

CONEXUS CREDIT UNION

Consolidated Financial Statements
December 31, 2019

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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 judgments. 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



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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, 2019, 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, 2019, 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.

The image shows the signature of Deloitte LLP in a cursive, handwritten style.

Chartered Professional Accountants

Regina, Saskatchewan

March 6, 2020

Conexus Credit Union

Consolidated Statement of Financial Position

(In thousands of CDN \$)

As at December 31, 2019

	Note	2019	2018
Assets			
Cash and cash equivalents	3	266,522	212,267
Investment securities	5	696,592	674,241
Loans and advances	6,7	5,445,962	5,276,887
Derivative financial instruments	4	5,951	4,189
Current tax assets	19	1,830	-
Property, plant and equipment	9	79,619	60,444
Right of use assets	11	17,629	-
Intangible assets	10	10,544	11,084
Goodwill	10	1,234	1,234
Deferred tax assets	19	1,434	815
Other assets	12	27,124	18,994
Total assets		6,554,441	6,260,155
Liabilities			
Borrowings	13	84,096	-
Deposits	14	4,902,020	4,765,586
Derivative financial instruments	4	5,852	4,857
Current tax liabilities	19	51	4,813
Lease liabilities	11	14,782	-
Secured debt	8	930,810	907,660
Deferred tax liabilities	19	161	967
Membership shares and member equity accounts	15	17,295	19,142
Other liabilities	16	65,444	53,546
Total liabilities		6,020,511	5,756,571
<i>Contingent liabilities and commitments</i>	5, 6, 25		
Members' equity			
Accumulated other comprehensive income (loss)		298	(1,092)
Retained earnings		533,632	504,676
Total members' equity		533,930	503,584
Total liabilities and members' equity		6,554,441	6,260,155

See accompanying notes to the consolidated financial statements

APPROVED BY THE BOARD:



Joel Mowchenko, Chair, Board of Directors



Kara Marchand, Chair, Audit and Conduct Review Committee

Conexus Credit Union

Consolidated Statement of Comprehensive Income

(In thousands of CDN \$)

For the year ended December 31, 2019

	Note	2019	2018
Interest income			
Loans and advances		233,490	220,514
Investment securities - FVTPL		4,156	5,308
Investment securities - amortized cost		7,044	3,354
Investment securities - FVOCI		2,465	1,794
Cash and cash equivalents		2,939	1,569
		250,094	232,539
Interest expense			
Deposits		70,129	51,952
Borrowings		700	1,694
Secured debt		20,284	18,625
Lease liabilities		611	-
Derivative financial instruments		176	281
		91,900	72,552
Net interest income		158,194	159,987
Financial asset impairment charges	7	14,514	16,100
Net interest income after impairment charges		143,680	143,887
Other income	18	43,515	52,446
Net interest income and other income		187,195	196,333
Operating expenses			
Personnel		77,532	72,837
General business		54,563	51,125
Occupancy		11,453	11,369
Member security		4,235	3,866
Organizational		3,241	2,958
Total operating expenses		151,024	142,155
Profit for the year before income tax		36,171	54,178
Income tax expense	19	7,263	11,575
Profit for the year		28,908	42,603
Loss attributable to non-controlling interest	21	(48)	-
Profit attributable to members		28,956	42,603
Other comprehensive income, net of tax:			
Items that may be reclassified subsequently to profit or loss:			
Financial assets at FVOCI			
Net unrealized gains (losses) on FVOCI financial assets		1,001	(715)
Net adjustments for realized net (losses) gains		(94)	66
Cash flow hedges			
Effective portion of net gains (losses)	4	483	-
Other comprehensive income for the year, net of tax		1,390	(649)
Total comprehensive income for the year		30,346	41,954

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, 2019

	2019	2018
Accumulated other comprehensive income - financial assets at FVOCI		
Balance at beginning of year	(1,092)	(443)
Other comprehensive income:		
Net change in FVOCI assets (net of tax of \$286)	907	(649)
Balance at end of year	(185)	(1,092)
Accumulated other comprehensive income - Cash flow hedges		
Balance at beginning of year	-	-
Other comprehensive income:		
Cash flow hedge (net of tax of \$153)	483	-
Balance at end of year	483	-
Total Accumulated other comprehensive income	298	(1,092)
Retained earnings		
Balance at beginning of year	504,676	462,073
Profit for the year	28,956	42,603
Balance at end of year	533,632	504,676
Total members' equity	533,930	503,584

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, 2019

	Note	2019	2018
Cash flows provided by (used in) operating activities			
Profit for the year		28,908	42,603
Adjustments for non-cash items:			
Financial asset impairment charges		14,514	16,100
Credit card acquisition adjustment		-	(2,024)
Amortization of property, plant and equipment	9	5,763	5,564
Amortization of intangible assets	10	1,781	1,886
Amortization of right-of-use assets	11	2,325	-
Gain on disposal of property, plant and equipment		(158)	(135)
Net interest income		(158,194)	(159,987)
Dividend income	18	(4,473)	(8,679)
Unrealized and realized losses (gains) on investment securities	18	514	(5,309)
Unrealized gains on loans and derivatives	18	(830)	-
Income from investment in associates		(934)	(600)
Income tax expense	19	7,263	11,575
Changes in operating assets and liabilities:			
Loans and advances		(178,598)	(274,629)
Credit card acquisition		-	(64,575)
Secured debt		23,150	14,185
Deposits		131,445	432,679
Derivative financial assets		(2,245)	28
Derivative financial liabilities		995	14
Other assets		604	(1,792)
Other liabilities		11,898	2,680
Other non-cash operating items		2,237	(1,180)
Interest received		244,154	228,007
Interest paid		(86,966)	(64,821)
Income tax paid		(15,552)	(10,458)
Cash flows provided by (used in) operating activities		27,601	161,132
Cash flows provided by (used in) investing activities			
Dividends received	18	4,473	8,679
Volume bonus and dividend received from investment in associate		580	374
Purchases of investment securities		(623,150)	(388,012)
Proceeds on sale of investment securities		599,770	373,588
Net purchase of property, plant and equipment	9	(27,030)	(11,447)
Net purchase of investment property	12	(6,484)	(2,250)
Net purchase of intangible assets	10	(1,241)	(1,712)
Cash flows provided by (used in) investing activities		(53,082)	(20,780)
Cash flows provided by (used in) financing activities			
(Repayment) of lease liabilities: (Beginning 2019 - (\$16,437, Net cash flows - (\$2,202), Non-cash items - \$547, Ending 2019 - 14,782)	11	(2,202)	-
(Repayment) Advance of borrowings: (Beginning 2019 - \$nil, Net cash flows - \$nil, Ending 2019 - \$84,096)	13	84,096	(60,000)
Membership shares redeemed: (Beginning 2019 - \$19,142, Net cash flows - (\$1,847), Non-cash items - \$nil, Ending 2019 - \$17,295)	15	(1,847)	(1,600)
Cash flows provided by (used in) financing activities		80,047	(61,600)
Net increase in cash and cash equivalents during the year		54,566	78,752
Net foreign exchange difference on cash held		(311)	(1,109)
Cash and cash equivalents, beginning of year	3	212,267	134,624
Cash and cash equivalents, end of year	3	266,522	212,267

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, 2019

1. INCORPORATION AND GOVERNING LEGISLATION

Conexus Credit Union 2006 (the Credit Union), was established and continued pursuant to *The Credit Union Act, 1998* 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 (CUDGC) is the deposit guarantor for Saskatchewan Credit Unions, and the primary regulator for Saskatchewan Credit Unions and SaskCentral. CUDGC is charged through provincial legislation, *The Credit Union Act, 1998*, with the main purpose of guaranteeing the full repayment of deposits held in Saskatchewan Credit Unions. CUDGC was the first deposit guarantor in Canada and has successfully guaranteed deposits since it was established in 1953. By guaranteeing deposits and promoting responsible governance, CUDGC contributes to confidence in Saskatchewan Credit Unions. For more information about deposit protection, CUDGC's regulatory responsibilities, and its role in promoting the strength and stability of Saskatchewan Credit Unions, talk to a representative at the Credit Union or visit the CUDGC's website at www.cudgc.sk.ca.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Adoption of new and revised standards in the current year

IFRS 16

As explained in Note 26, the Credit Union has adopted *IFRS 16 Leases* with a date of initial application of January 1, 2019. The adoption of this standard removes the current requirement for lessees to classify leases as finance leases or operating leases. It instead requires the recognition of lease assets and lease liabilities on the Consolidated Statement of Financial Position for most leases with the exception of short-term and low value leases. Lessees will also recognize depreciation expense on the lease asset and interest expense on the lease liability in the Consolidated Statement of Comprehensive Income. The Credit Union has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The cumulative effect of applying IFRS 16 as at the transition date is recognized in the opening balance sheet with differences between assets and liabilities recognized, if any, recorded in retained earnings. The details of the Credit Union's lease accounting policies are contained in this note.

Other

Other changes to IFRS standards which became effective in 2019 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.

Basis of preparation

These consolidated financial statements have been prepared in accordance with the applicable governing legislation for each entity, which conform in all material respects to IFRS.

The consolidated financial statements for the year ended December 31, 2019, were authorized for issue by the board of directors on March 5, 2020.

These consolidated financial statements have been prepared on the historical cost basis. Except for foreclosed loans which have been measured at the lower of the investment recorded in the impaired loan and its estimated net realizable value, derivative financial instruments measured at fair value, financial instruments classified as fair value through profit or loss (FVTPL) and financial instruments classified as fair value through other comprehensive income (FVOCI). The methods to measure fair value are presented in Note 23.

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

Use of estimates and key judgments

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. 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 judgments and estimates are as follows:

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Valuation of financial instruments

The Credit Union determines the fair value of financial instruments for which there is no observable market price using a variety of valuation techniques explained in Note 23. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values. The judgments include consideration of liquidity, future cash flows, current market yields and other risks affecting the specific instrument.

Determination of allowance for credit losses

The Credit Union 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 and advances (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.

The Credit Union assesses whether credit risk on a financial asset has increased significantly considering reasonable and supportable information since initial recognition in order to determine whether a 12 month ECL (Stage 1), lifetime ECL (Stage 2), or lifetime credit impaired ECL (Stage 3) should be recognized. When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Credit Union considers reasonable and supportable information that is relevant and available without undue cost or effort. 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.

See the impairment of financial assets under the significant accounting policies contained in this note for further discussion of allowance for credit losses.

Classification of financial assets

Business Model Assessment

The Credit Union assesses the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and how information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice;
- how the performance of the portfolio is evaluated and reported to the Credit Union's management;
- the risks that affect the performance of the business model and how those risks are managed;
- how managers of the business are compensated;
- the stated objective for managing the financial asset, frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

Assessment whether contractual cash flows are solely payments of principal and interest (SPPI)

In assessing whether the contractual cash flows are SPPI, the Credit Union considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Credit Union considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features, prepayment terms and extension terms;
- terms that limit the Credit Union's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money.

Consolidation of controlled entities

The determination of control for purposes of consolidation requires management judgment on the definition of control. For further discussion of consolidation, refer to the heading basis of consolidation contained in this note.

Assessment of significant influence and joint control

Currently the Credit Union holds \$37,567 in membership shares of SaskCentral, or 22.7% (2018 - \$36,490; 22.4%) of the total issued and outstanding membership shares.

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Management has determined that the Credit Union does not have significant influence over SaskCentral and the strategic, operating and financial policies of the entity, including decisions about dividends and other distributions. Aside from liquidity deposits required by Credit Union Deposit Guarantee Corporation (CUDGC) and an authorized line of credit, there are no material transactions between the Credit Union and SaskCentral, no exchange of managerial personnel and technical information is not shared.

The Credit Union holds 20.1% (2018 - 20.1%) of the total issued and outstanding units of Apex Investment Limited Partnership (Apex I LP). Management has determined that the Credit Union does not have significant influence over APEX I LP and the strategic, operating and financial policies of the entity, including decisions about dividends and other distributions.

The Credit Union holds a 40% (2018 - 40%) ownership in CU Dealer Finance Corp (CUDF) and a 25% (2018 - 25%) ownership in Apex Investment GP Inc. Management has determined that the Credit Union does have influence over the strategic, operating and financial policies of these entities including decisions regarding dividends and other distributions, but not control.

The Credit Union holds 50% (2018 - 50%) ownership in Thrive Wealth Management Ltd. (Thrive Wealth Management). The Credit Union has joint control over the strategic, operating and financial policies of this entity including decisions regarding dividends and other distributions as the decisions about the relevant activities require unanimous consent of the parties sharing control. Furthermore, there is no contractual arrangement or any other facts or circumstances that indicate that the parties to the joint arrangement have rights to the assets and obligations for the liabilities of the joint arrangement; therefore, management has determined that this entity will be classified as a joint venture.

Useful lives of property, plant, equipment, intangible assets, right of use (ROU) assets and investment property

Estimates must be utilized in evaluating the useful lives of all property, plant, equipment, intangible assets, ROU assets and investment property for calculation of the amortization for each class of assets. For further discussion of the estimation of useful lives, refer to the headings of property, plant and equipment, intangible assets, leases and investment property contained in this note.

Basis of consolidation

The consolidated financial statements contain the assets, liabilities, income and expenses of subsidiaries after eliminating inter-company transactions and balances.

Investment securities, in which the Credit Union does not control, but exercises significant influence, are accounted for using the equity method. Under this method, the Credit Union records its initial investment at cost and then records its equity share of any post acquisition net income or loss. Dividends received are recorded as a reduction of the investment, which is included in other assets in the Consolidated Statement of Financial Position.

Entities are consolidated when the substance of the relationship between the Credit Union and the entity indicates control. Control exists if the Credit Union has all of the following:

- Power over the investee, meaning the ability to direct the relevant activities of the entity;
- Exposure or rights to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect the amount of the Credit Union's returns.

Whenever there is a change in the substance of the relationship between the Credit Union and the investee, the Credit Union performs a reassessment of consolidation.

Non-controlling interests represent 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 within other liabilities in the Consolidated Statement of Financial Position. Non-controlling interests presented in the Consolidated Statement of Financial Position are classified as a financial liability as the subsidiary has a limited life, and there is an obligation to payout the units of the non-controlling interests at liquidation.

Included in the consolidated financial statements are the following entities:

Subsidiaries

The Credit Union has 100% ownership in Protexus Holdings Inc. and consolidates this entity.

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Credit Union has 78.95% ownership of a venture capital fund, CVC Fund 1 LP, with 21.05% owned by non-controlling interests. The Credit Union has 100% ownership of the fund manager entity, Conexus Venture Capital Inc. Through Conexus Venture Capital Inc., the Credit Union exerts control over CVC Fund 1 LP. Accordingly, the Credit Union consolidates both CVC Fund 1 LP and Conexus Venture Capital Inc.

Significant influence investments

The Credit Union has a 40% (2018 – 40%) ownership in CUDF and a 25% (2018 – 25%) ownership in Apex Investment GP Inc., which were incorporated under the laws of the Province of Saskatchewan, Canada.

Joint ventures

The credit union has a 50% (2018 – 50%) ownership in Thrive Wealth Management, which was incorporated under the laws of the Province of Saskatchewan, Canada.

Other controlled entities

The Credit Union controls Pivot Trust as the Credit Union receives a majority of the benefits such as rights to excess spread and is exposed to risks of Pivot Trust as its residual assets relate solely to the Credit Union's aggregate auto loans and credit enhancements. The Credit Union has the ability to exercise control over Pivot Trust by making the predetermination of activities for the benefit of the Credit Union. Accordingly, the Credit Union consolidates Pivot Trust.

Classification and measurement of financial instruments

Financial assets and liabilities are recognized on the Consolidated Statement of Financial Position at the trade date. All financial instruments are measured initially at fair value. Subsequent measurement is determined by the financial instrument's classification. Classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Credit Union's designation of such instruments based on management's intentions.

Fair value hierarchy

The Credit Union classifies fair value measurements recognized in the Consolidated Statement of Financial Position using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- 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.

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. This assessment requires judgment, considering factors specific to an asset or a liability and may affect placement within the fair value hierarchy.

Financial instrument classifications

Classification of financial assets

On initial recognition, a financial asset is classified as measured at amortized cost, FVOCI or FVTPL.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Credit Union may irrevocably elect to classify as FVOCI.

All other financial assets are classified as measured at FVTPL.

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Classification of financial liabilities

Financial liabilities measured at amortized cost, including borrowings, secured debt, deposits, membership shares and member equity accounts, are initially recognized at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method. Derivatives are measured at FVTPL.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits at call and other short-term highly liquid investments with original maturities of three months or less and are classified as amortized cost.

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, commodity instrument or index. In the ordinary course of business, the Credit Union enters into derivative transactions such as interest rate swaps and index-linked options for asset/liability management purposes. Such derivatives include contracts with Concentra Bank that reposition the Credit Union's interest rate risk profile and hedge agreements with SaskCentral and Desjardins to offset exposure to indices associated with index-linked deposit products.

Derivatives are classified as FVTPL and are recorded at fair value in the Consolidated Statement of Financial Position. Unrealized and realized gains and losses are recognized as other income on the Consolidated Statement of Comprehensive Income, unless they are designated in a qualifying hedge accounting relationship. Derivative interest income and expenses are calculated on an accrual basis and the net amount is recorded as interest income or expense on the Consolidated Statement of Comprehensive Income. Derivative financial instruments with a positive fair value are reported as assets and derivative financial instruments with a negative fair value are reported as liabilities in the Consolidated Statement of Financial Position. Fair value of derivatives are determined using pricing models that consider current market prices and the contractual prices of underlying instruments, the time value of money, yield curves, volatility and credit risk factors.

Hedge accounting may be applied where a derivative is highly effective in offsetting either changes in the fair value or cash flows attributable to the risk being hedged, both at inception and over the life of the underlying asset or liability.

At the inception of the hedge 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 hedging transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Credit Union documents whether 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 hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Credit Union actually hedges and the quantity of the hedging instrument that the Credit Union actually uses to hedge that quantity of hedged item.

The Credit Union rebalances a hedging relationship in order to comply with the hedge ratio requirements when necessary. In such cases discontinuation may apply to only part of the hedging relationship. For example, the hedge ratio might be adjusted in such a way that some of the volume of the hedged item is no longer part of a hedging relationship, hence hedge accounting is discontinued only for the volume of the hedged item that is no longer part of the hedging relationship.

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.

All of the Credit Union's designated hedge accounting relationships are 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.

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment securities

Amortized cost

Investment securities classified as financial assets at amortized cost are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method. These investment securities are held within a business model whose objective is to collect the contractual cash flows and have contractual cash flows that are SPPI on the principal amount outstanding.

Fair value through profit or loss (FVTPL)

Investment securities classified as financial assets at FVTPL are designated as such upon initial recognition. These investment securities are held within a business model whose objective is to manage such investment securities and make purchases and sales decision based on their fair value in accordance with the Credit Union's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. In subsequent periods, these investment securities are measured at fair value with unrealized gains or losses recognized in other income on the Consolidated Statement of Comprehensive Income.

Equity securities designated as at FVOCI

On initial recognition, the Credit Union may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as FVOCI. Upon initial recognition the equity securities designated as FVOCI are measured at fair value with gains and losses arising from changes in fair value recognized in OCI. Dividends are recognized in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognized in OCI. Cumulative gains and losses recognized in OCI are transferred to retained earnings on disposal of the investment.

Debt securities measured at FVOCI

Investment securities classified as debt securities measured at FVOCI are designated as such upon initial recognition. These investment securities are held within a business model whose objective is to collect the contractual cash flows, sell financial assets and have contractual cash flows that are SPPI on the principal amount outstanding. Upon initial recognition the debt securities designated as FVOCI are measured at fair value plus transaction costs. In subsequent periods, these investment securities are measured at fair value with unrealized gains or losses recognized in OCI. When an investment security is derecognized, the cumulative gain or loss in OCI is transferred to profit or loss.

Investment in associates and joint ventures

Investment in associates are entities which the Credit Union has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Credit Union holds between 20 and 50 percent of the voting power of another entity.

A joint venture is a joint arrangement whereby the Credit Union has joint control of the entity and has rights to the net assets of the joint arrangement. 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 Credit Union's share of these entities' profits or losses is recognized in other income on the Consolidated Statement of Comprehensive Income.

Loans and advances

Loans are financial assets with fixed or determinable payments that are not quoted in an active market. Loans the Credit Union does not intend to sell immediately or in the near future are classified as amortized cost.

Loans are initially recognized at fair value, which is the cash consideration to originate or purchase the loan including any transaction costs. Subsequently, they are measured at amortized cost using the effective interest method, less allowance for impairment plus accrued interest. Interest on loans is reported as interest income in the Consolidated Statement of Comprehensive Income.

Foreclosed assets held for resale are initially recorded at the lower of the investment recorded in the impaired loan and its estimated net realizable value. Subsequently, they are measured at the lower of carrying amount and fair value less costs to sell. Items in foreclosed assets typically include: commercial buildings and properties, agricultural land or equipment, residential mortgages and vehicles and are considered to be assets held in the course of realization of impaired loans.

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Credit Union aims to sell foreclosed properties as soon as they are ready for sale and are typically not used in operations.

Modification of financial assets

If the terms of the financial asset are modified, the Credit Union evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to the cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Credit Union recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

Impairment

Impairment of 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.

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.

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.

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 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

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Forward-looking information

The Credit Union incorporates forward-looking information into its measurement of ECL. Based on advice from the Economic and Consumer Credit Analytics of the software vendor Moody’s Analytics (Moody’s), 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 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 Canada unemployment rate, Canada equity, and the Canada oil price for the years ending December 31, 2019 and 2018.

Typically the Credit Union will probability-weight 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. The weightings assigned to each scenario were consistent across portfolios, with a probability of 60% (2018 - 60%) applied to the “base case” scenario, 20% (2018 - 20%) applied to the pessimistic scenario, and 20% (2018 - 20%) applied to the optimistic scenario. The economic scenarios used in the determination of ECL’s at December 31, 2019 and December 31, 2018 include the following ranges of macroeconomic factors:

% change ⁽¹⁾	2019					
	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%
Oil Price	5.52%	32.67%	-0.07%	13.95%	35.16%	9.27%
% change ⁽¹⁾	2018					
	12 month Forecast			5 year Forecast		
	Baseline	Upside	Downside	Baseline	Upside	Downside
Canadian equity index	-0.61%	12.70%	-1.63%	22.81%	27.66%	18.36%
Canadian unemployment rate	8.49%	-6.07%	13.01%	14.60%	10.90%	18.16%
Oil Price	9.09%	40.81%	3.94%	7.59%	33.69%	3.30%

⁽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, 2018 and December 31, 2019.

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Definition of default and credit-impaired financial assets

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
- 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.

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.

Impairment of non-financial assets

The Credit Union assesses impairment of all non-financial assets at the end of each reporting period. An impairment checklist that checks for impairment indicators is completed for each type of similar asset. If an impairment indicator is found to exist, further investigation is performed to determine the level of impairment. Any impairments determined are recorded as a decrease to the related asset on the Consolidated Statement of Financial Position and a corresponding expense on the Consolidated Statement of Comprehensive Income.

The amount of the impairment loss may decrease in a subsequent period. If this decrease can be objectively related to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit and loss.

Goodwill is not amortized, but reviewed annually for impairment. The Credit Union tests goodwill impairment at the cash-generating unit (CGU) level when practical. If the Credit Union determines that using the CGU is not practical then goodwill impairment is assessed at the entity level. If an impairment is found to exist, further investigation is performed to determine the level of impairment and any loss is recognized directly in profit or loss on the Consolidated Statement of Comprehensive Income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

Securitization

The Credit Union securitizes groups of assets by transferring them to a third party primarily to create liquidity for the Credit Union on a fully serviced basis. The Credit Union considers both the degree of transfer of risk and rewards on assets transferred to another entity and the degree of control exercised by the Credit Union over the other entity:

- When the Credit Union, in substance, controls the entity to which financial assets have been transferred, the entity is included in the consolidated financial statements and the transferred assets are recognized in the Credit Union's Consolidated Statement of Financial Position.
- When the Credit Union transfers financial assets to an unconsolidated entity and it retains substantially all of the risk and rewards relating to the transferred financial assets, the transferred assets and associated liability for the consideration received are recognized in the Credit Union's Consolidated Statement of Financial Position. The associated liability, secured by the transferred assets, is carried at amortized cost.

Transaction costs incurred in the establishment of a securitization issuance that does not qualify for derecognition are amortized using the effective interest method over the expected life of the transferred assets. In addition, the Credit Union receives residual income from the securitization programs once all associated costs have been met. The residual income is recognized in net interest income on 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, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Transaction costs incurred in the establishment of a securitization issuance that does qualify for derecognition are expensed as incurred. Details of the transfer of financial assets to third parties are disclosed in Note 8.

Syndication

The Credit Union syndicates groups of assets with various other financial institutions primarily to create liquidity, manage credit risk and manage regulatory capital. Syndicated loans transfer substantially all the risks and rewards related to the transferred financial assets and are derecognized from the Credit Union's Consolidated Statement of Financial Position. All loans syndicated by the Credit Union have been on a fully serviced basis. The Credit Union receives fee income for services provided in the servicing of the transferred financial assets. Fee income is recognized in other income on an accrual basis in relation to the reporting period in which the costs of providing the services are incurred.

Wealth management services

The Credit Union offers members access to a wide variety of investments through Thrive Wealth Management. Assets under administration are recorded separately from the Credit Union's assets and are not included in the Consolidated Statement of Financial Position. As at December 31, 2019, funds managed totaled \$1,615,352 (2018 - \$1,409,031).

Venture capital fund

The Credit Union has entered into a venture capital fund that invests in Saskatchewan startups. This arrangement resulted in the creation of parallel and co-investment funds for outside investor involvement that are not recorded on the Credit Union's Consolidated Statement of Financial Position. The Credit Union's involvement with these entities is limited to fund management services through the subsidiary Conexus Venture Capital Inc. with no ownership interest. In exchange for providing fund management services, Conexus earns a fixed percentage fee based on the fund's committed capital. As at December 31, 2019 the total funds managed under this arrangement that are not included in the Credit Union's Consolidated Statement of Financial Position totaled \$2,089.

Property, plant and equipment

Land is measured at cost. Other items of property, plant and equipment are measured at cost less accumulated amortization and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Land is not amortized. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Amortization of property, plant and equipment is calculated using the straight-line method to write down the cost of the assets to their residual values over their estimated useful lives as follows:

Buildings	10 to 40 years
Leasehold improvements	5 to 10 years
Furniture, equipment and vehicles	5 years
Computer equipment	4 to 5 years
Other	2 to 15 years

Amortization of property, plant and equipment is included under either general business expense or occupancy expense on the Consolidated Statement of Comprehensive Income. The assets' residual values are reviewed annually and adjusted if appropriate. Gains and losses on the disposal of property, plant and equipment are determined by comparing the net proceeds and the carrying amount of the asset. These are included in the Consolidated Statement of Comprehensive Income in the year of disposal.

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 loss, if any.

Intangible assets

The Credit Union has intangible assets consisting of customer lists obtained from the merger with other credit unions, core deposits from the acquisition of other credit unions, credit card customer relationships and software. Intangibles are reported at cost less accumulated amortization calculated using the straight-line method over the estimated useful life of the asset as follows:

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other	10 to 20 years
Credit card customer relationship	15 years
Core deposits	13 years
Software	3 to 5 years

Amortization of intangible assets is included under general business expense on the Consolidated Statement of Comprehensive Income. The Credit Union does not have any intangible assets with indefinite lives and does not recognize any internally generated intangible assets.

Leases- Policy applicable from January 1, 2019

The lease liability is initially measured at the present value of the future lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or, if that rate cannot be readily determined, the Credit Union's incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest method. The Credit Union assesses at lease commencement whether it is reasonably certain to exercise an extension or termination option to include in the lease term. The lease liability is then remeasured when there is a change in the expected future lease payments or if there is a significant event or change in circumstance that would impact whether it is reasonably certain to exercise options to extend or terminate the lease. When there is a remeasurement, a corresponding adjustment is made to the carrying amount of the ROU asset, or is recorded in profit or loss if the carrying amount of the ROU asset has been reduced to below zero.

Lease payments included in the measurement of the lease liability are comprised of: fixed payments, in-substance fixed payments, variable lease payments that depend on an index or a rate, lease payments in an optional renewal period if the Credit Union is reasonably certain to exercise an extension option and penalties for early termination of a lease unless the Credit Union is reasonably certain not to terminate early.

The Credit Union recognizes a ROU asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability and expenditures that are directly attributable to the acquisition of the asset. The ROU asset is subsequently amortized using the straight-line method from the commencement date of the earlier of the end of the useful life of the ROU asset or the end of the lease term. The estimated useful lives of ROU assets are determined on the same basis as those of property, plant and equipment above. The ROU asset is periodically reviewed for impairments, if any, and adjusted for certain remeasurements of the lease liability.

The Credit Union has elected to not recognize ROU assets and lease liabilities for leases of low-value assets and short-term leases and recognizes these lease payments as an occupancy expense on a straight-line basis over the lease term. Variable lease payments that are not included in the measurement of the lease liability are included in occupancy expense.

Leases- Policy applicable before January 1, 2019

The leases entered into by the Credit Union are all classified as operating leases. The total payments made under operating leases are charged to occupancy expense in the Consolidated Statement of Comprehensive Income on a straight-line basis over the term of the lease.

Investment property

Investment property is property held for long-term rental income or for capital appreciation or both, and that is not occupied by the Credit Union. Investment property is measured at cost less accumulated depreciation and accumulated losses. Property held partly to earn rental income and partly for use in the supply of service to members or for administrative use is allocated between investment property and property and equipment, based on floor space usage.

Depreciation is recorded in general business expense 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, plant and equipment above. Depreciation methods, residual values and estimates of useful lives are reviewed annually.

Income taxes

The Credit Union accounts for income taxes using the asset and liability method. Under this method, the provision for income taxes is calculated based on income tax laws and rates enacted and substantively enacted as at the Consolidated Statement of Financial Position date. The income tax provision is comprised of current and deferred income taxes.

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current income taxes are amounts expected to be payable or recoverable as a result of current year operations. Deferred income tax assets and liabilities arise from changes during the year in temporary differences between the accounting and tax basis of assets and liabilities. A deferred income tax asset is recognized to the extent that the benefit of losses and deductions available to be carried forward to future years for tax purposes are probable.

Employee benefits

Liabilities are recorded for employee benefits including salaries and wages, statutory payroll contributions, paid annual vacation leave and bonuses that are expected to be settled within 12 months of the Consolidated Statement of Financial Position date. These represent present obligations resulting from employees' services provided to the Consolidated Statement of Financial Position date and are included in other liabilities.

The Credit Union contributes to a defined contribution superannuation fund, which provides benefits for employees upon retirement or death, where the Credit Union has no financial interest in the fund and is not liable for the performance or obligation of the fund. Credit Union contributions to the plan are expensed as incurred. The annual pension expense from operations of \$3,959, (2018 - \$3,821) is included in personnel expense.

Provisions

Provisions are recognized when:

- The Credit Union has a present obligation (legal or constructive) as a result of a past event;
- It is probable that an outflow of resources will be required to settle the obligation; and
- A reliable estimate can be made of the amount.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market conditions and risks specific to the liability and are recorded as liabilities in the Consolidated Statement of Financial Position and corresponding expenses in the Consolidated Statement of Comprehensive Income.

Foreign currency denominated assets and liabilities

Any assets or liabilities denominated in foreign currencies are translated to Canadian dollars at the rate of exchange at the Consolidated Statement of Financial Position date. All differences arising on the translation are recorded in other income on the Consolidated Statement of Comprehensive Income.

Recognition of income and expenses

Interest income and expense

Interest income and interest expense are recognized in the Consolidated Statement of Comprehensive Income using the effective interest method applied to the gross carrying amount of financial instruments held at amortized cost and FVOCI. The effective interest method uses the effective interest rate, which is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instruments to its fair value at inception. The effective interest rate is established on initial recognition of the financial instrument and incorporates any fees and transaction costs that are integral to establishing the contract. Loan origination fees and expenses that are integral to the effective interest rate on a financial instrument are included in the effective interest rate.

For credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset less the allowance for credit losses. Management subsequently assesses and determines if the interest is collectible through their impairment of loans and investment securities processes.

Fees, Commissions and Other income

Fees, other than loan origination fees, are recognized as other income at the point in time the related performance obligation is satisfied. These fees include service fees, loan fees and loan insurance fees. Other income is recognized as the Credit Union satisfies its performance obligation. Payment of the fees, commissions and other revenues are due immediately as the service is provided.

The Credit Union receives wealth management commission income and volume bonus income based on the volume of business with Thrive Wealth Management. The transaction price of the commission income is based on assets under management and is highly subject to factors outside the Credit Union's influence. These commissions are recognized as other income when the fee is earned as control is transferred to the member and the uncertainty of the transaction price is resolved. Payment of the transaction price is due immediately as the service is provided.

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Payment and credit card fees primarily consist of interchange revenue and annual fees. Credit card interchange revenue is recognized as the Credit Union transfers control of two distinct services; providing rewards points and payment processing services to members. The transaction price allocated to providing the rewards points is recorded as a rewards contract liability at the time of the initial sales transaction. The stand-alone selling price per point is estimated based on the point value given when the points are redeemed by the member and the likelihood of redemption, as evidenced by the Credit Union's historical experience. The transaction price allocated to providing the payment processing services is recognized as the interchange revenue is earned. Payment of the transaction price is due immediately as the service is provided. Credit card annual fees are recognized over time for providing access over a contractual period and the payment of the transaction price is due up-front in full for the services.

When the Credit Union acts in the capacity of an agent rather than as the principal in a transaction, the income recognized is the amount of commission paid to the Credit Union.

Future accounting changes

A number of new standards and amendments are not yet effective for the year ended December 31, 2019 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.

3. CASH AND CASH EQUIVALENTS

	2019	2018
Cash on hand	21,559	18,029
Restricted cash	9,492	10,922
Deposits at call - SaskCentral	1,531	33,596
Deposits at call - Other	233,940	59,892
Chartered bank guaranteed short-term investment	-	89,828
Total cash and cash equivalents	266,522	212,267

Restricted cash is comprised of cash reserves for auto loan securitization, credit card settlement and NHA mortgage backed securities. Restricted cash is not available for use in the Credit Union's day-to-day operations.

4. DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at December 31 and are indicative of either the market risk or the credit risk.

	Maturities of derivatives (notional amount)			Net fair value							
	Under 1 year	1 to 5 years	Over 5 years	2019		2018		2019		2018	
				Total	Total	Assets	Liabilities	Assets	Liabilities		
Interest rate swaps	-	22,665	27,095	49,760	37,498	452	993	5	673		
Index-linked options	15,716	32,422	-	48,138	51,615	4,859	4,859	4,184	4,184		
Interest rate swaps designated as cash flow hedges	-	70,000	-	70,000	-	640	-	-	-		
Total	15,716	125,087	27,095	167,898	89,113	5,951	5,852	4,189	4,857		

The Credit Union enters into derivative transactions for risk management purposes.

Interest rate swaps

The Credit Union currently 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.

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2019

4. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

All other interest rate swaps are considered economic hedges.

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.

Designated cash flow hedges

The Credit Union's exposure to market risks and its approach on managing those risks is discussed in Note 24. The Credit Union utilizes its Desjardins term facility for funding purposes and, in accordance with the risk management strategy in place, has entered into an interest rate swap contract to mitigate 100% of the risk of variability in interest cash flows due to changes in the underlying benchmark rate of the debt (CDOR).

Specifically, following a draw on the facility, the Credit Union enters into interest rate swaps with critical terms that match those of the term debt facility. In this way the Credit Union exchanges variable rate interest cash flows, to fixed interest cash flows. The relationship is designated as a cash flow hedge to hedge against movements in the underlying benchmark interest rate and hedge accounting is applied.

The Credit Union determines the hedge ratio by comparing the notional 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 is \$640 (2018 - \$nil) and the fair value of the hedging instrument adjusted for credit risk is \$636 (2018 - \$nil), which is used to compute the ineffectiveness of the hedge.

The following table discloses the impact of derivatives designated in hedge accounting relationships and the related hedged items, where appropriate, in the Consolidated Statement of Comprehensive Income.

	2019
Cash flow hedges	
Ineffective portion - recorded in other income	4
Effective portion - gains recorded in OCI during the year, before tax	599
Effective portion - losses reclassified to profit or loss during the year, before tax	37

Offsetting

The Credit Union enters into interest rate swaps that are subject to master netting arrangements or similar agreements, as well as obligations to post collateral to related counterparties if the fair value of the interest rate swaps fall below a pre-determined threshold. The agreements do not meet the net settlement/simultaneous settlement criteria because the rights of offset are conditional upon the default of the counterparty or occurrence of other predetermined events. The netting arrangement would result in derivative assets of \$1,092 (2018 - \$5) offset against derivative liabilities. At the end of December 31, 2019 the pre-determined threshold was not triggered and \$nil (2018 - \$nil) collateral was posted.

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2019

5. INVESTMENT SECURITIES

The Credit Union's investments are recognized in the Consolidated Statement of Financial Position in accordance with financial instrument designation categories. The Credit Union's recorded values are as follows:

	2019	2018
Fair value through profit or loss		
SaskCentral - statutory liquidity deposits	253,675	290,766
Other securities	22,638	21,302
Total fair value through profit or loss	276,313	312,068
Amortized cost		
SaskCentral - statutory liquidity deposits	252,864	192,520
Federal and provincial government	30,758	35,423
Accrued interest	1,887	1,060
Total amortized cost	285,509	229,003
Equity securities designated as FVOCI		
SaskCentral - shares	37,567	36,490
Total equity securities designated as FVOCI	37,567	36,490
Debt securities measured at FVOCI		
Chartered bank guaranteed	71,693	52,724
Federal and provincial government	24,868	43,461
Accrued interest	704	528
Total debt securities measured at FVOCI	97,265	96,713
Allowance for credit losses	(62)	(33)
Total investment securities	696,592	674,241

The Credit Union's investment securities portfolio is comprised of a large number of investment securities carrying a wide variety of terms, conditions and issuers held for the purpose of liquidity management and effective utilization of excess funds. There were impairment charges (recoveries) for investment securities for the year ended December 31, 2019 of \$29 (2018 - (\$44)).

SaskCentral – statutory liquidity deposits

Pursuant to Regulation 18(1)(a), of *The Credit Union Regulations, 1999*, SaskCentral requires that the Credit Union maintain 10% of its total liabilities in specified liquidity deposits in SaskCentral. The regulator of Saskatchewan Credit Unions, Credit Union Deposit Guarantee Corporation (CUDGC) requires that the Credit Union adhere to these prescribed limits and restrictions. As of December 31, 2019, the Credit Union met the requirement.

SaskCentral – shares

Currently the Credit Union holds \$37,567 in membership shares of SaskCentral, or 22.7% (2018 - \$36,490; 22.4%) of the total issued and outstanding membership shares. As defined in *The Credit Union Act, 1998*, the Credit Union has a substantial investment in SaskCentral, and pursuant to *The Credit Union Regulations, 1999*, the Credit Union has been authorized by CUDGC to hold this investment. The voting rights, characteristics, and value of membership shares are set out in the bylaws of SaskCentral. Membership shares of SaskCentral carry an issuance and redemption price of 10 dollars per share.

The Credit Union designated its investment in SaskCentral shares as FVOCI. Holding shares is a required condition of membership in SaskCentral, there is no active market for these shares and the shares are redeemable upon withdrawal of membership or at the discretion of the board of directors of SaskCentral.

Other commitments

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. The Credit Union shall, following the end of each fiscal year, and no later than June 30 of the following fiscal year, purchase and maintain membership shares based on SaskCentral bylaws. The Credit Union has an outstanding commitment to purchase \$1,760 (2018 - \$1,071) of SaskCentral shares.

As at December 31, 2019 the Credit Union has commitments to invest in venture capital units in the amount of \$23,438 (2018 - \$15,730) that have not been provided for 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, 2019

6. LOANS AND ADVANCES

Loans and advances by portfolio at amortized cost

	2019	2018
Consumer loans		
Mortgage guaranteed	1,294,295	1,213,512
Mortgage conventional	847,402	886,742
Non mortgage	771,313	765,116
Total consumer loans	2,913,010	2,865,370
Commercial loans		
Mortgage	1,805,585	1,705,982
Non mortgage	631,205	603,576
Government guaranteed	87,719	94,609
Total commercial loans	2,524,509	2,404,167
Gross loans and advances	5,437,519	5,269,537
Foreclosed property held for resale	6,169	4,476
Accrued interest receivable	24,124	19,133
Allowance for credit losses (Note 7)	(21,850)	(16,259)
Total loans and advances	5,445,962	5,276,887

The Credit Union has entered into securitization transactions on residential mortgages and auto loans that do not qualify for derecognition. As at December 31, 2019, the total amount of securitized loans outstanding included in the loan balances above was \$946,907 (2018 - \$922,297). Further detail on securitized assets is disclosed in Note 8.

The Credit Union has also entered into syndication transactions with other financial institutions that do qualify for derecognition. As at December 31, 2019, the total amount of syndicated loans outstanding not included in the loan balances above was \$490,237 (2018 - \$588,176) and the gain/(losses) recorded in other income were \$699 (2018 - (\$16)). In 2019, the carrying value of loans sold and derecognized was \$12,786 (2018 - \$75,917).

Maturity analysis based on remaining term to maturity

	2019	2018
Scheduled for repayment		
Overdrafts and line of credit facilities	686,133	665,558
Under 1 year	1,943,797	2,021,284
1 year to under 5 years	2,777,264	2,549,031
5 years and over	30,325	33,664
	5,437,519	5,269,537

Security held against loans and advances

	2019	2018
Fully or partially secured by tangible mortgage assets ⁽¹⁾	4,340,550	4,205,585
Fully or partially secured by tangible non mortgage assets	736,998	730,343
Unsecured	359,971	333,609
	5,437,519	5,269,537

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

It is not practical to fair value all security as at the Consolidated Statement of Financial Position date due to the variety, number and condition of assets. The security information is based at time of loan origination or more current information when available.

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2019

6. LOANS AND ADVANCES (continued)

To meet the financial needs of members, the Credit Union enters into various commitments consisting of undrawn lines of credit, commitments to extend credit and letters of credit that are not recognized on the Consolidated Statement of Financial Position. The following amounts represent the maximum amount of additional credit that the Credit Union could be obligated to extend at December 31:

	2019	2018
Undrawn lines of credit	353,051	342,491
Commitments to extend credit	714,152	682,467
Letters of credit	13,805	23,586
	1,081,008	1,048,544

7. ALLOWANCE FOR CREDIT LOSSES

Reconciliation of the allowance for credit losses

	2019			Total
	Stage 1	Stage 2	Stage 3	
Consumer Loans				
Balance, beginning of year	776	895	4,126	5,797
Allowance for credit losses (recoveries)				
Re-measurement	183	287	5,642	6,112
Newly originated or purchased assets	103	-	-	103
Derecognized financial assets and maturities	(26)	(42)	(73)	(141)
Transfer to (from):				
Stage 1	(53)	53	-	-
Stage 2	154	(160)	6	-
Stage 3	-	1	(1)	-
Total impairment losses (recoveries)	361	139	5,574	6,074
Write-offs	-	-	(6,108)	(6,108)
Recoveries	-	-	508	508
Balance, end of year	1,137	1,034	4,100	6,271
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, 2019

7. ALLOWANCE FOR CREDIT LOSSES (continued)

Reconciliation of the allowance for credit losses

	2018			Total
	Stage 1	Stage 2	Stage 3	
Consumer Loans				
Balance, beginning of year	268	660	1,154	2,082
Allowance for credit losses (recoveries)				
Re-measurement	(132)	328	7,252	7,448
Newly originated or purchased assets	650	-	1,159	1,809
Derecognized financial assets and maturities	(34)	(57)	(45)	(136)
Transfer to (from):				
Stage 1	(114)	109	5	-
Stage 2	138	(146)	8	-
Stage 3	-	1	(1)	-
Total impairment losses (recoveries)	508	235	8,378	9,121
Write-offs	-	-	(5,726)	(5,726)
Recoveries	-	-	320	320
Balance, end of year	776	895	4,126	5,797
Commercial Loans				
Balance, beginning of year	42	3,253	6,253	9,548
Allowance for credit losses (recoveries)				
Re-measurement	(312)	1,530	6,621	7,839
Newly originated or purchased assets	350	-	-	350
Derecognized financial assets and maturities	(5)	(408)	(753)	(1,166)
Transfer to (from):				-
Stage 1	(303)	139	164	-
Stage 2	260	(318)	58	-
Stage 3	68	122	(190)	-
Total impairment losses (recoveries)	58	1,065	5,900	7,023
Write-offs	-	-	(6,172)	(6,172)
Recoveries	-	-	63	63
Balance, end of year	100	4,318	6,044	10,462

The following table summarizes the financial asset impairment charges included in the Consolidated Statement of Comprehensive Income.

	2019	2018
Consumer loans	6,074	9,121
Commercial loans	8,411	7,023
Investment securities	29	(44)
Total financial asset impairment charges	14,514	16,100

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2019

8. SECURITIZATION

In the ordinary course of business, the Credit Union enters into transactions that result in the transfer of financial assets to third parties. The below residential mortgages are included in the consumer loans mortgage guaranteed totals and auto loans are included in the consumer loans non mortgage totals in Notes 6. The following tables summarizes the carrying amounts and the secured debt for each type of securitization and the carrying amounts and the secured debt maturities:

	2019		2018	
	Carrying amount	Secured debt	Carrying amount	Secured debt
Residential mortgages	793,171	787,800	788,307	783,018
Auto loans	153,736	143,010	133,990	124,642
Total securitization	946,907	930,810	922,297	907,660
Less than 1 year	161,343	161,153	193,571	193,362
1 year and over	785,564	769,657	728,726	714,298
Total securitization	946,907	930,810	922,297	907,660

Residential mortgages

The Credit Union has transferred an amortizing ownership interest in various qualifying residential mortgage receivables to Canadian Housing Trust, a multi-seller special purpose trust under the Canadian Mortgage Bond Program (CMB), as well as to various investors through the National Housing Act (NHA) Mortgage-Backed Securities Program. As at December 31, 2019, \$793,171 (2018 - \$788,307) had been transferred. The Credit Union retains the responsibility for servicing the qualifying residential mortgage receivables. Under both programs, the Credit Union has an obligation to forward principal and interest amounts from the original loan to Canada Mortgage and Housing Corporation (CMHC) monthly whether or not it receives payments from mortgagors. The Credit Union has retained substantially all of the risk and rewards associated with the transferred assets. These assets are recognized within loans and the transfers are accounted for as secured financing transactions. The associated liability, secured by these loans, is carried at amortized cost and included in secured debt on the Consolidated Statement of Financial Position. The associated liability at December 31, 2019, is recorded net of unamortized transaction costs of \$5,372 (2018 - \$5,289).

Auto loans

The Credit Union has transferred a revolving ownership interest in the auto loan receivable portfolio to Pivot Trust. The Credit Union retains the responsibility for servicing the auto loan receivables. Principal cash flows attributable to Pivot Trust are reinvested into qualifying auto loans and subsequently transferred to Pivot Trust. As at December 31, 2019, \$153,736 (2018 - \$133,990) had been transferred. Auto loan receivables are recognized within loans and the transfers are accounted for as secured financing transactions. The associated liability, secured by these loans, is carried at amortized cost and included in secured debt on the Consolidated Statement of Financial Position. The associated liability at December 31, 2019 is recorded net of a credit enhancement in the form of overcollateralization provided to Pivot Trust of \$10,726 (2018 - \$9,348).

The following table illustrates the fair value of the transferred assets, the associated liabilities and the resulting net position:

	2019	2018
Residential mortgages		
Fair value of transferred assets	793,699	773,166
Less: fair value of secured debt	786,960	783,355
Net position	6,739	(10,189)
Auto loans		
Fair value of transferred assets	143,026	128,079
Less: fair value of secured debt	143,093	128,524
Net position	(67)	(445)

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2019

9. PROPERTY, PLANT AND EQUIPMENT

	2019					
	Land	Buildings	Computer equipment	Furniture, equip. and vehicles	Leasehold improvements	Total
Cost:						
Balance at December 31, 2018	8,146	62,884	11,666	6,439	13,158	102,293
Additions	-	24,041	1,837	862	925	27,665
Disposals	(245)	(755)	(1,496)	(1,305)	(3,234)	(7,035)
Transfer to investment property	-	(2,250)	-	-	-	(2,250)
Balance at December 31, 2019	7,901	83,920	12,007	5,996	10,849	120,673
Accumulated amortization and impairment:						
Balance at December 31, 2018	-	21,435	8,185	4,223	8,006	41,849
Disposals	-	(602)	(1,496)	(1,266)	(3,194)	(6,558)
Amortization	-	1,922	1,646	934	1,261	5,763
Balance at December 31, 2019	-	22,755	8,335	3,891	6,073	41,054
Carrying amounts:						
Balance at December 31, 2018	8,146	41,449	3,481	2,216	5,152	60,444
Balance at December 31, 2019	7,901	61,165	3,672	2,105	4,776	79,619
	2018					
	Land	Buildings	Computer equipment	Furniture, equip. and vehicles	Leasehold improvements	Total
Cost:						
Balance at December 31, 2017	8,175	53,286	10,947	5,873	11,800	90,081
Additions	-	9,938	1,748	781	1,422	13,889
Disposals	(29)	(340)	(1,029)	(215)	(64)	(1,677)
Balance at December 31, 2018	8,146	62,884	11,666	6,439	13,158	102,293
Accumulated amortization and impairment:						
Balance at December 31, 2017	-	19,830	7,643	3,468	6,873	37,814
Disposals	-	(294)	(1,029)	(164)	(42)	(1,529)
Amortization	-	1,899	1,571	919	1,175	5,564
Balance at December 31, 2018	-	21,435	8,185	4,223	8,006	41,849
Carrying amounts:						
Balance at December 31, 2017	8,175	33,456	3,304	2,405	4,927	52,267
Balance at December 31, 2018	8,146	41,449	3,481	2,216	5,152	60,444

The carrying amount of property, plant and equipment includes assets under construction at December 31, 2019, of \$30,506 (2018 - \$10,109) and there were \$nil (2018 - \$nil) impairment losses for the year ended December 31, 2019.

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2019

10. GOODWILL AND INTANGIBLE ASSETS

	2019					
	Goodwill	Core deposits	Other	Credit card customer relationship	Software	Total
Cost:						
Balance at December 31, 2018	1,234	841	831	8,832	10,487	22,225
Additions	-	-	-	-	1,241	1,241
Disposals	-	-	-	-	(11)	(11)
Balance at December 31, 2019	1,234	841	831	8,832	11,717	23,455
Accumulated amortization and impairment losses:						
Balance at December 31, 2018	-	389	35	579	8,904	9,907
Disposals	-	-	-	-	(11)	(11)
Amortization	-	65	4	579	1,133	1,781
Balance at December 31, 2019	-	454	39	1,158	10,026	11,677
Carrying amounts:						
Balance at December 31, 2018	1,234	452	796	8,253	1,583	12,318
Balance at December 31, 2019	1,234	387	792	7,674	1,691	11,778
	2018					
	Goodwill	Core deposits	Other	Credit card customer relationship	Software	Total
Cost:						
Balance at December 31, 2017	1,234	841	43	-	9,773	11,891
Additions	-	-	788	8,832	923	10,543
Disposals	-	-	-	-	(209)	(209)
Balance at December 31, 2018	1,234	841	831	8,832	10,487	22,225
Accumulated amortization and impairment losses:						
Balance at December 31, 2017	-	324	31	-	7,875	8,230
Disposals	-	-	-	-	(209)	(209)
Amortization	-	65	4	579	1,238	1,886
Balance at December 31, 2018	-	389	35	579	8,904	9,907
Carrying amounts:						
Balance at December 31, 2017	1,234	517	12	-	1,898	3,661
Balance at December 31, 2018	1,234	452	796	8,253	1,583	12,318

There were impairment losses for intangible assets and goodwill for the year ended December 31, 2019, of \$nil (2018 - \$nil).

11. LEASES

Right of use (ROU) asset

	2019			
	Land	Buildings	Other	Total
Balance at December 31, 2018	3,232	-	-	3,232
Impact of adopting IFRS 16 (Note 26)	-	15,809	628	16,437
Restated balance at January 1, 2019	3,232	15,809	628	19,669
Additions	-	474	71	545
Disposals	-	(256)	(4)	(260)
Amortization charge for the year	(36)	(2,190)	(99)	(2,325)
Balance at December 31, 2019	3,196	13,837	596	17,629

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2019

11. LEASES (continued)

	2019
Interest expense on lease liabilities	611
Expenses relating to short-term leases and low value assets	58
Expenses relating to variable lease payments	1,727
Total amounts recognized in profit or loss	2,396
Repayment of lease liabilities	2,202
Total cash outflow for leases	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, 2019 is \$14,782.

12. OTHER ASSETS

	2019	2018
Investment in associates and joint ventures	935	580
Prepayments	1,163	3,959
Investment property under construction	8,734	-
Receivables	16,292	14,455
Total other assets	27,124	18,994

The fair value of the investment property under construction above as at December 31, 2019 is \$8,894. The fair value has been arrived at on the basis of a valuation completed by management. 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. The fair value measurement of the Credit Union's investment property takes into account the Credit Union's ability to generate economic benefits by using the asset in its highest and best use. The inputs (Level 3) used to calculate the fair value include; market rent per square foot, parking rates per month of \$150 - \$220, vacancy rates of 7.81% and capitalization rates of 5.88%.

13. BORROWINGS

SaskCentral and Concentra

The Credit Union has an authorized line of credit with SaskCentral in the amount of \$95,000 (2018 - \$95,000) in Canadian funds and \$7,000 in U.S. funds (2018 - \$nil). The interest rate on both lines of credit is the SaskCentral prime interest rate plus or minus the applicable discount or margin. At December 31, 2019, the amount outstanding was \$14,173 (2018 - \$nil) for the Canadian account and \$nil (2018 - \$nil) for the U.S. account. A General Security Agreement and an assignment of book debts are pledged as security on both lines of credit. The Credit Union previously had a secured revolving credit line with Concentra Bank in the amount of \$50,000 and an authorized line of credit in U.S funds of \$7,000 as at December 31, 2018. Both of these facilities were discontinued in 2019.

Desjardins

The Credit Union has an authorized credit facility with Desjardins. The facility is a 364 day revolving credit facility available in Canadian funds renewable annually, with a maximum credit available of \$150,000 (2018 - \$100,000). 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 \$150,166 (2018 - \$100,562). At the end of the year, the amount outstanding was \$nil (2018 - \$nil).

The Credit Union has an authorized letter of credit with Desjardins of \$881 (2018 - \$881) related to the construction of property, plant and equipment. At the end of the year the amount outstanding was \$nil (2018 - \$nil) and the interest rate is one-month CDOR (2018 - one-month CDOR) plus or minus the applicable discount or margin.

The Credit Union established a term facility with Desjardins in 2019 to borrow Canadian funds for a term of one, two, or three years with a maximum credit borrowing of \$70,000. In 2019, Conexus executed a 3-year term borrowing with Desjardins, maturing in 2022. The borrowing is secured by collateral in the form of uninsured residential mortgages with a carrying value of \$70,084. The interest rate on the term borrowing is reset monthly based on one-month CDOR plus or minus the applicable discount or margin. At the end of the year the amount outstanding was \$69,923 net of amortized borrowing origination fees.

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2019

14. DEPOSITS

	2019	2018
Demand	2,320,204	2,299,195
Term	1,791,488	1,718,150
Registered plans	762,651	725,551
Accrued interest	27,677	22,690
Total deposits	4,902,020	4,765,586

15. MEMBERSHIP SHARES AND MEMBER EQUITY ACCOUNTS

The authorized share capital is unlimited in amount and consists of shares with a par value of 5 dollars per share. In accordance with legislation, amounts held to the credit of a member in a member equity account as allocated retained earnings become membership shares issued by the Credit Union on an equal basis. Member equity accounts are as provided for by *The Credit Union Act, 1998 (The Act)* and administered according to the bylaws and policy of the Credit Union, which sets out the rights, privileges, restrictions and conditions. These accounts are classified as liabilities rather than equity due to the conditions prescribed by *The Act*. Members have the right to withdraw or terminate membership at any time and there is no provision for holders of member shares to receive the remaining property of the Credit Union on liquidation or dissolution. Upon withdrawal or termination of membership, the Credit Union must pay to the member all shares and other interests, subject to charge and set-off for debt of the member to the Credit Union. These accounts are not guaranteed by Credit Union Deposit Guarantee Corporation (CUDGC).

At the approval of the board of directors, earnings are allocated to members on the basis of patronage, having the meaning patronage allocations. Patronage allocations are credited either to members' equity accounts or deposit accounts (in the form of cash distributions). Patronage allocations credited to members' equity accounts are recorded in membership shares and member equity accounts on the Consolidated Statement of Financial Position.

The Credit Union has a no-fee account for members called FreeStyle. 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, as a result a patronage allocation has not been declared in 2019 (2018 - \$nil). The following table summarizes share capital information:

	2019	2018
Membership shares at January 1 (required for membership)	629	613
New membership shares	51	50
Redeemed membership shares	(53)	(34)
Membership shares at December 31 (required for membership)	627	629
Member equity accounts at January 1 (based on patronage)	18,513	20,129
Patronage allocated	-	-
Patronage paid to members	(1,845)	(1,616)
Member equity accounts at December 31 (based on patronage)	16,668	18,513
Total membership shares and member equity accounts at December 31	17,295	19,142

16. OTHER LIABILITIES

	2019	2018
Accounts payable	9,541	9,066
Payroll related amounts	9,112	8,455
Outstanding settlement items	39,805	27,963
Loyalty points liability	4,405	6,407
Unclaimed balances	1,498	1,336
Non-controlling interest (Note 21)	764	-
Deferred income	319	319
Total other liabilities	65,444	53,546

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2019

17. CAPITAL MANAGEMENT

Objectives and policies

The Credit Union's objectives in managing capital is to generate value for members, exceed regulatory minimums, meet operational requirements, absorb unexpected losses while meeting regulatory minimums, and signal financial strength.

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.

Regulatory capital

Credit Union Deposit Guarantee Corporation (CUDGC), the regulator of Saskatchewan credit unions, has prescribed capital adequacy measures and minimum capital requirements. The capital adequacy rules issued by CUDGC 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 provincial 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 CUDGC in light of national and international developments.

CUDGC 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 P-SIFI to maintain minimum capital adequacy tests as follows: risk-weighted capital ratio of 11.5% (2018 - 10.5%), common equity tier 1 capital to risk-weighted assets of 8.0% (2018 - 7.0%), total tier 1 capital to risk-weighted assets of 9.5% (2018 - 8.5%) and minimum leverage ratio of 5% (2018 - 5%).

Risk-weighted assets are calculated in accordance with the rules established by CUDGC 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.

CUDGC 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 CUDGC Standards or Regulatory Guidance Documents including capital requirements, CUDGC 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

Conexus Credit Union Notes to the Consolidated Financial Statements

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17. CAPITAL MANAGEMENT (continued)

During the year, the Credit Union complied with all internal and external capital requirements. The following table summarizes key capital information:

	2019	2018
Eligible capital		
Common equity tier 1 capital before deductions	533,930	503,584
Total tier 2 capital	24,531	25,265
Total eligible capital before deductions	558,461	528,849
Deductions from eligible capital		
Intangible assets	10,544	11,084
Goodwill	1,234	1,234
Investments in associates	935	580
Total deductions from eligible capital	12,713	12,898
Total eligible capital	545,748	515,951
Risk-weighted assets		
Investment securities	92,015	104,038
Consumer loans	884,706	890,716
Commercial and agricultural loans	2,347,590	2,237,782
Other assets and derivatives	153,735	97,539
Commitments	222,064	265,139
Capital charge for operating risk	373,554	354,390
Total risk-weighted assets	4,073,664	3,949,604
Total eligible capital to risk-weighted assets	13.40%	13.06%
Common equity tier 1 capital to risk-weighted assets	12.79%	12.42%
Total tier 1 capital to risk-weighted assets	12.79%	12.42%
Leverage ratio	8.19%	8.05%

18. OTHER INCOME

	2019	2018
Timing of revenue recognition for contracts with customers		
At a point in time		
Service fees	8,702	9,258
Loan fees	2,898	3,045
Loan insurance fees	4,401	4,071
Payment and credit card revenue	2,171	3,579
Other	4,784	3,927
Over time		
Payment and credit card revenue	760	1,115
Wealth management income	10,515	8,927
Other	1,750	1,801
Total revenue for contracts with customers	35,981	35,723
Realized gains (losses) on investment securities - FVOCI	123	(86)
Unrealized and realized gains (losses) on investment securities - FVTPL	(637)	5,395
Unrealized and realized gains (losses) on loans and advances	699	(16)
Unrealized and realized gains (losses) on derivative financial instruments	127	(41)
Ineffective portion of unrealized gains (losses) on cash flow hedge (Note 4)	4	-
Dividend income	4,473	8,679
Foreign exchange revenue	1,024	1,426
Other	1,721	1,366
Total other income	43,515	52,446

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19. INCOME TAX

Components of income tax expense:	2019	2018
Current income tax expense on profit for current year	8,688	12,115
Deferred income tax expense on origination and reversal of temporary differences	(1,425)	(540)
	7,263	11,575
Income taxes included in other comprehensive income:	2019	2018
Net unrealized gains (losses) on FVOCI investment securities		
Current income tax expense (recovery)	286	(205)
Reclassification of (gains) losses on FVOCI investment securities to income		
Current income tax expense (recovery)	-	19
Cash flow hedges		
Current income tax expense (recovery)	153	-
	439	(186)
Total income tax reported in the consolidated financial statements:	7,702	11,389
Reconciliation of income tax expense:	2019	2018
Profit before income tax	36,171	54,178
Combined federal and provincial income tax rate	27.0%	27.0%
Income taxes at statutory rate	9,766	14,628
Income tax expense adjusted for the effect of:		
Non-deductible expenses	148	91
Non-taxable dividend income	(249)	(214)
Credit Union rate reduction	(283)	(3,070)
Deferred income tax expense resulting from tax rate changes	28	(338)
Other	(2,147)	478
	7,263	11,575
Effective rate of tax	20%	21%
The deferred tax asset is comprised of the following:	2019	2018
Property, plant and equipment	757	815
Allowance for credit losses	3,140	-
Lease liabilities	3,991	-
Total deferred tax assets	7,888	815
The deferred tax liability is comprised of the following:	2019	2018
Intangibles	2,390	740
Right of use assets	3,897	-
Loans and advances	70	60
Other	258	167
Total deferred tax liability	6,615	967
Net deferred tax asset (liability)	1,273	(152)

In 2017, Saskatchewan provincial legislation changed impacting the provincial preferential tax rate for credit unions. The change is being phased in from 2017 through 2020. The effect of this change is that the previously enacted provincial tax rate of 2% in 2016 increased to 4.44% in 2017, 6.75% in 2018, 9.5% in 2019 and 12% in 2020.

20. RELATED PARTY TRANSACTIONS

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.

Remuneration of KMP

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

	2019	2018
Short-term employee benefits	4,069	3,757
Other long-term benefits	-	199
Director remuneration	294	255
	4,363	4,211

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For the year ended December 31, 2019

20. RELATED PARTY TRANSACTIONS (continued)

In the previous table, remunerations shown as short-term employee benefits includes wages, salaries, statutory government contributions, paid annual leave and paid sick leave, performance-based incentive and the value of fringe benefits received, but excludes out-of-pocket expense reimbursements.

The Credit Union's executive management earned salaries, performance-based incentive and benefits as follows:

	2019				2018			
	Salaries	Performance incentive	Benefits	Total	Salaries	Performance incentive	Benefits	Total
Chief Executive Officer	480	120	86	686	480	216	77	773
Chief Financial Officer	235	80	58	373	228	76	57	361
Chief Risk and Compliance Officer	230	68	56	354	226	67	55	348
Chief Operating Officer ⁽¹⁾	-	-	-	-	56	92	23	171
Executive VP - Operations	178	35	45	258	84	-	26	110
Executive VP - Business Banking	196	45	50	291	88	-	28	116
Executive VP - Retail Banking	198	48	51	297	95	-	29	124
Chief Employee Experience Officer ⁽¹⁾	208	59	53	320	198	53	49	300
Chief Member Experience Officer	226	27	66	319	89	-	16	105
Chief Transformation Officer	233	67	58	358	223	69	55	347
Chief Digital Officer	232	66	58	356	221	58	55	334
	2,416	615	581	3,612	1,988	631	470	3,089

(1) Restructured position in 2018

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 related parties

The Credit Union defines related parties as KMP, close family members of KMP, entities controlled and subject to significant influence by the noted parties.

The Credit Union's policy for lending to related parties and receiving deposits from related parties are based on the same terms and conditions, which apply to customers. Executive management and select senior management identified as KMP may receive concessional rates of interest on their loans and deposits, these rates of interest are available to all Credit Union employees.

There are no concessional rates of interest for other related parties unless the related parties have joint borrowings and accounts with executive management or select senior management in which case concessional rates of interest may apply. No loan impairment losses have been recorded against related party balances outstanding during the year (2018 - \$nil).

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

	2019	2018
Loans outstanding at, beginning of year ⁽¹⁾	5,505	6,397
Loans issued during the year	5,390	5,819
Loan repayments during the year	1,637	1,915
Loans outstanding at, end of year	9,258	10,301
Total interest income earned on loans	268	262
Total term, savings and demand deposits, end of year	3,138	3,822
Total interest expense on deposits	30	33

(1) Opening balance differs from the ending balance as it includes additional KMP loans outstanding

Other transactions with related parties

As of December 31, 2019, no other known or potential conflict of interest transactions or circumstances were conducted between related parties and the Credit Union that would be outside of normal market practices or pricing.

Conexus Credit Union Notes to the Consolidated Financial Statements

(In thousands of CDN \$)

For the year ended December 31, 2019

20. RELATED PARTY TRANSACTIONS (continued)

Subsidiaries

The following table presents the name, location of head office, percentage and recorded value of economic interests owned by the Credit Union of each subsidiary:

Name	Head office	Percentage of economic interest owned by the Credit Union	Percentage of economic interest owned by non-controlling interests	Cost of shares or units owned by the Credit Union ⁽¹⁾
Conexus Venture Capital Inc.	Regina, Saskatchewan	100.00%	-	100
CVC Fund 1 LP	Regina, Saskatchewan	78.95%	21.05%	3,043,397
Protexus Holdings Corp.	Regina, Saskatchewan	100.00%	-	15,000,004

(1) In dollars

Transactions between the Credit Union and its subsidiaries are eliminated on consolidation and not disclosed in the consolidated financial statements. In the above table the economic interest equals the voting ownership for all entities except CVC Fund 1 LP where there are no voting units.

Significant influence investments and joint ventures

The Credit Union provides banking services and various support services to CU Dealer Finance Corp (CUDF) and Thrive Wealth Management including management, technology, accounting, human resources, property management, marketing and communication services. The following table presents related party transactions between the Credit Union and both CUDF and Thrive Wealth Management:

	2019	2018
CUDF		
On deposit with the Credit Union	2,407	1,647
Fee for service paid to the Credit Union	258	264
Thrive Wealth Management		
On deposit with the Credit Union	2,637	1,448
Due to the Credit Union	1,900	740
Client list bonus paid to the Credit Union	1,840	692
Fee for service paid to the Credit Union	501	609
Management fee received from the Credit Union	8,638	8,187

The Credit Union has a 25% (2018 – 25%) ownership in Apex Investment GP Inc. There were no transactions between the Credit Union with Apex Investment GP Inc. during the year.

21. NON-CONTROLLING INTERESTS

CVC Fund 1 LP

The Credit Union has 78.95% ownership of a venture capital fund, CVC Fund 1 LP, with 21.05% owned by non-controlling interests. The portion of net assets and income attributable to third parties is reported as non-controlling interest in other liabilities in the Consolidated Statement of Financial Position and profit or loss attributable to non-controlling interest in the Consolidated Statement of Comprehensive Income respectively. The following table summarizes the financial information of CVC Fund 1 LP, before any intra-group eliminations:

	2019
Assets	3,648
Liabilities	20
Revenue	8
Profit (loss)	(227)
Other comprehensive income	-
Total comprehensive income (loss)	(227)

The following table provides a continuity of non-controlling interests:

	2019
Balance at the beginning of the year	-
Increase/decrease in partner capital	812
Comprehensive income (loss) attributable to non-controlling interest for the year	(48)
Balance at the end of the year	764

Conexus Credit Union Notes to the Consolidated Financial Statements

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22. INTEREST RATE SENSITIVITY

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, both on and off the Consolidated Statement of Financial Position. Interest rate risk refers to the potential impact of changes in interest rates on the Credit Union's earnings when maturities of its financial liabilities and financial assets are not matched.

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.

	2019							Total
	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	
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
Current tax assets	-	-	-	-	-	-	1,830	1,830
Property, plant and equipment	-	-	-	-	-	-	79,619	79,619
Right of use assets	-	-	-	-	-	-	17,629	17,629
Intangible assets	-	-	-	-	-	-	10,544	10,544
Goodwill	-	-	-	-	-	-	1,234	1,234
Deferred tax assets	-	-	-	-	-	-	1,434	1,434
Other assets	-	-	-	-	-	-	27,124	27,124
		1,730,802	272,492	1,037,980	3,071,552	86,905	354,710	6,554,441
Liabilities								
Borrowings	2.97%	84,096	-	-	-	-	-	84,096
Deposits	1.48%	1,730,961	321,762	1,292,747	826,363	3,161	727,026	4,902,020
Derivative financial instruments	-	-	325	1,203	3,797	527	-	5,852
Current tax liabilities	-	-	-	-	-	-	51	51
Lease liabilities	3.96%	-	336	1,425	6,444	6,577	-	14,782
Secured debt	2.19%	-	23,367	139,012	723,587	50,215	(5,371)	930,810
Deferred tax liabilities	-	-	-	-	-	-	161	161
Membership shares and member equity accounts	-	-	-	-	-	-	17,295	17,295
Other liabilities	-	-	-	-	-	-	65,444	65,444
		1,815,057	345,790	1,434,387	1,560,191	60,480	804,606	6,020,511
Members' equity								
Accumulated other comprehensive income	-	-	-	-	-	-	298	298
Retained earnings	-	-	-	-	-	-	533,632	533,632
		-	-	-	-	-	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)	-

Conexus Credit Union Notes to the Consolidated Financial Statements

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22. INTEREST RATE SENSITIVITY (continued)

	2018							Total
	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	
Assets								
Cash and cash equivalents	1.49%	154,688	-	-	-	-	57,579	212,267
Investment securities	2.48%	295,767	19,685	81,571	217,864	-	59,354	674,241
Loans and advances	3.94%	1,292,321	234,839	940,586	2,715,061	82,200	11,880	5,276,887
Derivative financial instruments	-	-	391	255	3,539	4	-	4,189
Property, plant and equipment	-	-	-	-	-	-	60,444	60,444
Intangible assets	-	-	-	-	-	-	11,084	11,084
Goodwill	-	-	-	-	-	-	1,234	1,234
Deferred tax assets	-	-	-	-	-	-	815	815
Other assets	-	-	-	-	-	-	18,994	18,994
		1,742,776	254,915	1,022,412	2,936,464	82,204	221,384	6,260,155
Liabilities								
Deposits	1.33%	1,720,421	245,426	964,967	1,124,552	2,132	708,088	4,765,586
Derivative financial instruments	-	-	391	256	3,777	433	-	4,857
Current tax liabilities	-	-	-	-	-	-	4,813	4,813
Secured debt	2.15%	-	26,897	166,766	688,492	30,794	(5,289)	907,660
Deferred tax liabilities	-	-	-	-	-	-	967	967
Membership shares and member equity accounts	-	-	-	-	-	-	19,142	19,142
Other liabilities	-	-	-	-	-	-	53,546	53,546
		1,720,421	272,714	1,131,989	1,816,821	33,359	781,267	5,756,571
Members' equity								
Accumulated other comprehensive income	-	-	-	-	-	-	(1,092)	(1,092)
Retained earnings	-	-	-	-	-	-	504,676	504,676
		-	-	-	-	-	503,584	503,584
Asset/liability gap		22,355	(17,799)	(109,577)	1,119,643	48,845	(1,063,467)	-
Notional amount of derivatives								
Pay side instruments	2.86%	-	(3,151)	(4,161)	(60,084)	(21,717)	-	(89,113)
Receive side instruments	1.87%	-	40,648	3,943	44,522	-	-	89,113
Off balance sheet gap		-	37,497	(218)	(15,562)	(21,717)	-	-
Interest rate gap position		22,355	19,698	(109,795)	1,104,081	27,128	(1,063,467)	-

23. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate fair values of financial instruments:

The fair values of short-term financial instruments, including cash and cash equivalents, other assets and other liabilities are approximately equal to the carrying values.

Fair values of investment securities are based on quoted market prices when available, discounted cash flow calculations based on interest rates being offered for similar investment securities or quoted market prices of similar investments.

For variable interest rate loans that reprice frequently, fair values are approximated by carrying values. Fair values of other loans are estimated using discounted cash flow calculations at market interest rates for groups of loans with similar terms and credit risk.

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23. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Carrying values approximate fair values for certain deposits, borrowings and membership shares and member equity accounts without specified maturity terms. Fair values for secured debt, certain deposits and borrowings with specific maturity terms 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.

The following table represents the fair values of the Credit Union's financial instruments, their related carrying values and fair value hierarchy levels. The fair values, presented for information only, reflect conditions that existed only at the respective reporting dates and do not necessarily reflect future value or the amounts the Credit Union might receive or pay if it were to dispose of any of its financial instruments prior to their maturity. There were no transfers in the fair value hierarchy in 2019.

	2019					
	Carrying value	Fair value	Difference	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)
Financial assets						
<u>Amortized cost</u>						
Cash and cash equivalent	266,522	266,522	-	266,522	-	-
Investment securities	285,447	285,664	217	-	285,664	-
Loans and advances	5,440,104	5,439,071	(1,033)	-	5,439,071	-
Other assets	16,292	16,292	-	-	16,292	-
Total amortized cost	6,008,365	6,007,549	(816)	266,522	5,741,027	-
<u>Fair value through profit or loss</u>						
Derivative financial instruments	5,951	5,951	-	-	5,951	-
Investment securities	276,313	276,313	-	-	276,313	-
Total fair value through profit or loss	282,264	282,264	-	-	282,264	-
<u>Equity securities designated as FVOCI</u>						
Investment securities	37,567	37,567	-	-	37,567	-
Total equity securities designated as FVOCI	37,567	37,567	-	-	37,567	-
<u>Debt securities measured at FVOCI</u>						
Investment securities	97,265	97,265	-	-	97,265	-
Total debt securities measured at FVOCI	97,265	97,265	-	-	97,265	-
Total financial assets	6,425,461	6,424,645	(816)	266,522	6,158,123	-
Financial liabilities						
<u>Fair value through profit or loss</u>						
Derivative financial instruments	5,852	5,852	-	-	5,852	-
Total fair value through profit or loss	5,852	5,852	-	-	5,852	-
<u>Amortized cost</u>						
Borrowings	84,096	84,096	-	-	84,096	-
Secured debt	930,810	930,053	(757)	-	930,053	-
Deposits	4,902,020	4,906,381	4,361	-	4,906,381	-
Membership shares and member equity accounts	17,295	17,295	-	-	17,295	-
Other liabilities	64,361	64,361	-	-	64,361	-
Total amortized cost	5,998,582	6,002,186	3,604	-	6,002,186	-
Total financial liabilities	6,004,434	6,008,038	3,604	-	6,008,038	-

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23. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	2018					
	Carrying value	Fair value	Difference	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)
Financial assets						
<u>Amortized cost</u>						
Cash and cash equivalent	212,267	212,267	-	122,439	89,828	-
Investment securities	228,970	227,125	(1,845)	-	227,125	-
Loans and advances	5,272,574	5,271,953	(621)	-	5,271,953	-
Other assets	14,455	14,455	-	-	14,455	-
Total amortized cost	5,728,266	5,725,800	(2,466)	122,439	5,603,361	-
<u>Fair value through profit or loss</u>						
Derivative financial instruments	4,189	4,189	-	-	4,189	-
Investment securities	312,068	312,068	-	-	312,068	-
Total fair value through profit or loss	316,257	316,257	-	-	316,257	-
<u>Equity securities designated as FVOCI</u>						
Investment securities	36,490	36,490	-	-	36,490	-
Total equity securities designated as FVOCI	36,490	36,490	-	-	36,490	-
<u>Debt securities measured at FVOCI</u>						
Investment securities	96,713	96,713	-	-	96,713	-
Total debt securities measured at FVOCI	96,713	96,713	-	-	96,713	-
Total financial assets	6,177,726	6,175,260	(2,466)	122,439	6,052,821	-
Financial liabilities						
<u>Fair value through profit or loss</u>						
Derivative financial instruments	4,857	4,857	-	-	4,857	-
Total fair value through profit or loss	4,857	4,857	-	-	4,857	-
<u>Amortized cost</u>						
Secured debt	907,660	911,879	4,219	-	911,879	-
Deposits	4,765,586	4,768,709	3,123	-	4,768,709	-
Membership shares and member equity accounts	19,142	19,142	-	-	19,142	-
Other liabilities	52,791	52,791	-	-	52,791	-
Total amortized cost	5,745,179	5,752,521	7,342	-	5,752,521	-
Total Financial liabilities	5,750,036	5,757,378	7,342	-	5,757,378	-

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24. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Credit Union is primarily exposed to the following risks as a result of holding financial instruments: credit risk; market risk; and liquidity risk. The following is a description of those risks and how they are managed.

Credit risk

Credit risk is the risk of financial loss resulting from a borrower or counterparty failing to meet its obligations. Credit risk primarily arises from the Credit Union's direct lending activities and the possibility that members will be unable or unwilling to repay some or all of the principal amount they have borrowed, and/or the interest accrued. The Credit Union's estimate of its exposure to credit risk with respect to loans is reported in Note 6 and Note 7. For investment securities and derivative instruments, the credit risk the Credit Union is exposed to the risk of default by the counterparty, as reported in Note 5 and Note 4.

Credit risk management processes and controls for loans

The credit granting process is controlled by board approved policies, as well as detailed loan policy manuals for each credit portfolio type: commercial and consumer. These detailed loan policy manuals are developed, maintained and approved by the Credit Union's Credit Management Centre (CMC). Each credit application is assessed in accordance with these policies. The assessment of commercial and agricultural credit includes the assignment of a credit score in accordance with internal credit rating criteria.

The Credit Union's credit risk processes and controls relating to lending activities are managed through the CMC department. The function of CMC includes development of lending policies, monitoring of organizational credit risk and oversight approval of lending where the amount exceeds the authorization levels for retail management or where the underwriting is outside of the operational lending policies. Lending decision-making authority is determined in compliance with the delegation of authority set out in the credit risk management policies. The CMC also provides approval and underwriting support to lenders for loans that are considered to be complex, unusual, higher risk or problematic. Credit requests above the CMC limits are referred to the Executive Credit Committee (ECC) for approval.

The detailed lending policies set out criteria to determine annual review requirements for all loan types to ensure adequate monitoring of the Credit Union's credit exposure. Accounts that are deemed to be higher than average risk are subject to more frequent monitoring. These accounts are brought to the attention of the CMC to provide direction on specific monitoring requirements.

At regular meetings, the board and Risk Committee receive reports from the internal auditors and management. These reports provide information identifying quality of underwriting, loan and industry mix, current and potential loan risk exposures, delinquency, compliance to policy and trending information.

Credit risk management processes for modified loans

When the terms of a loan are modified and the modification does not result in derecognition of the financial asset, the determination of whether the asset's credit risk has increased significantly reflects comparison of;

- its remaining lifetime probability of default (PD) at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Credit Union renegotiates loan to members in financial difficulties (referred to as 'forbearance activities') to maximize collection opportunities and minimize the risk of default. A loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to meet the revised terms.

The revised terms usually include extending the maturity and changing the timing of interest payments.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered credit-impaired/in default such that the loss allowance reverts to being measured at an amount equal to 12 month ECL.

Credit risk limits for loans

The Credit Union has implemented certain credit limits through board policy. These limits are in place to manage the overall credit risk of the loan portfolio and establish parameters for credit diversification.

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24. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

The Credit Union has established limits for each loan portfolio type (agriculture, consumer mortgage, consumer non mortgage, and commercial loans), limits by industry, as well as maximum borrowing limits for individual borrowers. The Credit Union has a maximum exposure limit to an individual borrower, or connected borrowers, of \$50 million.

The Credit Union also controls credit risk using various risk mitigation techniques. The most common method used to mitigate credit risk is to obtain quality security from counterparties. A second common risk mitigation method is to syndicate loans as a means of transferring to a third party a portion of the credit risk.

Guarantees for loans

In some cases, the Credit Union obtains third-party guarantees and insurance to reduce the risk of loan default. In total, 22% (2018 - 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 Genworth Financial Canada at 13% (2018 - 14%) or Canada Mortgage and Housing Corporation (CMHC), a government owned corporation, at 7% (2018 - 6%). Other noteworthy guarantors include the Government of Canada's Canada Small Business Financing Program (CSBFP) for small business loans at 1% (2018 - 1%) and the Government of Canada's Canadian Agricultural Loans Act (CALA) program for farm improvement loans at 1% (2018 - 1%) of total loans.

Security for loans

The Credit Union has a credit risk management process that involves policies for the valuation of security on loans. Security limits are set based on the type of loan and industry with a related policy that dictates how security is valued. 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.

Credit risk grading framework

The Credit Union's credit risk grading framework for loans and investment securities is detailed below.

Commercial loan internal Risk rating	Consumer loan risk category	Investment securities published credit ratings	Description	Basis for recognizing expected credit losses
Internal risk rating 1 - 4: Low risk	Credit score > 661: Low risk	Rating AAA - BBB: Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Stage 1
Internal risk rating 5 - 7: Moderate risk	Credit score 429 - 660: Moderate risk	Rating BB - CCC: Moderate risk	Amount is > 30 days past due or there has been a significant increase in credit risk since initial recognition	Stage 2
Internal risk rating 8: High risk	Credit score < 428: High risk	Rating < CC: High risk	Amount is > 90 days past due or there is evidence indicating the asset is credit-impaired	Stage 3

Credit quality analysis

The following table sets out information about the credit quality of loans and investment securities excluding liquidity reserves, balances on deposit with SaskCentral, and SaskCentral shares. Investment securities classified as FVTPL are included in the following table for investment rating disclosure purposes. Unless specifically indicated, the amounts in the table represent gross carrying amounts.

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24. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Ratings in the below table are provided by Dominion Bond Rating Service (DBRS) and Transunion unless otherwise indicated. The Credit Union identifies and implements appropriate monitoring and/or corrective action on investments that are expected to be downgraded to below investment grade. Included in the below allowance is \$864 (2018 - \$479) for stage 1 commitments, \$479 (2018 - \$284) for stage 2 commitments and \$355 (2018 - \$288) for stage 3 commitments.

	2019			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances				
Consumer loans				
Credit score > 660: Low risk	2,057,497	517,745	983	2,576,225
Credit score 429 - 660: Moderate risk	3,086	320,264	11,496	334,846
Credit score < 429: High risk	-	-	1,939	1,939
Total consumer loans	2,060,583	838,009	14,418	2,913,010
Commercial loans				
Internal risk rating 1 - 4: Low risk	1,440,539	338,051	3,725	1,782,315
Internal risk rating 5 - 7: Moderate risk	17,485	630,068	10,333	657,886
Internal risk rating 8: High risk	-	-	84,308	84,308
Total commercial loans	1,458,024	968,119	98,366	2,524,509
Gross loans and advances	3,518,607	1,806,128	112,784	5,437,519
Allowance for credit losses	(1,321)	(5,854)	(14,675)	(21,850)
Carrying amount - Loans and advances	3,517,286	1,800,274	98,109	5,415,669
Investment securities				
Rating AAA - BBB: Low risk	332,741	-	-	332,741
Unrated	22,638	-	-	22,638
Total investments securities	355,379	-	-	355,379
Allowance for credit losses	(62)	-	-	(62)
Carrying amount - Investment securities	355,317	-	-	355,317
	2018			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances				
Consumer loans				
Credit score > 660: Low risk	1,978,634	546,964	537	2,526,135
Credit score 429 - 660: Moderate risk	4,476	324,658	7,822	336,956
Credit score < 429: High risk	-	-	2,279	2,279
Total consumer loans	1,983,110	871,622	10,638	2,865,370
Commercial loans				
Internal risk rating 1 - 4: Low risk	1,423,444	321,748	7,706	1,752,898
Internal risk rating 5 - 7: Moderate risk	10,929	570,966	21,726	603,621
Internal risk rating 8: High risk	-	-	47,648	47,648
Total commercial loans	1,434,373	892,714	77,080	2,404,167
Gross loans and advances	3,417,483	1,764,336	87,718	5,269,537
Allowance for credit losses	(876)	(5,213)	(10,170)	(16,259)
Carrying amount - Loans and advances	3,416,607	1,759,123	77,548	5,253,278
Investment securities				
Rating AAA - BBB: Low risk	276,686	-	-	276,686
Unrated	21,302	-	-	21,302
Total investments securities	297,988	-	-	297,988
Allowance for credit losses	(33)	-	-	(33)
Carrying amount - Investment securities	297,955	-	-	297,955

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24. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

The below table outlines other disclosures related to credit-impaired financial instruments in stage 3.

	2019	2018
Assets acquired via enforcement of security during the year	9,860	4,471
Contractual amount outstanding on financial assets written off that are still subject to enforcement activity	3,645	1,710
Fair value of collateral held as security for stage 3 loans	159,785	117,594
Stage 3 loans without an allowance due to adequate security	79,479	59,373

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.

Credit risk management for investment securities and derivative instruments

Investment securities and derivative management is performed in accordance with board approved policies. Investment policies set out eligible investment securities and limits with respect to issuer groups, single entity exposures, and maximum terms. Eligible derivatives, including limits and counterparties are defined in policy. Authority limits to purchase and dispose of investment securities and derivatives are established in policy. Credit risk within the investment securities and derivative portfolios is monitored and measured by reviewing exposure to individual counterparties to ensure total investment securities and derivatives are within policy limits by issuer weightings and by dollar amount. This also mitigates concentration risk in the portfolio. The quality of the counterparties is assessed through published credit ratings.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of two types of risk: interest rate risk and currency risk. 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. Interest rate movements can cause changes in interest income and interest expense and, although these changes move in the same direction, their relative magnitude will have a favourable or unfavourable impact on annual net interest income and the economic value (present value of estimated cash flows) of members' equity. The extent of that impact depends on several factors, including asset and liability matching and interest rate curves. Regular simulation modeling is performed to assess the impact of various risk scenarios on net interest income and the economic value of members' equity and to guide the management of interest rate risk.

Processes and controls

Interest rate risk is managed in accordance with specific operating and board policies. The policies set risk limits based on the impact of a change in interest rates on the following: annual net interest income and economic value of members' equity.

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, stochastic analysis (earnings at risk), 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 2019, the Credit Union's interest rate risk was within acceptable levels, as measured by board approved parameters.

Interest rate risk is reported to the Asset Liability Management Committee (ALCO). One of the Committee's primary responsibilities is to provide oversight and direction for the management of interest rate risk. The ALCO establishes and approves targets and strategies related to interest rate risk management and liquidity management. The ALCO is comprised of select executive management and other senior management from the areas of finance, risk management, lending and retail operations. The ALCO frequently reviews historical and forward looking performance and risk measurements as part of a standardized reporting package. These reports include simulation results on interest margin with stress testing and scenario analysis.

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24. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Stress testing and scenario analysis

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), 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).

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.

	2019	2018
100-basis-point increase in interest rate:		
Impact on net income	8,895	5,494
Impact on other comprehensive income	(1,433)	(2,045)
Impact on economic value of equity	-6.75%	-6.93%
100-basis-point decrease in interest rate:		
Impact on net income	(5,680)	(11,926)
Impact on other comprehensive income	1,462	2,113
Impact on economic value of equity	5.30%	7.42%

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Credit Union is exposed to currency risk because of members' U.S. dollar deposits. The Credit Union mitigates currency risk by investing in offsetting foreign denominated financial instruments of similar terms. Currency risk is managed in accordance with prescribed regulatory requirements and internal board policy, including limits with respect to the maximum holdings of unhedged foreign currency.

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, 2019, the percentage of foreign denominated financial assets is 105% (2018 - 102%) of foreign denominated financial liabilities.

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.

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 certain product characteristics, including commitments to extend credit and redemption features on deposits. One of the Credit Union's primary objectives as a financial institution is to prudently manage liquidity to ensure that the Credit Union is able to generate or obtain sufficient cash or cash equivalents in a timely manner, at a reasonable price, to meet commitments as they become due, even under stressed conditions. Liquidity management ensures variations in cash flows are managed on a daily and seasonal basis.

Liquidity risk is managed through a three tiered structure: local credit union level; the Saskatchewan provincial credit union system tier; and the national Canadian credit union system tier. At the local level, the Credit Union's liquidity risk is managed according to an established framework that includes: established strategies and policies for managing liquidity risk; maintaining a portfolio of liquid assets; measuring and monitoring funding requirements; managing market access to funds; stress testing; contingency planning; and internal controls over management practices and processes. At the provincial level, SaskCentral manages a provincial statutory liquidity pool on behalf of Saskatchewan credit unions.

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24. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

At the national level (national liquidity program), SaskCentral is party to the Inter-Central Liquidity Agreement whereby SaskCentral can access bi-lateral credit lines with the other participating centrals for the purpose of accessing funding in a liquidity event. SaskCentral is required to maintain liquidity investments in support of these bi-lateral credit lines.

Liquidity management framework

The Credit Union's liquidity management framework is reviewed and documented in a liquidity risk management plan. The plan also identifies the long-term liquidity requirements of the Credit Union and describes the strategies to meet funding needs.

The plan is periodically reviewed by management and approved annually by the Risk Committee of the board of directors. Liquidity risk is managed in accordance to specific operating and board policies. Board policies set out the level of acceptable liquidity risk and the Credit Union's processes and controls for managing liquidity. As required by policy, the Credit Union has established limits and requirements with respect to: 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.

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.

Deposit liabilities are the Credit Union's primary funding source. Accordingly, diversification of deposits by product type, counterparty and term structure is an important element of the liquidity management framework. The Credit Union maintains access to borrowings facilities as detailed in Note 13 to augment and diversify liquidity requirements. The Credit Union also uses securitization, loan sales and syndications to manage funding requirements.

Credit Union Deposit Guarantee Corporation (CUDGC), the regulator of Saskatchewan credit unions, prescribes liquidity adequacy measures and minimum liquidity requirements. The liquidity adequacy rules issued by CUDGC are 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 new for 2019 is 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 100%. 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. CUDGC 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%. During the year the Credit Union maintained internal liquidity adequacy targets that exceeded regulatory requirements.

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

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24. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

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

	December 31, 2019		December 31, 2018	
	Total unweighted value	Total weighted value	Total unweighted value	Total weighted value
High-quality liquid assets				
Level 1 assets				
Cash and cash equivalents	33,125	33,125	62,749	62,749
SaskCentral - statutory liquidity deposits	325,968	325,968	388,114	388,114
Federal and provincial government	24,868	24,868	43,461	43,461
Total Level 1 assets	383,961	383,961	494,324	494,324
Level 2A assets				
SaskCentral - statutory liquidity deposits	46,011	39,110	19,595	16,656
Total Level 2A assets	46,011	39,110	19,595	16,656
Level 2B assets				
SaskCentral - statutory liquidity deposits	106,233	53,117	32,127	16,063
Total Level 2B assets	106,233	53,117	32,127	16,063
Total high-quality liquid assets	536,205	476,188	546,046	527,043
Cash Outflows				
Retail and small business deposits	2,910,977	112,540	2,840,703	109,448
Unsecured wholesale funding	1,963,366	222,089	1,902,193	210,026
Secured funding run-off	14,173	3,696	-	-
Additional requirements	1,132,243	78,058	1,096,175	73,304
Total cash outflows	6,020,759	416,383	5,839,071	392,778
Cash inflows				
Retail and small business customers	16,320	8,160	24,008	12,004
Other wholesale inflows	10,840	5,420	12,197	6,099
Receivable from financial institutions	233,397	233,397	149,691	149,691
Other contractual inflows	8,425	8,425	8,014	8,014
Total cash inflows	268,982	255,402	193,910	175,808
Total net cash outflows	5,751,777	160,981	5,645,161	216,970
Liquidity coverage ratio		295.80%		242.91%

The following table summarizes the Credit Union's liquid assets at December 31:

	2019	2018
Cash and cash equivalents	266,522	212,267
Other marketable investment securities	98,319	131,608
Statutory liquidity investment securities at SaskCentral	506,539	483,286
Total liquid assets	871,380	827,161

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.

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24. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

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.

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
Other liabilities	65,444	-	-	-	-	-	65,444
	4,365,351	678,626	452,423	325,509	211,412	60,407	6,093,728
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	
2018							
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	3,655,176	697,365	258,741	100,864	76,548	2,065	4,790,759
Secured debt	209,014	174,442	150,445	209,785	179,429	30,680	953,795
Membership shares and member equity accounts	19,142	-	-	-	-	-	19,142
Other liabilities	53,546	-	-	-	-	-	53,546
	3,936,878	871,807	409,186	310,649	255,977	32,745	5,817,242
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	342,491	-	-	-	-	342,491	
Commitments to extend credit	682,467	-	-	-	-	682,467	
	1,024,958	-	-	-	-	1,024,958	

Processes and controls

Various internal controls have been implemented into the liquidity management process. Specifically, the liquidity position of the Credit Union is regularly reported to executive management, ALCO and the board. Included in the ALCO mandate is to review, monitor and set management risk limits with respect to liquidity. A review is conducted by the Enterprise Risk Management (ERM) department on the 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.

Stress testing and scenario analysis

Stress testing and scenario analysis is performed to assess the adequacy of liquidity. Contingency plans address liquidity management under scenario events or 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.

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(In thousands of CDN \$)

For the year ended December 31, 2019

25. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

In the ordinary course of business, the Credit Union has legal proceedings brought against it and provisions are recorded when appropriate. It is the opinion of management that final determination of these claims will not have a material adverse impact on the Credit Union.

In 2019, the Credit Union recorded a provision of \$960 in other liabilities based on the conditions of a loan service arrangement. The settlement of the provision is expected to occur in 2020. The estimate has been based on expected future cash outflows.

Other commitments

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, see Note 4. The pre-determined threshold is established in the International Swaps and Derivatives Association master agreement (ISDA) and the Credit Support Annex schedule (CSA), which are counterparty specific. At the end of December 31, 2019 the pre-determined threshold was not triggered.

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

2020	11,918
2021	3,874
2022	3,357
2023	1,645
2024	1,255
Thereafter	3,415
Total other commitments	25,464

26. EXPLANATION OF TRANSITION TO IFRS 16

On transition to IFRS 16 Leases, the Credit Union recognized additional right of use (ROU) assets and lease liabilities of \$16,437 with a \$nil impact to retained earnings. Under the modified retrospective approach the Credit Union has measured the ROU asset at an amount equal to the lease liability adjusted for prepaid or accrued lease payments in the Consolidated Statement of Financial Position directly before the date of initial application of \$3,232. When measuring lease liabilities, the Credit Union discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted average rate applied is 3.76%.

	January 1, 2019
Operating lease commitments at December 31, 2018 as disclosed in the Credit Union's consolidated financial statements	19,753
Recognition exemption for:	
Short-term leases	-
Leases of low-value assets	-
Extension and termination options reasonably certain to be exercised	6,642
Ineligible lease payments excluded from the measurement of the liability	(7,130)
Undiscounted lease payments as at January 1, 2019	19,265
Effect of discounting cash flows	(2,828)
Lease liabilities recognized as at January 1, 2019	16,437