12.42%
Leverage ratio	9.79%	8.63%	8.77%	8.30%	8.19%	8.05%
Total capital [2]	678,935	623,134	598,812	568,913	551,225	522,726
Profitability and member return [3]						
Total profit for the year (before OCI)	22,445	27,182	34,021	18,444	28,956	42,603
Return on assets (ROA) before tax allocations	0.44%	0.47%	0.72%	0.34%	0.55%	0.87%
Efficiency ratio	76.08%	75.57%	65.14%	76.68%	74.87%	66.92%

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

[2] Total capital of Conexus in 2022 consists of amounts held in membership shares and member equity accounts of $13.29 million, accumulated other comprehensive income of ($11.66) million, and retained earnings of $677.31 million.

This differs from the definition of total capital used by the Credit Union Deposit Guarantee Corporation (CUDGC) which amounts to $671 .79 million (2021 - $591.69 million).

[3] Excludes 2022 SaskCentral dividend of $68.77 million.

Financial Position Review

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

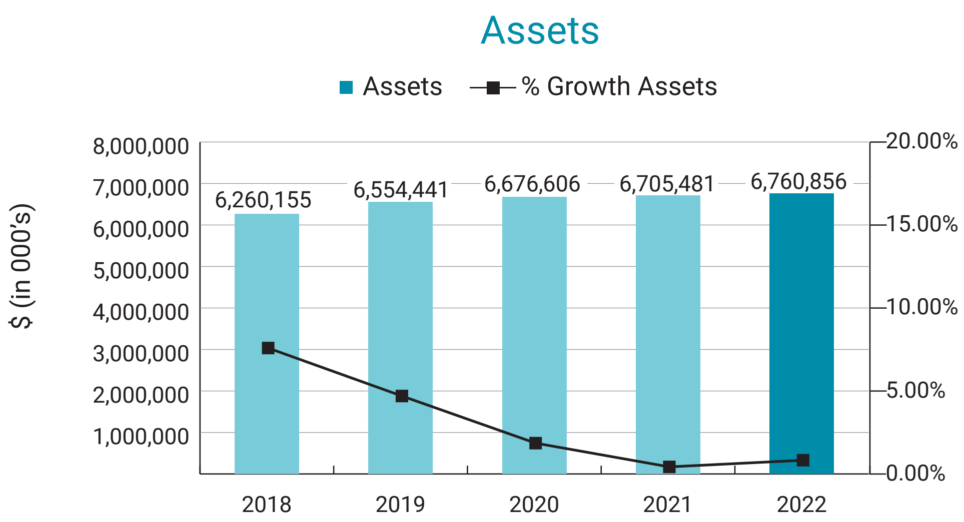
Overview

Total funds under management ended 2022 at $9.18 billion, down from $9.36 billion in 2021 and represents a decline of 1.92% (2021 – 4.12% growth). Total funds under management include “off-balance sheet” assets under administration, and include: $2.00 billion in wealth management assets, down from $2.18 billion in 2021 for a decrease of 8.26%; and $413.16 million in syndicated loans, a decrease of 14.37% (2021 – 5.12% decrease) over 2021 levels of $482.51 million. Wealth management assets decrease is due to a decline in market values. The decrease in syndicated loans relates to softer loan activity and Conexus not needing to utilize loan sales to manage capital, credit and liquidity as compared to prior years.

Assets

On-balance sheet assets ended 2022 at $6.76 billion, compared to $6.71 billion in 2021, which represented growth of 0.83% (2021 – 0.43%). The lower asset growth in 2022 is rooted in the limited loan growth of 0.17% experienced in 2022 (negative 2.56% in 2021).

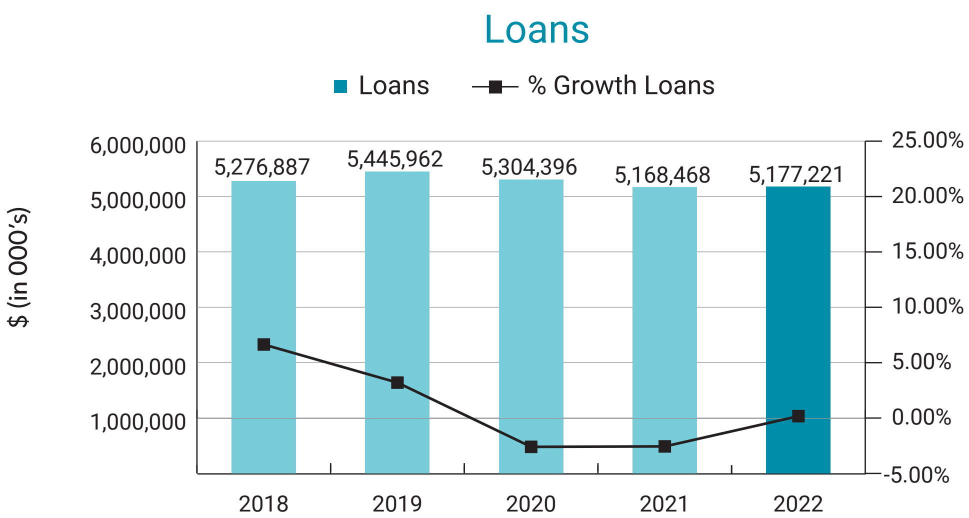
The following illustrates the Credit Union’s growth in on-balance sheet assets over the past five years.



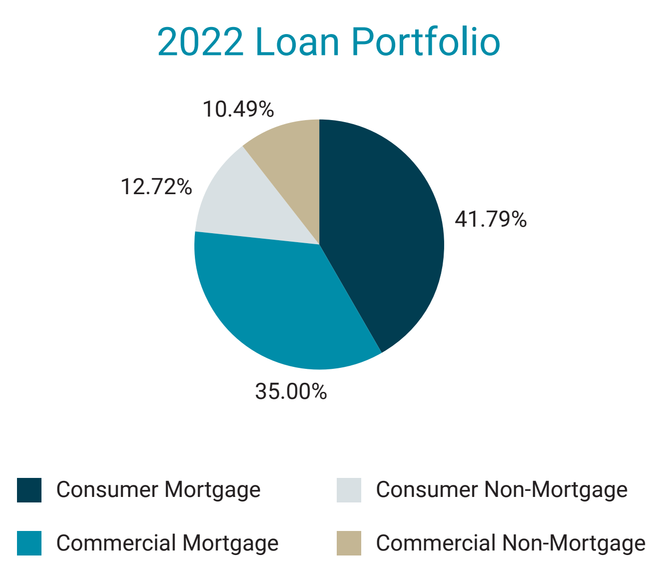
Loans

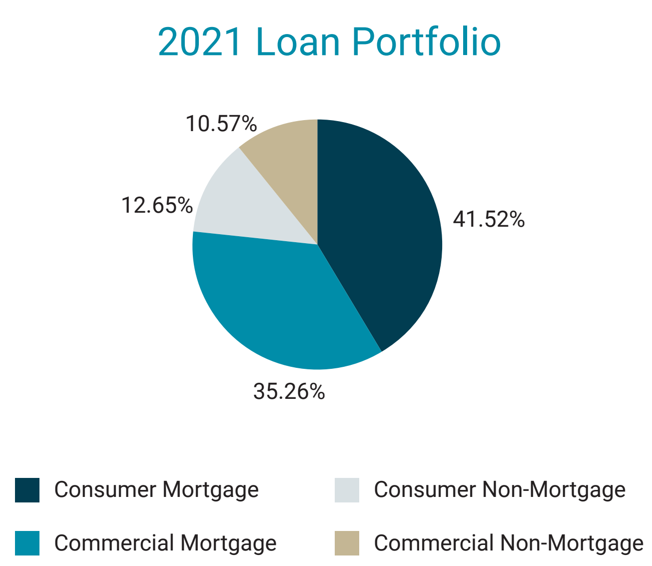
Loans accounted for 76.63% of total assets, and amounted to $5.18 billion as of December 31, 2022, representing a slight increase of 0.17% over the previous year's balance of $5.17 billion. The decline in growth can be attributed to the rising interest rate environment, and member behaviour favouring paying down existing loans rather than taking on more debt. Members continue to use accumulated savings to paydown existing loans.

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



A significant portion of Conexus' loan portfolio continues to consist of stable, low-risk consumer residential mortgages. Loan allocation, expressed as a percentage of the total loan portfolio, to the consumer mortgage portfolio increased slightly from 41.52% in the previous year to end 2022 at 41.79%. Loan allocation to the commercial sector decreased over previous year from 45.83% in 2021 to end 2022 at 45.49%.





Residential mortgages

A large portion of Conexus' lending portfolio is comprised of residential mortgages, which are well diversified by borrower. This portfolio ended 2022 at $2.17 billion representing 41.79% of Conexus' total loans (2021 - $2.15 billion representing 41.52% of Conexus' total loans).

Residential mortgage portfolio by amortization period

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

Residential mortgages portfolio by remaining amortization period

	December 31, 2022	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018
Amortization Period					
< 5 years	8%	5%	5%	5%	5%
5 - 10 years	13%	11%	10%	9%	8%
10 - 15 years	23%	24%	24%	20%	15%
15 - 20 years	11%	13%	15%	16%	17%
20 - 25 years	43%	45%	44%	47%	51%
25 - 30 years	2%	2%	2%	3%	4%
> 30 years	0%	0%	0%	0%	0%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

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

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

Insured and uninsured residential mortgages and HELOC

	December 31, 2022				
(In thousands of CDN $)	Insured		Uninsured		Total
Residential mortgages	1,168,293	52%	997,550	45%	2,165,843
HELOC	-	0%	63,187	3%	63,187
Total	1,168,293	52%	1,060,737	48%	2,229,030
	December 31, 2021				
Residential mortgages	1,233,495	56%	916,633	41%	2,150,128
HELOC	-	0%	71,216	3%	71,216
Total	1,233,495	56%	987,849	44%	2,221,344
	December 31, 2020				
Residential mortgages	1,282,081	58%	840,470	38%	2,122,551
HELOC	-	0%	80,917	4%	80,917
Total	1,282,081	58%	921,387	42%	2,203,468
	December 31, 2019				
Residential mortgages	1,294,295	58%	847,402	38%	2,141,697
HELOC	-	0%	93,605	4%	93,605
Total	1,294,295	58%	941,007	42%	2,235,302
	December 31, 2018				
Residential mortgages	1,213,512	55%	886,742	40%	2,100,254
HELOC	-	0%	95,839	5%	95,839
Total	1,213,512	55%	982,581	45%	2,196,093

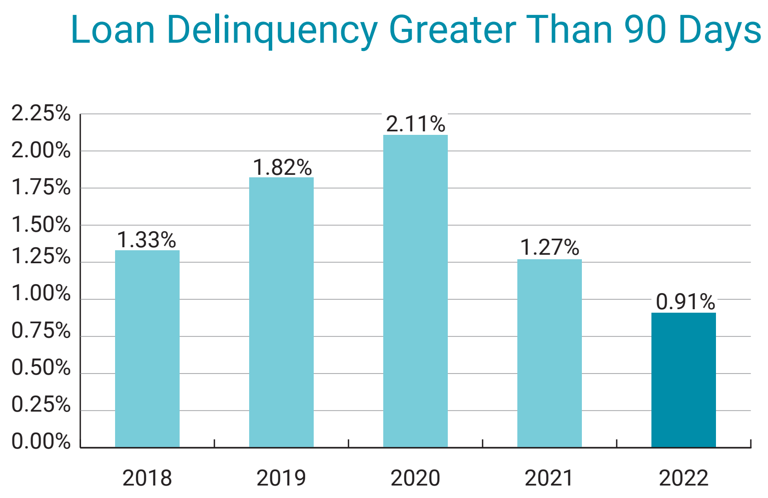
Loan-to-value (LTV) ratios
The following table presents the weighted average LTV ratio for total newly originated uninsured residential mortgages and HELOC's during the year.

Weighted average LTV ratio	December 31, 2022 Uninsured		December 31, 2021 Uninsured		December 31, 2020 Uninsured		December 31, 2019 Uninsured		December 31, 2018 Uninsured	
	Residential mortgages	HELOC	Residential mortgages	HELOC	Residential mortgages	HELOC	Residential mortgages	HELOC	Residential mortgages	HELOC
Weighted average LTV ratio of newly originated for the year	67%	51%	68%	52%	65%	51%	63%	55%	65%	47%

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

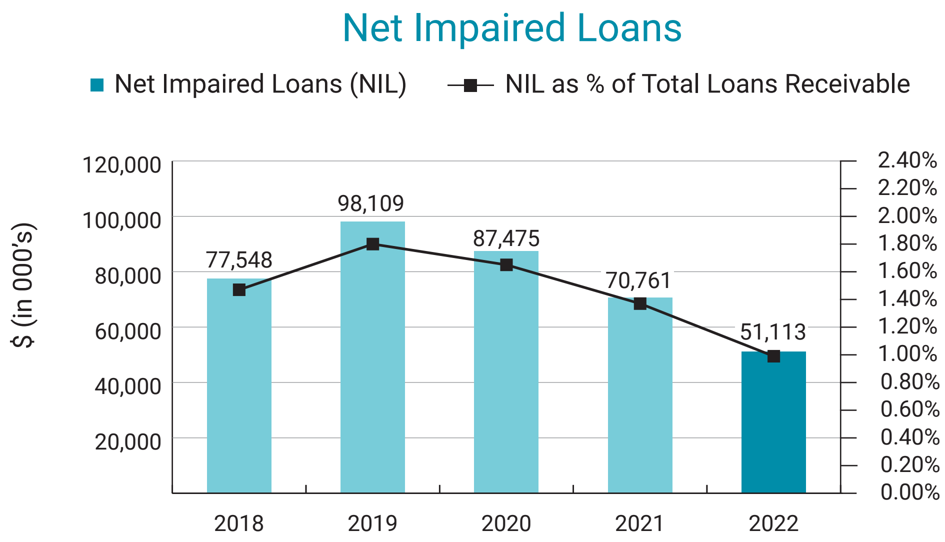
Credit Quality

Past-due Loans
Loans are considered past due when a counterparty is contractually in arrears but where payment in full is expected. Delinquency greater than 90 days was 0.91% for 2022, a decrease from 1.27% in 2021. The year over year decrease in delinquency of 0.36% was primarily within the commercial non-mortgage portfolio, which represents 54.94% of the decrease. A large portion of these commercial files became current or to a resolution throughout 2022. Approximately $11.49 million of commercial credit was written off during the year.



Net impaired loans

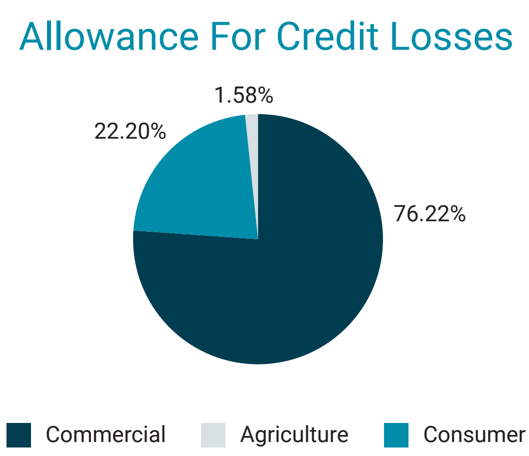
Net impaired loans are considered by management to be uncollectible and are net of individual loan allowances. It is the amount expected to be realized on the sale of any security on the uncollectible loans. In 2022, net impaired loans decreased from the previous year by $19.65 million to end the year at $51.11 million (2021 - $70.76 million). As a percentage of total loans, net impaired loans decreased from 1.37% in 2021 to end 2022 at 0.99%.



Allowance for credit losses

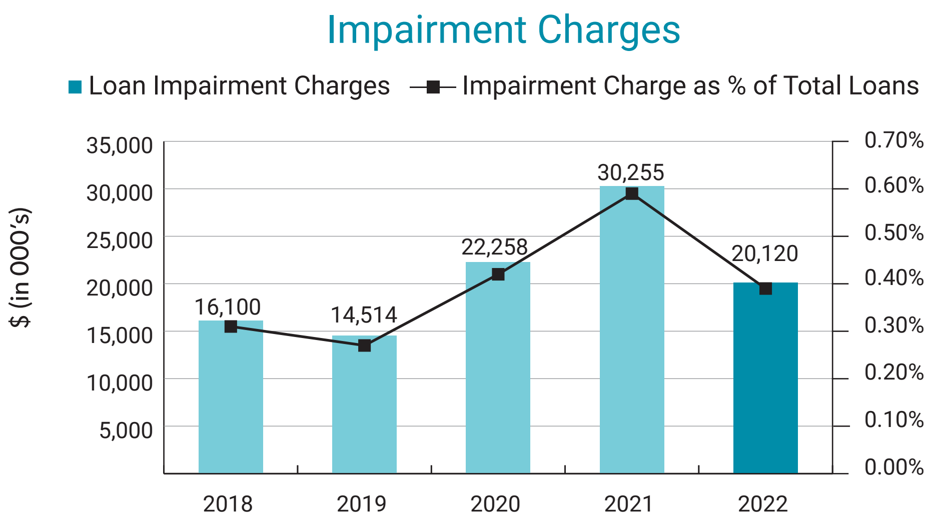
The Credit Union monitors its exposure to potential credit risk and measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for debt investment securities that are determined to have low credit risk at the reporting date and loans where credit risk has not increased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

The total allowance ended the year at $38.78 million (2021 - $40.32 million) and represented 0.75% (2021 - 0.78%) of total loans. Allowances, driven by lower security values, have largely been within the commercial portfolio with it representing 76.22% of the total allowances as illustrated below.



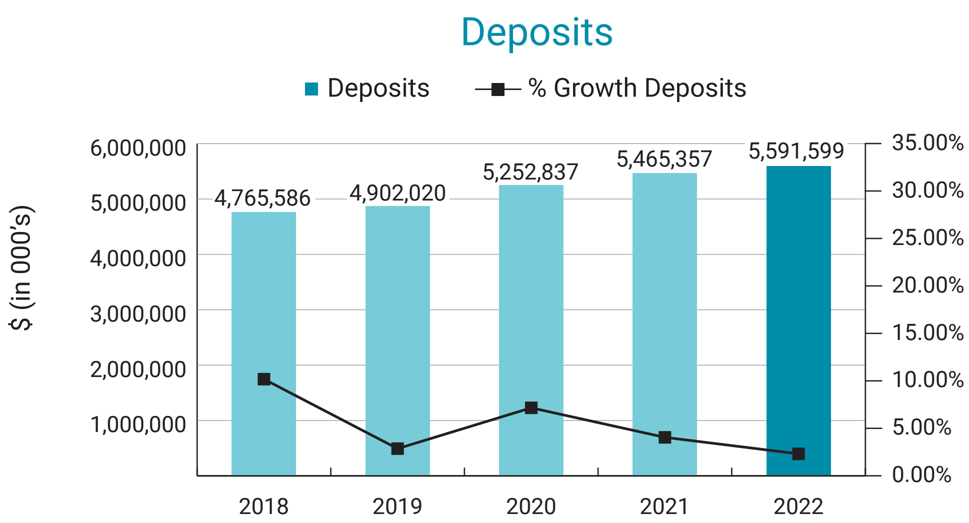
Impairment Charges

Once allowances for credit losses and write-offs have been assessed, an impairment charge is expensed on the Consolidated Statement of Comprehensive Income. Impairment charges were $20.12 million in 2022, a decrease of $10.14 million from the prior year of $30.26 million. The impairment charges as a percentage of total loans decreased from 0.59% in 2021 to end 2022 at 0.39%. This decrease is mainly driven by fewer large value commercial lending files being impaired.



Deposits

Deposits ended 2022 at $5.59 billion compared to $5.47 billion in 2021, representing growth of 2.31%. Conexus' deposits consist of deposits from both consumer and commercial members. In 2022, Conexus experienced incremental growth in deposits which can be mainly attributed to lasting impacts of the pandemic and volatile goods pricing with global conflict, resulting in changes in member spending behavior. Members continued to default to the safety of demand deposits and looked to maintain high liquidity to counter the ongoing economic uncertainty and rising interest rate environment.



Consumer deposits accounted for 56.50% of total deposits in 2022 (2021 – 56.41%), and commercial deposits accounted for 43.50% of total deposits (2021 – 43.59%). Conexus' deposits are 100% guaranteed by the regulator of credit unions in Saskatchewan, the Credit Union Deposit Guarantee Corporation (the 'Corporation').

Liquidity Management

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

The principles of Conexus' liquidity management framework are: maintaining internal risk appetite and board policy risk limits; measuring, managing, and monitoring the risk; managing market access over funding sources; stress testing; contingency planning, including recovery planning; and ensuring internal controls over liquidity risk management processes.

Conexus has an established liquidity policy, along with a number of processes and practices governing the management of funding requirements. Specifically, Conexus measures and monitors its available liquidity and performs monthly stress scenario modeling to identify sources of potential liquidity strain. Conexus has built and maintains access to numerous funding sources. The organization's primary source of funds is consumer deposits which represent 56.50% of total deposits in 2022 (2021 – 56.41%). This is followed by commercial deposits at 43.50% of total deposits (2021 – 43.59%).

In addition to core deposits, Conexus maintains external borrowing facilities from various sources. Conexus has an authorized line of credit with Credit Union Central of Saskatchewan (SaskCentral) in the amount of $95 million in Canadian funds (2021 - $95 million) and $7 million in U.S. funds (2021 - $7 million). SaskCentral is a wholesale financial services co-operative that provides clearing, settlement and liquidity management services to its member owners – the Saskatchewan credit unions. Additionally, Conexus has a credit agreement with Desjardins, with a maximum available credit limit of $150 million (2021 - $150 million). Liquidity levels have remained steady in 2022, with no additional borrowing facility requirements.

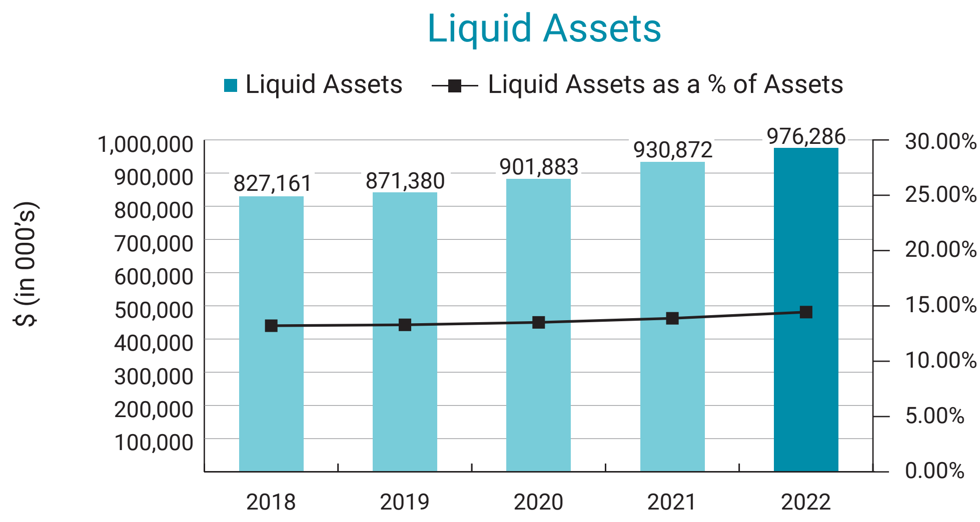
The next source of liquidity for Conexus is the securitization of assets for the purpose of generating funding in the capital markets. Conexus securitizes residential mortgages through participation in the Canada Mortgage and Housing Corporation (CMHC), Canada Mortgage Bond (CMB) and National Housing Act – Mortgage Backed Securities (MBS) programs. Conexus also securitizes automotive loans through an Asset Backed Commercial Paper (ABCP) structure. Loans may also be syndicated with financial institutions for liquidity, capital, and credit risk purposes thereby achieving off-balance sheet treatment as all credit risk is assumed by the purchaser. In 2022, Conexus syndicated $9.20 million in loans (2021 - $43.89 million) and securitized $136.15 million (2021 - $nil) as part of its ongoing strategies. Beginning in 2022, the Credit Union began retaining certain amounts of its issued NHA-MBS certificates as part of its liquidity management strategy. As at December 31, 2022 residential mortgages with a remaining face value $134.35 million (2021 - $nil) were assigned to NHA-MBS certificates and retained by the Credit Union. These unsold NHA MBS certificates are reported in loans in the consolidated balance sheet and can be quickly converted to cash to meet unforeseen funding requirements.

Liquid Assets

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

Liquid assets include cash and cash equivalents, marketable investment securities and statutory liquidity investment securities at SaskCentral. The value of liquid assets increased from $930.87 million (13.88% of assets) in 2021 to $976.29 million (14.44% of assets) as of December 31, 2022.

Saskatchewan credit unions are required by the provincial regulator, the Corporation, to maintain 10.00% of their liabilities on deposit with SaskCentral, manager of the Provincial Liquidity Program. Throughout 2022, Conexus held the required amount of investment securities with SaskCentral for the purpose of maintaining its obligation to the Provincial Liquidity Program. In addition to the statutory liquidity investment securities on deposit with SaskCentral, Conexus maintains a high-quality, liquid pool of investment securities to satisfy payment obligations and protect against unforeseen liquidity events. The majority of Conexus' marketable investment securities are held in Canadian (Schedule 1) Chartered Banks.



Operating Liquidity

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

The liquidity ratio is calculated as available liquidity and cash inflows divided by cash outflows. Available liquidity is defined as investment securities which are immediately available as cash, investment securities marketable in an active secondary market, and redeemable investment securities. In 2022 the liquidity ratio was 292.00% (2021 – 243.00%), well above management's internal target of 175.00%.

The liquid asset ratio (LAR) measures current liquid assets, excluding statutory liquidity investments, as a percentage of total assets. In 2022 the LAR was 7.55% (2021 – 5.61%), well above management's internal target of 5.00%.

The liquidity coverage ratio (LCR) is a ratio that measures the amount of high-quality liquid assets (HQLA) in relation to net cash flows (obligations) over a 30-calendar day liquidity stress scenario. The ratio is calculated as HQLA divided by cash outflows. Regulator standards require credit unions to maintain a minimum liquidity coverage ratio of 100%. In 2022, the LCR was 162.00% (2021 – 158.00%), exceeding management's internal target of 150.00%.

Capital Management

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

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

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

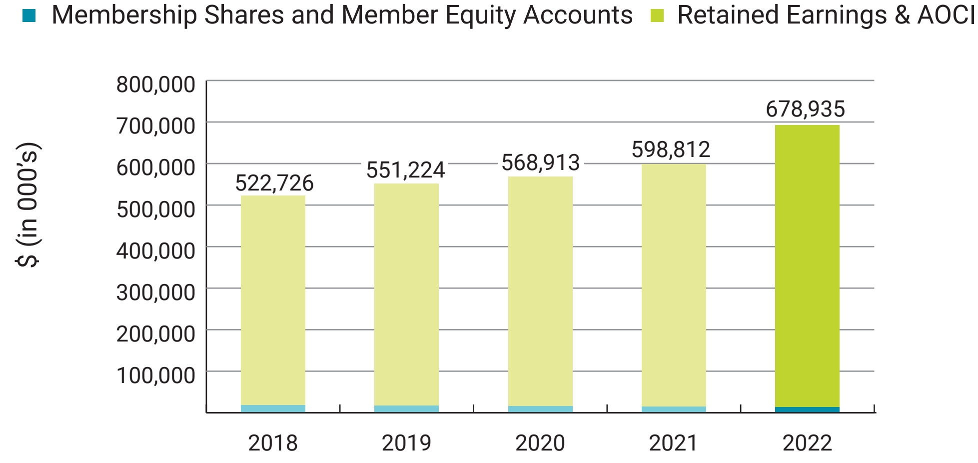
The Corporation currently prescribes four standardized tests to assess the capital adequacy of credit unions: risk-weighted capital ratio (total eligible capital to risk-weighted assets); common equity tier 1 capital to risk-weighted assets; total tier 1 capital to risk-weighted assets; and a minimum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

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

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

Conexus experienced capital growth in 2022, adding to its sound financial position. In 2022, the total capital of Conexus increased by \$80.13 million (\$11.36 million after removing the SaskCentral dividend of \$68.77 million), from \$598.81 million in 2021 to \$678.94 million. Total capital of Conexus consists of amounts held in membership shares and member equity accounts of \$13.29 million, accumulated other comprehensive income (AOCI) of (\$11.66) million, and retained earnings of \$677.31 million. The following chart illustrates the capital composition of Conexus, showing that retained earnings is the main source of capital for Conexus.

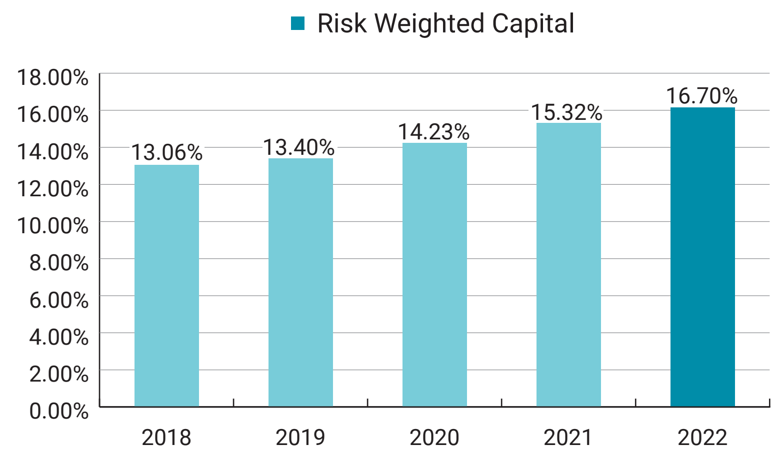
Total Capital



Regulatory capital

For the year ending 2022, Conexus' total capital as a percentage of risk-weighted assets was 16.70% (2021 – 15.32%). Common equity tier 1 capital to risk-weighted assets as well as total tier 1 capital to risk-weighted assets was 16.11% (2021 – 14.75%), and the leverage ratio was 9.79% (2021 – 8.77%), all well above the minimum regulatory standards and policy requirements. The ICAAP process outlines a required total capital as a percentage of risk-weighted assets to be 12.86% (2021 – 12.53%).

Regulatory Capital

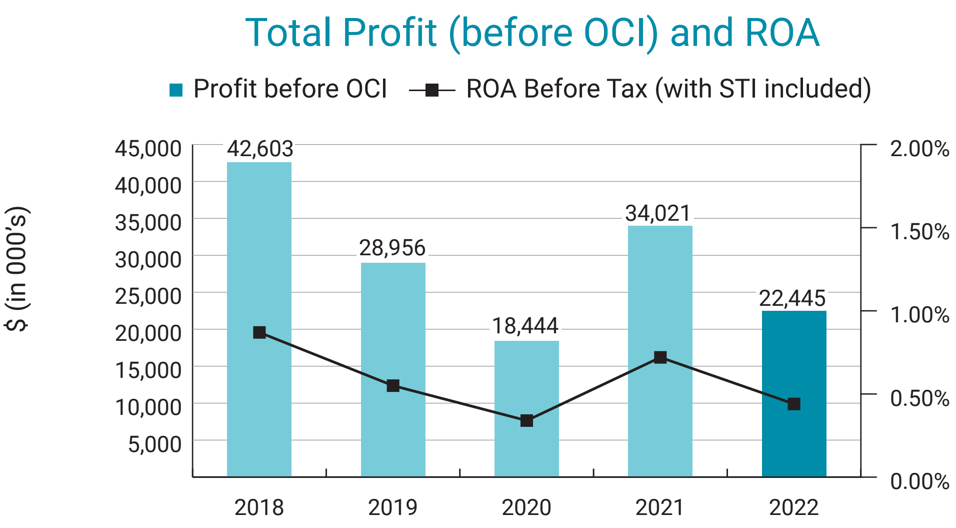


Financial Performance Review

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

Profitability

For the following commentary and graphs in the Profitability section, the one-time large extraordinary gain of $68.77 million related to the dividend distribution from SaskCentral is removed from the calculations. Total normalized profit before other comprehensive income (OCI) for 2022 was $22.45 million ($91.22 million including the dividend from SaskCentral), a decrease from $34.02 million in the previous year. For 2022, total annualized return on assets (ROA) before income tax allocations was 0.44%, compared to 0.72% in 2021.



Total profit (before OCI) is comprised of the following items:

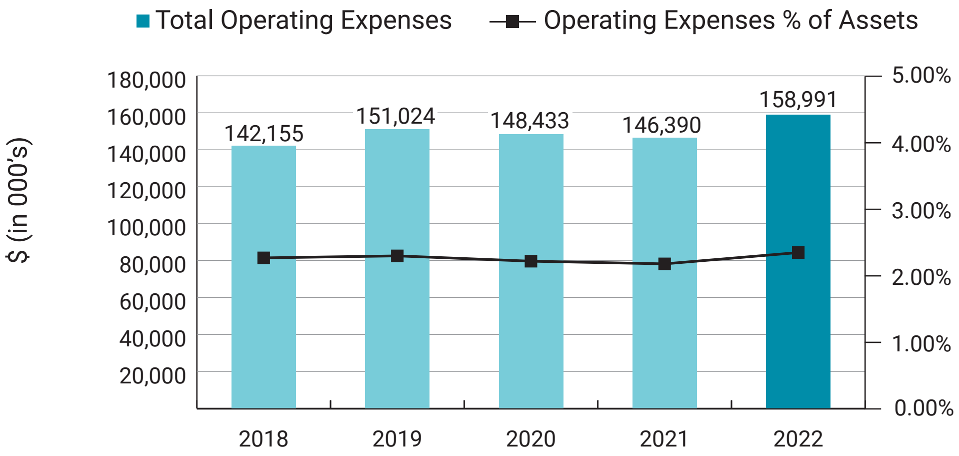
- Net interest income before impairment charges consists of total interest income less total interest expense. In 2022 the change in net interest income before impairment remained rather flat and was $152.52 million (2021 - $153.95 million) which is a $1.43 million decrease representing 2.26% of total assets (2021 – 2.30%).

- Net interest income after impairment charges consists of total interest income less total interest expenses while factoring in any loans and investment security impairment charges. Net interest income after impairment charges increased $8.71 million between December 31, 2022 and 2021. Expressed as a percentage of total assets, net interest income after impairment charges increased to 1.96% for 2022 compared to 1.84% in 2021. This increase is mainly due to the decrease in impairment of commercial files over the prior year.

- Other income: Includes dividend income, gains/losses from financial instruments held at fair value, wealth management income, and other income. After removing the SaskCentral dividend, consolidated other income decreased to $20.17 million in 2022 from $35.25 million in 2021. A major portion of the decrease relates to higher unrealized gains on venture capital funds in 2021, declining $12.56 million in 2022 over prior year.

- Operating expenses: includes various operating costs such as general business, occupancy, organizational, personnel and member security. Consolidated operating expenses increased from 2.18% of assets or $146.39 million in 2021 to 2.35% of assets or $158.99 million in 2022 as the graph indicates. This ratio of operating expenses divided by total assets is called the operating expense ratio and is included as a measure of efficiency in Conexus' key performance indicators report to ensure all staff and management focus on operating cost management. The increase in operating expenses is mainly in four areas; personnel, computer costs, card production fees and marketing. Personnel increased over the prior year due to market salary adjustments as well as an increase in new full-time employees. Computer cost increases were mainly in software agreements as more technology driven solutions and projects occurred. Credit card production fee increases relate to a large renewal cycle for new cards on the credit card portfolio. Lastly, the increase in marketing expenses over the prior year is a return to more normalized investment post COVID-19 including more advertising, business development and public relations.

Operating Expenses

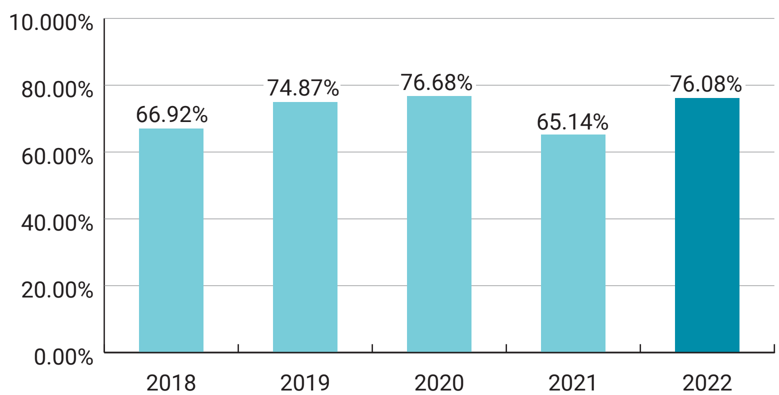


Efficiency

The efficiency ratio measures operating expenses as a percentage of earnings from operations. A low-efficiency ratio indicates efficient use of resources. The ratio is calculated as operating expenses from operations divided by the sum of the following: net interest income plus other income from operations. For the purpose of the 2022 calculation, the extraordinary gain of $68.77 million related to the dividend distribution from SaskCentral was removed from other income.

The efficiency ratio was 76.08% in 2022 compared to 65.14% in 2021, an unfavorable increase of 10.94%. The increase was mainly related to two drivers; decreased other income and increased operating expenses as discussed above.

Efficiency Ratio



Internal Controls over Financial Reporting

Internal controls over financial reporting (ICFR) are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards (IFRS). Given its inherent limitations, ICFR may not prevent or detect misstatements on a timely basis, but once recognized works to remediate the gaps identified and continually improve the control environment on a go forward basis. Conexus continues to benchmark best practices in financial reporting and corporate governance and has implemented a robust framework to evaluate the design and operating effectiveness of our ICFR. Through this evaluation process, we strive to continually strengthen our system of internal controls over financial reporting.

Enterprise Risk Management

Overview

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

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

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

Approach to Risk Management

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

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

Risk Governance

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

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

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

Risk Culture

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

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

Risk Appetite

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

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

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

Risk Management Framework Process

Risk Identification, Measurement, and Assessment

The ERM framework sets out how risk management is designed and will function at Conexus. Risks are identified and assessed to understand their potential impact and the likelihood that they might occur. The effectiveness of management practices is then evaluated, with risks being prioritized based on the potential they could have on operations and strategic advancement.

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

Risk Monitoring and Reporting

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

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

Risk Control and Management

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

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

Significant Risk Areas

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

An essential element of our ERM program is to ensure that the key business and emerging risks that may impact the organization are identified, assessed and treated through our risk management process. Key risks are routinely monitored by the Management Risk Committee and thoroughly reviewed and refreshed annually ahead of the new annual business cycle or during periods of stress in the operating environment. The key business risks described below reflect the risk environment at the time of the annual report was completed.

Strategic Risk

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

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

- **Economic Environment** - The economic environment faces many uncertainties, notably higher energy prices and pandemic-related supply bottlenecks, which are putting pressure on price inflation. Inflation and increasing debt service costs due to The Bank of Canada's significant overnight rate increases has an unfavorable impact on affordability indexes. Economic uncertainty may have a negative impact on financial results and member financial wellness.

- **Competition** - Member loyalty is challenged, and member service expectations are influenced by existing and non-traditional financial service providers who are leveraging technology and data to build products and services that make it increasingly difficult to offer a seamless relationship-based program to achieve growth organically.

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

- **Innovation** - Opportunities for valuable innovation are abundant. Traditional industries frequently lack the ability or willingness to challenge legacy approaches creating the risk of operational inefficiency and obsolescence. Failure to innovate challenges Conexus' ability to meet member needs in a sustainable manner.

- **Change Capacity** - In a rapidly changing and challenged industry there are numerous opportunities and requirements for advancement. The design, implementation and operationalization of systems, processes, products and services to meet strategic objectives is challenged by Conexus' capacity for change.

Conexus employs a review process aligned to strategy planning, to identify and monitor the key strategic risks facing the organization. Annually, and during times of extreme change or stress, the risk committee reviews the environment in which Conexus operates and re-aligns the key strategic risks and risk appetite statement accordingly. The updated strategic key risks and correlating risk appetite statement are then employed and monitored by the management risk committee.

Strategic Risk Management

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

Market Risk

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

Market Risk Management

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

Liquidity Risk

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

Liquidity Risk Management

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

Credit Risk

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

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

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

- **Credit Risk** - Conexus operates almost exclusively within the province of Saskatchewan, creating a portfolio with high geographic concentration especially in the major cities, dependence on the economic strength of Saskatchewan and our major industries, and loan collateral impacted by a soft commercial real estate market.

Throughout 2022 the pandemic-related financial impacts continued to contribute to the economic uncertainty experienced by many Conexus members. Government financial support eased, and high energy prices, inflation and Bank of Canada rate increases are putting pressure on the debt service capacity of members. The pandemic has been a key contributor to the increase in available commercial real estate, putting downward pressure on security values.

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

Legal & Regulatory Risk

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

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

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

Operational Risk

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

Key Operational Risks
The key risks identified in this category are:

- **Human Resource Risk**
    - Talent Acquisition - Workforce supply and demand has expanded geographically, and many organizations are seeking similar skill sets. Conexus' strategy requires the recruitment, engagement and development of employees with technology skills and member services skills or it risks the ability to deliver on long-term strategic objectives.
    - Talent Retention - Workforce supply and demand has expanded geographically, and many organizations are seeking similar skill sets. Some turnover is necessary; however, Conexus relies on tacit knowledge, engagement, and relationships to deliver differentiated member service and in-demand skills to enable innovation. Failure to retain required employees delays strategic objectives challenges member relationship building and creates inefficiency.
- **Cybersecurity** - Conexus' use of digital member service delivery channels, including online and mobile technology, and increased internally developed applications, in combination with increasing incidents of technology breaches across the corporate environment, creates a vulnerability to financial loss and reputation risk.
- **Digitalization** - Conexus' enterprise infrastructures and architecture inhibit the ability to drive business value through technology enablement. Without cohesiveness and integration layers, our ability to leverage proprietary data, leverage open banking, automate controls and industry innovation while building strong partnerships is obstructed. Without cohesion internally, our workforce is strained by inefficient workflows that require a vast amount of application and policy knowledge that may result in an increased risk of decision errors and reporting through the manual manipulation of information between systems.

Operational Risk Management

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

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

Conexus' people risk is controlled through board and operating policy and is managed by a dedicated human resources department. Individual departments and managers are accountable to ensure appropriate hiring, training, and development of staff including ongoing employee engagement and retention with the assistance of the Human Resource Department.

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

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

Business Continuity Management and COVID-19 Pandemic – Transition to infectious disease monitoring

Conexus maintains a robust set of business continuity plans in preparation of supporting business operations through our critical business functions in the event of a major disruption in member service. The plans include specific action to respond to disruptions that may impact Conexus' physical locations, technological systems, and the health and safety of our employees and members. Conexus' response to the COVID-19 pandemic shifted from managing the event by activation of the pandemic plan, administered within the business continuity framework in 2022, to routine monitoring under the occupational health and safety program.