Member Financial Package

connectFirst
credit union

Member Financial Package

Letter to Members

2023 Management's Discussion & Analysis

2023 Financial Results

connectFirst
credit union

Letter to Members,

As we take a moment to look back on 2023, it's clear that we've traveled through a season of unprecedented challenges. Across Alberta and beyond, we've continued to face economic uncertainties and geopolitical tensions that have led to rising costs in essential areas of our lives and created volatility in the markets. Particularly in our province, we've seen the rising costs of housing – a double-edged sword that signals a budding optimism around the future of Alberta while also creating difficulties in our housing market. Adding to these challenges, we've seen interest rates increase at an exceptionally rapid pace, as the Bank of Canada raised rates to heights we have not encountered since the 2000s. These challenges have touched everyone – our people, our communities, our businesses, our province, and the very foundation of connectFirst. Yet, in the face of these headwinds, we never lost sight of what truly matters: standing together, with and for our members. We didn't just navigate the storm; we took decisive steps to build a stronger and more sustainable future for our credit union.

One such step was our pursuit of a strategic merger with Servus Credit Union – a move that's not about weathering the current climate but about building the credit union of tomorrow. By bringing together the best of both, we're creating an even stronger credit union that will remain firmly rooted in our cooperative values, but with more and better capabilities to serve you – our members. This merger, once finalized, will allow us to expand our ability to make a real difference in the lives of Albertans.

Despite our proactive approach and focus on long-term resilience, the immediate effects of the economic environment on connectFirst's performance cannot be overlooked. This year, our net income took a step back from the record-breaking highs of the previous year. It's an outcome that reflects the tough landscape we've had to manage, which squeezed our bottom line and heightened risk in some areas of our business. It's important to note that there were many areas of our credit union that shone brightly despite these difficulties. And while overall asset growth and profitability were modest, we are proud to maintain our strong tradition of sharing dividends with our members while continuing to invest in our people, products, and technology. All these serve as a testament to our commitment to keeping connectFirst a vibrant and sustainable credit union, today and into the future.

Although F2023 gave us mixed results, we remain incredibly proud of our credit union's resilience and the achievements of our employees across Alberta. It's no doubt that the past few years have been turbulent, yet we never ceased to do everything within our power to Do What's Right for Every Member. Recognizing connectFirst's role as a beacon of hope in our province is a responsibility we don't take lightly. The work we do matters, so we'll always embrace the important part we play in uniting people, empowering individuals and communities, and helping Albertans achieve their aspirations by Making Money Make a Difference.

As we look to the future, it's with a heart that's full of optimism and gratitude. We thank you for your trust and support – it means everything. Together, we look forward to stepping into an even brighter and more promising future.

With heartfelt thanks,

K.E. Holland

Andrew Eberl

Kendra Holland
Interim CEO

Andrew Eberl
Board Chair

2023 Management's Discussion & Analysis

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NOTE REGARDING FORWARD LOOKING INFORMATION

This financial report contains forward-looking statements about the operations, objectives and expected financial performance of Connect First Credit Union Ltd. ("connectFirst" or the "Credit Union"). These statements are subject to risk and uncertainty. Actual results may differ depending on several factors, including but not limited to legislative, regulatory or tax changes, interest rates, accounting standards, capital markets, competition and general economic conditions in Alberta and Canada. These issues should be given careful consideration and readers should not place undue reliance on these forward-looking statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis ("MD&A") provides additional commentary and information on the results of operations and financial performance of our Credit Union for the year ended October 31, 2023. The MD&A is an integral part of the annual report and should be read in conjunction with the consolidated financial statements.

Like the financial statements, the MD&A allows us to demonstrate our accountability to members for effective stewardship of resources and for meeting strategic objectives. The financial statements provide a snapshot of our Credit Union's financial status including the results of our operations for the reporting period presented. The MD&A delves into the why behind these results.

By providing a balanced discussion of operational results, financial condition, and future prospects, the MD&A lets members look at connectFirst through the eyes of management. The MD&A is current as of January 17, 2024, and should be read in conjunction with connectFirst's Consolidated Financial Statements as at and for the year ended October 31, 2023 (the "Consolidated Financial Statements").

The following discussion and analysis are the responsibility of management and is approved by the Audit and Finance Committee of the Board of Directors.

ABOUT US

connectFirst, one of the largest and most successful credit unions in Canada, is a full-service financial institution with over $8 billion in Assets Under Administration ("AUA"). connectFirst employs 789 Albertans, offering a range of financial products and advice in more than 40 communities across central and southern Alberta. It serves over 133,000 members through a community-focused approach to banking.

We're unlike your typical bank. While we do offer banking, borrowing, and investment solutions to members across Alberta, our focus goes much beyond that. To us, banking is about more than money; it's about people. Every year, our employees renew their commitment to our "Member Pledge". This pledge is our promise to help our members achieve their dreams by growing our expertise, know-how and passion; to create remarkable experiences in every interaction by connecting with and understanding our members' needs; and to build a more prosperous Alberta by helping our members and communities grow.

We rely on exceptional employees to achieve our goals, and we're continually building a culture where employees feel engaged and inspired to perform at their best.

We take great pride in being regarded as one of the best, a distinction underscored by being recipients of ***'Canada's Best Managed Companies Award'*** for 24 consecutive years since 1999. This has elevated us to the status of Platinum Club members, highlighting our sustained excellence in management practices over a significant period.

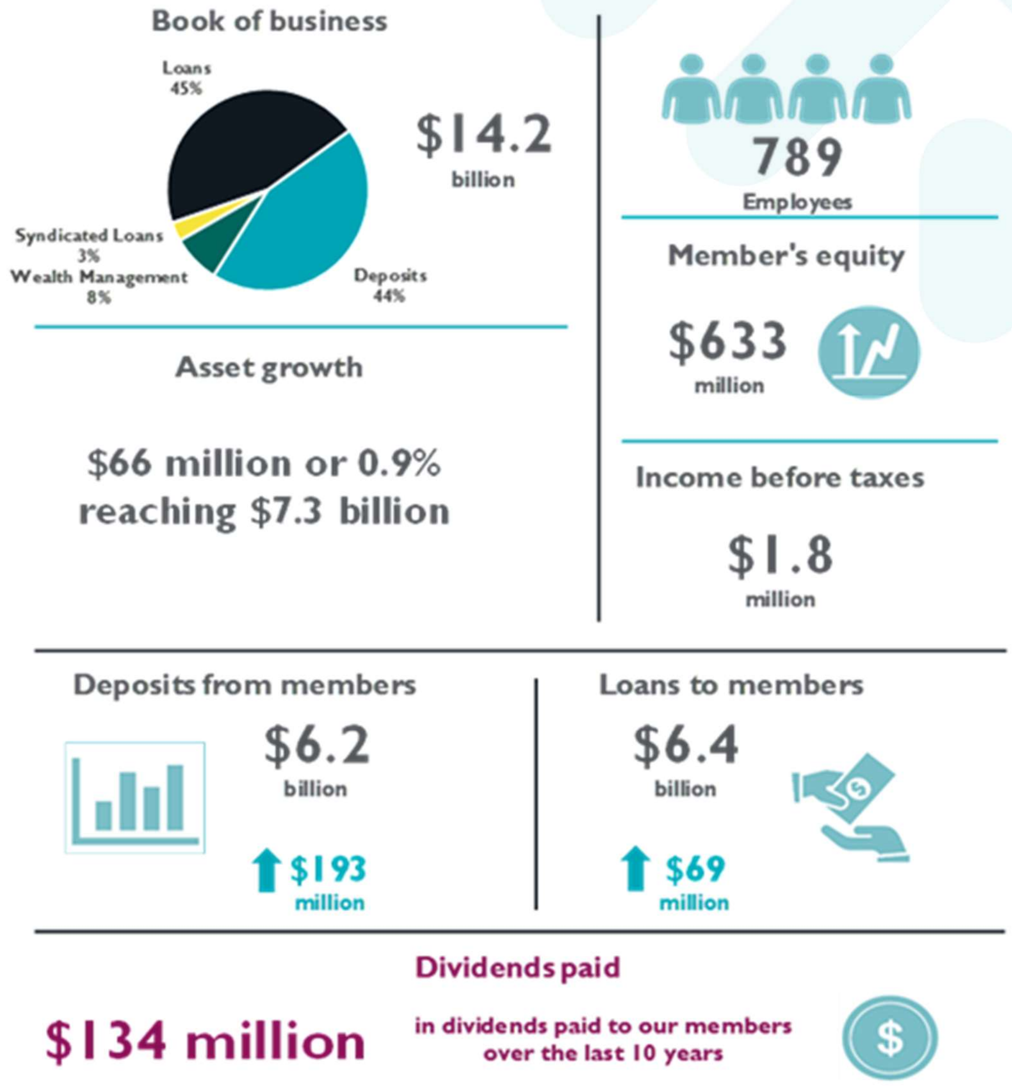
Our success is deeply intertwined with our members, so we've built up over $633 million in members' equity to show our financial strength and commitment. In 2023, this shared success was reflected in the distribution of over $26 million in dividends to our members.

We're firmly rooted in placing communities at the core of our operations. Continuing with this tradition, 2023 saw us investing over $385,000 through our branch-led 'NeighbourGood' program. This substantial contribution is part of our ongoing effort to bank on brighter futures, extending beyond financial support to include mentoring and empowering students, partnering with non-profits, and enriching the communities we're part of.

2023 – FINANCIAL HIGHLIGHTS

In the face of increasing interest rates and higher inflation, connectFirst experienced a decline in profitability compared to the previous year. In a year marked by a challenging financial landscape, our results were notably affected by decreased lending activity and compressed interest margin - the difference between the interest earned on loans and paid on deposits. The broader economic volatility and risk also necessitated increased allocations for loan losses. Despite these challenges, connectFirst's strategic expense management and focus on non-interest revenue streams enabled the Credit Union to achieve a modest profit during the year.

On March 3, 2023, the connectFirst Board of Directors announced their intention to pursue a merger with Servus Credit Union ("Servus"), a strategic move and testament to their vision for growth and confidence in a strong financial future for both our organizations.



2023 – YEAR IN REVIEW

For connectFirst, Fiscal 2023 was a year of navigating through and embracing transformative opportunities. Amidst ongoing economic volatility, marked by the Bank of Canada's ("BoC") unprecedented interest rate hikes to curb inflation, we stayed steadfast in our mission. This year also heralded the announcement of our intent to merge with Servus, a strategic move aimed at consolidating our strengths to better serve Albertans and contribute to our province's flourishing economy. This was met with overwhelming support from our members, with 85% voting in favour, underscoring their trust and belief in our shared vision.

As we progressed towards this merger, we achieved critical milestones, including approval from the Credit Union Deposit Guarantee Corporation ("CUDGC"), the authoritative oversight body for credit unions in Alberta. The remaining step to complete this landmark transformation is completing compliance with the merger provisions of Canada's Competition Act. Once realized, this merger will create the second-largest credit union in Canada by assets under administration.

During the year, we continued to invest in our people, culture, and infrastructure, ensuring we stay attuned to our members' evolving needs and laying a solid foundation for a successful integration with Servus. Our commitment to growth and innovation was also evident in the completion of four new branches - Medicine Hat, Oakridge, Downtown Core and Northgate - and a new space for the commercial team in downtown Calgary.

Despite facing economic headwinds like net interest margin compression and unforeseen merger-related costs, our core operations demonstrated remarkable resilience, driving strong revenue generation. Our efforts were rewarded with a commendable Net Promoter Score ("NPS")[1] of +33 at the end of the fiscal year, reflecting the growing trust and satisfaction among our members.

As we navigate an uncertain economic landscape, our commitment remains unwavering: ***To Do What's Right For Every Member***. Our pledge is to empower our members' dreams through our expertise, know-how and passion. In both prosperous and challenging times, we are resolute in our mission to create a stronger Alberta, nurturing the communities we live in and serve, every single day.

FINANCIAL PERFORMANCE

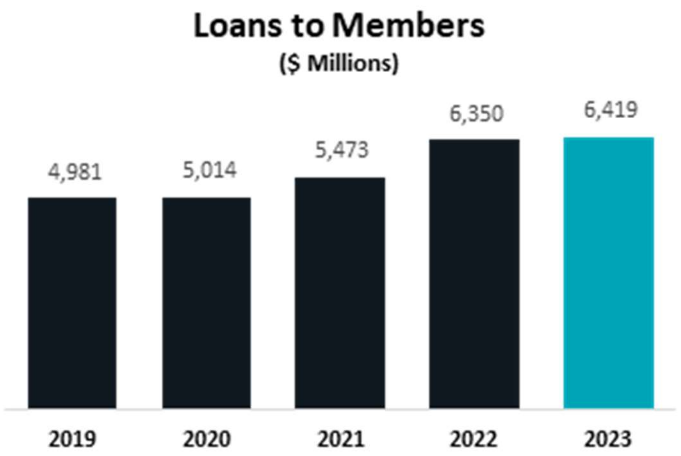
($ Thousands)	2023	2022	2021	2020	2019
Statement of Financial Position					
Assets	7,304,149	7,238,209	6,286,489	5,954,170	5,787,141
Liabilities	6,670,710	6,594,731	5,701,244	5,427,421	5,265,139
Equity	633,439	643,478	585,245	526,749	522,002
Statement of Comprehensive Income					
Financial Margin	138,971	156,214	126,647	101,853	107,999
Other income	24,586	22,710	23,522	21,932	22,844
Managed Expenses	143,778	136,059	119,338	102,978	104,873
Charge for Loan Impairment	17,935	16,562	5,664	16,938	5,960
Income Before Taxes	1,844	26,303	25,167	3,869	20,010
Regulatory Capital & Ratios					
Regulatory Capital	633,094	642,846	580,747	521,975	516,710
Capital to Assets	8.67%	8.91%	9.23%	8.77%	8.93%
Risk Weighted Capital	13.49%	13.63%	14.15%	14.34%	14.68%
Return on Assets	0.03%	0.39%	0.41%	0.07%	0.35%
Interest Margin	1.91%	2.31%	2.07%	1.73%	1.88%

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets

Total assets of the Credit Union increased $65.9 million (+0.9%) over the previous year.

Loans

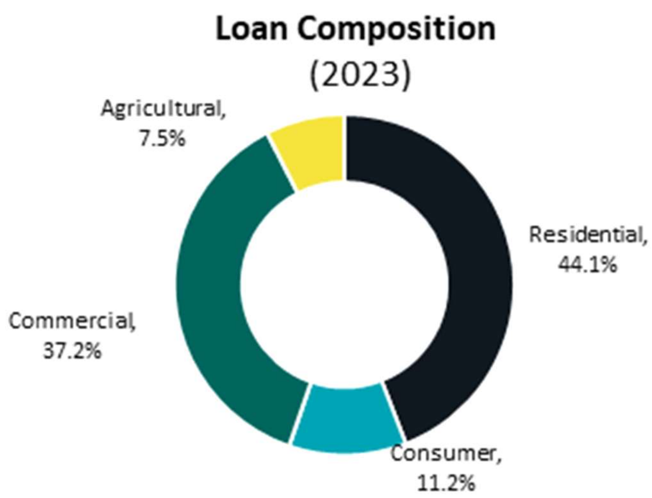


Total loans to members increased $68.8 million (+1.1%) from a year ago, showing exceptional growth in Consumer lending and modest growth in other areas. Loans to members are comprised of four categories that reflect the demand for credit within Alberta. These categories include:

- Residential mortgages;
- Consumer loans;
- Commercial and business banking;
- Agricultural loans.

The rising interest rates have pushed mortgage rates to their highest level since the early 2000s. Housing affordability has become more difficult in Alberta. With higher interest rates, a downturn in the economy is underway, and with the fear of a possible recession on the horizon, Albertans are less eager to take on the purchase of new homes and the associated debt that goes along with it. We continue to be competitive in the marketplace and remain committed to growing this area of our portfolio, while at the same time doing what it is right for all members to help them navigate through this period of high interest rates. The Credit Union ended the year at $2.83 billion with traditional residential mortgage lending comprising 44.1% (2022 – 44.6%) of the total lending portfolio. During Fiscal 2023, residential mortgages remained relatively flat with a decrease of $2.6 million (-0.1%) over the previous year. This year is a stark comparison to last year where a boom in real estate activity was fueled by low interest rates.

Consumer lending products ended the year ahead of target and a large portion of this growth can be attributed to automotive loans. Other products in this category include individual member loans such as lines of credits and term loans. connectFirst offers competitive lending products to our members and is continually adapting our product suite for our evolving membership base. Consumer loans increased by $66.1 million (+10.2%) from the previous year and makes up 11.2% (2022 – 10.2%) of our total loan portfolio. This part of our portfolio has been on the rise over the last few years and demonstrate our commitment to help our members achieve their financial goals.



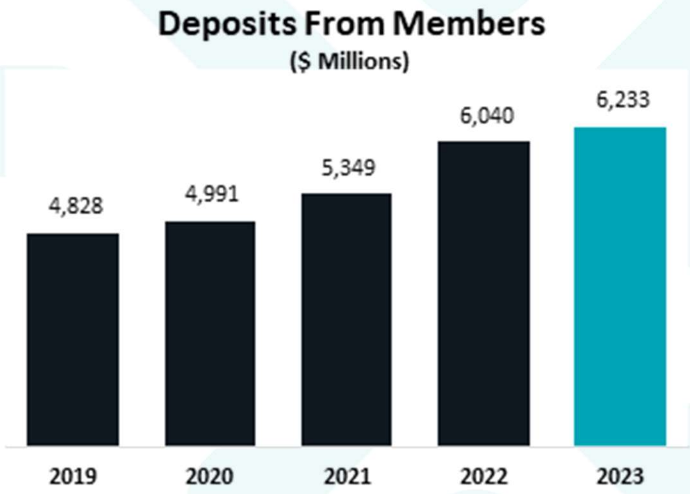
Commercial and business lending is one of the ways connectFirst invests into our local economy. During fiscal 2023, lending in this segment increased by $3.3 million (+0.1%) from the previous year and comprised 37.2% (2022 – 37.6%) of our total loans. We firmly believe that by supporting local businesses and by assisting them with their credit needs, we can help create a more robust and prosperous Alberta. While growth was relatively flat during Fiscal 2023 within this portfolio, we continue to offer competitive rates and unparalleled advice which will help position us to build long lasting relationships with our business members for the future. A growing economy in Alberta is attracting commercial and business investment into the community and we are here to support credit needs within these areas.

As a credit union with a strong rural history, supporting Albertan farmers is part of our roots. We are committed to providing credit products to these members to enable them to purchase land, machinery, equipment, and various other needs within the rich agricultural industry of Alberta. Agricultural loans, categorized alongside commercial loans in the financial statements, grew by $2.0 million (+0.4%) over the year and comprises 7.5% (2022 – 7.6%) of total loans.

Deposits

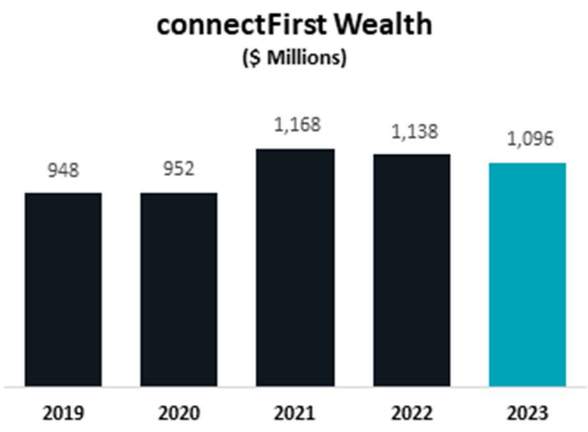
Our members have a wide array of deposit needs resulting from different risk tolerances and their needs for liquidity. connectFirst puts emphasis on giving our teams the right tools and skillset to support members through tailored offerings of demand deposits, savings, terms, registered and wealth options.

Demand deposit trends remained relatively consistent compared to the previous year with a decrease of $4.1 million (-0.2%) ending at $2.58 billion, which represents 42.0% (2022 – 43.1%) of the total deposit portfolio. In contrast, term deposits increased by $143.8 million (+4.8%) to a total of $3.14 billion and registered deposits increased by $9.2 million (+2.2%) to a total of $432.0 million. Term and registered deposits represent 51.0% (2022 – 49.9%) and 7.0% (2022 – 7.0%) respectively, of the total deposit portfolio at the Credit Union.



Overall, deposits from members increased $192.9 million (+3.2%) from Fiscal 2022. We continue to see consumer deposit preference move towards fixed term deposits which, in the current rate environment, carry higher returns for members while also at higher costs for the credit union. However, because of the increase in consumer deposits, we were able to decrease our wholesale exposure significantly therefore reducing our deposit expense. We will continue to provide our members with competitive and tailored solutions for their deposit needs while considering the financial expenses for connectFirst.

CUDGC guarantees all deposits held with the Credit Union, including accrued interest. Additionally, the Credit Union Act provides that the Government of Alberta will ensure that the obligation of CUDGC to depositors is met.



Off-balance sheet assets, which are AUA related to our Wealth business, decreased by $41.7 million (-3.7%) to $1.10 billion. The high interest rate environment and economic uncertainty has fueled outflow from wealth into less volatile options such as term deposits and guaranteed investment certificates ("GICs"). However, working together with the sales team, a large portion of the wealth assets were retained to our on-balance sheet deposits.

Members' Equity

Members' equity decreased by $10.0 million (-1.6%) in Fiscal 2023. In Fiscal 2023, dividends totalling $26.2 million (2022 – $21.7 million) were shared back with our members through common share and investment share dividends. We were proud to declare a common share dividend rate of 5.50% (2022 – 4.95%), resulting in $16.1 million (2022 - $13.4 million) returned to members. Over the past ten years, the Credit Union has paid over $134 million in common share dividends to our membership. Dividends on investment shares were 6.70% (2022 – 5.45%) for each investment share series, resulting in a total investment share dividends of $10.1 million (2022 - $8.3 million).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Financial Margin

The financial margin is the difference between interest income and interest expenses. This margin expands or tightens with changes to key interest rates as well as factors in national and local economies. However, lending rates are heavily influenced by the BoC's overnight lending rate decisions. Over the course of Fiscal 2022 and Fiscal 2023, the BoC raised the interest rate nine times. The total increase in Fiscal 2023 was 1.25% (2022 – 3.50%) taking the benchmark rate to 5.00%. At the latest announcement on December 6th, the BoC held the overnight interest rate steady. The BoC indicated that they were likely done with interest rate hikes but have not claimed victory on their fight against inflation just yet and they are prepared to hike interest rates again despite inflation being tempered considerably since the beginning of the year.

As a result of the rapid interest rate hikes and only modest lending activity, we saw a decrease of the financial margin. The financial margin decreased to $139.0 million, down from $156.2 million in 2022, a decrease of $17.2 million (-11.0%). Increasing interest rates are generally a sign of a strong economy and help widen the financial margin of financial institutions in the long run, but rapidly rising interest rates can tighten the financial margin in the short term as the cost of funding rises more rapidly than the increase to lending and investment income. We anticipate the squeeze of the financial margin will continue into Fiscal 2024 however, with inflation down considerably towards the end of Fiscal 2023, interest rate decreases are now expected in Fiscal 2024 which will help increase the financial margin and improve profitability.

Non-Interest Revenue

Non-interest revenue, which includes banking fees, wealth management fees, foreign-exchange transactions, and insurance-related services was $24.6 million in Fiscal 2023 compared to $22.7

million in Fiscal 2022. We saw substantial increases in wealth management, service charges, loan fees, and foreign exchange gains as transaction activity continues to improve towards pre-pandemic levels. The increase was partly offset by a decrease in credit card fees. We anticipate great opportunity to expand our services in insurance and wealth management as well as ensuring that fees charged are adequately reflective of the quality of services we provide our members while remaining competitive within the marketplace.

Managed Expenses

In Fiscal 2023, we continued to invest in new digital tools and technology for our members and employees with the objective of streamlining our internal processes to the benefit of our members. During the year, we implemented a solution that allows new members to join connectFirst and open chequing and savings products quickly and efficiently through our digital platform. Other expenses, including for advertising, professional fees, and occupancy, either declined or remained stable year-over-year, to counter the unfavourable profitability impact from a challenging interest rate and credit risk environment seen throughout the current fiscal year. As such, apart from the full year impact to personnel expense increase from the base compensation adjustment completed for our employees last year, one-time merger related costs were the main cause to the increases in managed expenses. These expenses included strategy formulation, legal and regulatory costs related to the merger with Servus. Overall managed expenses increased in the current year to $143.8 million (+5.7%) compared to $136.1 million in 2022.

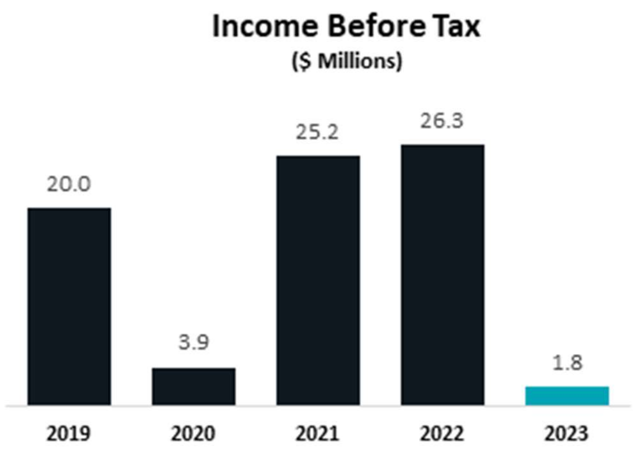
Charges for Loan Impairment

Charges for loan impairment represents the amount the Credit Union records for loan loss provisions. We continued to see elevated provisions for loan losses within Fiscal 2023. Alberta's economy was resilient throughout 2023, however, disposable income for households has been waning because of the rapidly rising interest rates and inflationary pressures. Similar factors have also reduced cashflow for many businesses increasing default risk within those portfolios. The Expected Credit Losses ("ECL") have increased because of the increased credit risks to households and businesses alike.

The largest drivers of the ECL increases in the current fiscal year were from the Commercial loan portfolio, specifically in the Commercial Real Estate and Cannabis asset classes. The Cannabis industry has seen right-sizing through Fiscal 2023, such that the supply that was built through new production facilities has outstripped consumer demand. When layered with a challenging regulatory regime and burdensome federal tax program, it has become increasingly difficult for small and medium sized producers to generate sufficient margins to sustain operations. The challenges in Commercial Real Estate have been largely felt in the office market. The shift to work-from-home and generally more flexible work arrangements has meant that companies require less floor space to support their office operations. With less square footage required, vacancy rates have soared and with greater vacancies has come both a drop in operational cash flow for owners and a corresponding drop in value across the sector. Outside of these two isolated asset classes, the Credit Union's portfolio continues to be well-diversified. Even the Commercial Real Estate exposure is diversified across various asset classes and industry types, providing stability to the overall portfolio. While the heightened ECL accounted for within Fiscal 2023 is reflective of existing challenges in the market, these challenges are isolated and the long-term stability and strength of the balance sheet of the Credit Union remains strong.

With interest rates remaining high, and due to an overall economic slowdown from diminishing demand, we expect that loan loss provisions in the next fiscal year will remain elevated and above long-term averages, albeit at lower levels than Fiscal 2023 and Fiscal 2022, given that expected rate cuts by the BoC in the second half of Fiscal 2024 will offer some relief and alleviate risk in the broader economy. Alberta is also experiencing a decrease to employment rates, and it is believed that the employment factors will be a one of the tell-tale signs of whether the economy will fall into a recession or not. Given these risks, loan loss provisioning will continue to receive heightened oversight by management during the beginning of and into Fiscal 2024. Total loan loss provision, net of recoveries, amounted to $17.9 million in Fiscal 2023, up from $16.6 million (+8.3%) in Fiscal 2022, and in contrast to Fiscal 2021 where provisions totalled $5.7 million.

Income Before Income Taxes



Net income before tax was $1.8 million for Fiscal 2023, a decline of $24.5 million compared to the previous year. The main reasons for this decline year over year include margin compression from a heightened rate environment, continuation of high levels of provisions for credit losses, and to a lesser degree from one-time merger related costs, both of which have been discussed in detail previously. This year has been notably different than the previous few years as high levels of inflation and the effect of the subsequent monetary policy decisions by the BoC have put significant strain on our household and business members alike.

Inflation and market disruption from uncertain geopolitical conditions continue to be at the core of many economic forecasts as we look forward, with latest economic reports indicating a potential risk of recession as we move into new fiscal year. However, with a healthy liquidity and capital position as we start Fiscal 2024, management remains confident that connectFirst is well positioned for strong long-term growth and profitability in the future.

CAPITAL MANAGEMENT

Our Credit Union is committed to maintaining a strong and stable capital position that meets the requirements of members and regulators while supporting the Credit Union's vision of growth. Our diversified total capital base consists of retained earnings, common shares, and investment shares and remains strong at $633 million at the end of Fiscal 2023.

The Credit Union, as mandated by the Act, is required to maintain its capital base above regulatory capital targets at all times. Further information is disclosed in note 6 to the consolidated financial statements.

During the third quarter, the Credit Union Deposit Guarantee Corporation ("CUDGC"), which regulates the Credit Union, approved a temporary 100 bps drop of its regulatory capital requirements to 12.50%, down from 13.50% in the previous reporting periods. This forbearance expires May 1, 2024.

The Credit Union maintains an Internal Capital Adequacy Assessment Process (“ICAAP”) to determine the adequate level of capital that needs to be held relative to our risk exposure. ICAAP assesses the material risks to determine if additional capital is required above the 2.0% minimum internal buffer of risk-weighted assets, as required by the Act. By actively managing the capital position, we can ensure that capital levels meet or exceed regulatory guidelines while continuing to provide tangible member benefits through our Ownership Share Dividend Program.

The Credit Union remained fully compliant with the applicable minimum regulatory capital requirements as at October 31, 2023, and 2022. We will continue to drive initiatives that support sustainable long-term capital growth in 2024 and beyond, balancing with spending decisions that have a large positive impact on the member experience.

ECONOMIC GROWTH

Over the last year, economic growth in Alberta has been defined by a relative resilience that will likely contribute to the province leading the nation in growth into next year. Throughout 2023, the province benefited from elevated commodity prices, increased capital investments, and near record levels of net migration. Alberta consumers also continued to spend, with year over year increases in motor vehicle sales, spending at restaurants, and a surprisingly robust housing market despite the elevated rate environment. While 2023 will largely end positively for the province, the economy is entering a new stage where interest rates remain elevated as the BoC continues its fight against inflation and the economy gradually begins to slow.

Fiscal 2023 saw an additional three rate hikes by the BoC, which collectively have brought the economy closer to the desired inflation target – although still slightly above the threshold. As of October 2023, inflation was 3.1%, representing a significant decline from its peak of over 8.0% in June of 2022. We anticipate that interest rates will remain elevated during the first half of Fiscal 2024 before beginning to gradually decline in the second half of the next fiscal year. For Alberta, this likely means reduced economic growth relative to this past year, but compared to provincial peers, the province should continue to outperform. This can be attributed to continued strength in net provincial migration, which will help support consumer spending and a robust housing market. Alberta’s labour market has also proven to be resilient through the high-rate environment, with the unemployment rate increasing by only 0.5% from the previous year to 5.9%. This places Alberta only marginally above the national average; however, this is also offset by a decline in employment insurance recipients and higher weekly earnings.

This upcoming year will present challenges for the economy. As high interest rates successfully begin to slow down economic growth, there will be corresponding impacts to consumers and businesses alike as demand slows. Alberta remains well-positioned to weather these economic challenges, relying on continued diversification in several sectors and supported by a well-performing energy sector.

BUSINESS MODEL

DIFFERENTIATE
Grow today by building a differentiated member experience

EXPAND
Invest in targeted growth opportunities to accelerate today's growth

TRANSFORM
Innovate in preparation for tomorrow's disruptive business models

Our Strategic Direction outlines three key pillars to guide connectFirst in the coming years as we look to build a credit union fit for the 21st century: **DIFFERENTIATE**, **EXPAND**, and **TRANSFORM**. These pillars reinforce our commitment to building a remarkable member experience that resonates with our members and in our local communities and allows us to be sustainable and relevant into the future.

After experiencing strong growth and significant change during Fiscal 2022, Fiscal 2023 continued to be a transformative year for connectFirst, largely due to a dynamic interest rate environment. Guided by our strategic direction, we shifted away from rapid expansion to shoring up the foundations of the business, taking a more measured approach to growth that reflected a difficult economic environment, all while continuing to provide members with a remarkable experience.

This operating focus was balanced with connectFirst's intent to amalgamate with Servus. Continued acceleration in competition across the Alberta financial services landscape, driven by the big five Canadian banks, ATB Financial, and an increasing number of digital or alternative banking providers, necessitates growing investment to sustain and differentiate the quality experience members have come to expect. Through a comprehensive evaluation, including rigorous financial analysis and in-depth due diligence, the connectFirst Board of Directors determined in early August 2023, that an amalgamation was in the best interests of connectFirst and its members, and provided the best chance to compete long-term with the large, entrenched players in the market.

After obtaining member and provincial regulatory approvals in 2023, connectFirst is actively working towards finalizing its amalgamation, pending federal regulatory clearance. The amalgamated entity will operate under the legal name 'Connect First and Servus Credit Union Ltd.,' and members will still recognize the familiar connectFirst brand during the initial stages of the amalgamation, with no disruption to their day-to-day services. As we move forward as an amalgamated credit union, our focus remains on meeting our members' needs, fostering a strong internal culture, and achieving balanced growth. We are committed to understanding your requirements, advocating for your financial well-being, and creating positive interactions that truly make a difference for our members and communities in the years ahead.

COMMUNITY INVESTMENT & SPONSORSHIPS

connectFirst believes that investment in and engagement with the communities we operate in is the foundation of its cooperative roots and integral to organizational success. We make money make a difference at the member, community, and systems level. In 2023, we invested strategic thought and energy to engage internally – inviting connectFirst employees to show up meaningfully in community, and externally – with our non-profit, community groups and partners to co-create and work towards a more prosperous future for all Albertans. A few key highlights of our community investment work are:

- A total amount of $258,840 has been gifted to six community partners:
  - $25,000 to Mount Royal University as we continue supporting aspiring changemakers and the development of high-impact talent through our collaborative *connectFirst Social Entrepreneur* program;
  - $85,000 to Southern Alberta Co-operative Housing Association ("SACHA") to support with providing safe stable housing in our operating communities which proves to be especially important amidst a collective housing crisis;
  - $24,000 to YMCA Calgary to support their YMAP program which delivered financial literacy and leadership in community building sessions to 300 new Canadian youth;
  - $25,000 to Local Investing YYC, a fellow co-operative that provide capital to Calgary-based enterprises that generate financial, social and environmental returns;
  - $9,839.61 to support Hull Services, a mental health-orientated organization that works with resilient young people and families;
  - $25,000 to a new partner, the Elders Knowledge Circle, a group of 33 First Nations, Métis, Inuit Elders and Knowledge Keepers, who are working towards creating a sustainable model to protect, revitalize and share stories, language, oral knowledge, and practice, ensuring that the gap in cultural understanding and reconciliation is bridged.

Beyond supporting community partners monetarily, connectFirst staff showed up, shared their expertise and know-how and were able to contribute over 3,729 volunteer hours.

Our 42 branches supported over 246 community organizations and groups with contributions of over $131,700 ensuring that unique community needs were met and that members who depend on a thriving community know that we are here as neighbours and as partners.

We also bank on brighter futures with our community programs by providing students with four Science, technology, engineering, and mathematics ("STEM") Scholarships (worth $650 each) and through our Learn and Earn matched savings program (twelve scholarships provided up to $2,520) to help grade 12 students build strong financial literacy skills and money management knowledge.

Lastly, we made our presence known in the community with Corporate Brand Sponsorships by building memorable experiences through investing over $540,000 in several events, including Sled Island and the Calgary International Film Festival. With our Corporate Business Sponsorships, we built relationships and supported initiatives that directly impact our lines of business by investing $65,000 to support the Chamber of Commerce Small Business Week in Red Deer, Okotoks, and Calgary, as well as other local initiatives including the Strathmore Stampede and their Cowboy Town concert series, youth initiatives like 4-H and Olds Summer Synergy, and many other grassroots initiatives in local communities. In addition, connectFirst launched our inaugural Funding Futures grant, which provided an opportunity for local businesses leading innovation in Alberta AgriTech, Energy Transition, and Social Impact to apply for their chance at $10K each. Winners were announced in December 2023, during the first quarter of Fiscal 2024.

ACCOUNTING POLICY DEVELOPMENTS

Standards issued but not yet effective

Note 5 to the Consolidated Financial Statements disclose future accounting changes applicable to connectFirst. Management has assessed the amendments and has determined that there will be no material impact on the financial statements.

There are no new standards, interpretations and amendments to accounting standards that have been issued and effective as at October 31, 2023 that have not been applied in preparing the consolidated financial statements of the Credit Union.

RISK MANAGEMENT

Our Credit Union maintains its strong commitment to managing risk strategically with the dual mandate of both protecting value and enhancing value creation for our members. We manage our risk through a combination of strong corporate governance, integrated enterprise risk management programs, and by ensuring that our business strategies provide an appropriate return for the risks we take.

We use a proactive program of enterprise risk management to enable decision making through the consistent identification of risk inherent in our strategies, activities, assets, and operations while taking into consideration the heightened risk of economic volatility. Risk management processes are embedded within all major functions of our business to identify, assess, and proactively manage and monitor our risks. Through these processes, we establish reasonable assurance of achieving our objectives despite uncertainties in the environment in which we operate.

One foundation of our enterprise risk management program is building and promoting risk awareness, such that everyone from the Board of Directors to Management to all employees, are owners of risk. The ongoing discussion of the inherent risks of connectFirst allows us to navigate through market disruptions such as a challenging global economy and far-reaching geopolitical uncertainty in a continued effort to balance both opportunities and risk.

Risk Governance

connectFirst has adopted the three lines model to support the foundation of risk management and provide a consistent, transparent, and clearly documented allocation of accountabilities and segregation of functional responsibilities as illustrated below.

<table>
<tr><td rowspan="2">Risk governance & oversight</td><td colspan="2">Board of Directors</td></tr>
<tr><td>Risk Committee</td><td>Audit & Finance Committee</td></tr>
</table>

Risk strategic director & control	Chief Executive Officer & Executive Leadership Team			
	Risk Oversight Committee	Asset/Liability Committee	Executive and Management Credit Committees	Information Technology Oversight Committee

Risk Management and reporting	Three lines of Defense		
	First line: Risk ownership & management • Consumer/Concierge & Wealth • Commercial, Business & Agriculture • Amplified Experience • Information Technology	Second line: Risk oversight and governance • Risk & Operational Support Services ("ROSS") • Finance • Human Resources & Brand	Third line: Independent assurance • Audit Services (internal) • External auditors

Board of Directors (the "Board"): The Board oversees the enterprise-wide risk management program through approving connectFirst's risk appetite, risk policies, credit policies and credit limits. The Board accomplishes this mandate through its Risk Committee and the Audit & Finance Committee.

Board Risk Committee ("BRC"): The BRC supports the Board's accountabilities through reviewing/recommending the enterprise risk appetite statement and credit risk oversight policy, recommends or approves material risk management policies and regularly reviews performance against appetite.

Audit & Finance Committee ("AFC"): The AFC reviews the overall design and operating effectiveness of internal controls and the organization's control environment, including controls over the risk management process.

Executive Leadership Team ("ELT"): The ELT are supported in setting strategy and managing the risk lifecycle through the following committees:

- Risk Oversight Committee ("ROC"): This committee, which comprises executive and senior management, provides discussion and oversight of risk appetite, top and emerging risks, mitigation strategies for all risk categories, and evaluating business activities in the context of risk appetite;
- Asset Liability Committee ("ALCO"): ALCO is a management committee responsible for providing oversight on the administration of key Asset Liability Management ("ALM") areas including risks associated with the Credit Union's assets and liabilities. This includes but is not limited to, liquidity risk, interest rate risk and the capital adequacy position;
- Executive Credit Committee ("ECC") and Management Credit Committee ("MCC"): The Credit Committees are responsible for strategic oversight of credit risk management, recommending appropriate credit practices and limits for the organization and adjudicating credit within prescribed limits;
- Information Technology Oversight Committee ("ITOC"): ITOC oversees and provides direction on information technology and cyber security risks.

Key Risks

The categories of key risk affecting our Credit Union are strategic, financial (credit, liquidity and market risk), operational (cyber, technology, third party risk, fraud etc.) and regulatory compliance & legal. We have established a risk profile to assess our risk levels, their trends, and actions being taken on a quarterly basis against our desired risk appetite levels. This framework includes appropriate tolerances, risk reporting and the Board and Management risk policies to effectively manage and monitor risk.

Our approach to managing strategic, financial, operational, and compliance (regulatory) risks is outlined in the following sections.

Strategic Risk

Our Credit Union has made a strong commitment to managing risk strategically, with the objectives of protecting and increasing member value. To ensure the successful implementation of our business strategy, we perform a comprehensive internal and external analysis as part of our ongoing planning cycle. During this review, we also validate new and emerging opportunities that support our strategic direction. We recognize that these risks are not inherently undesirable, but effectively managing them is a key driver in capturing their potential gain.

Risk taking is a crucial factor in driving our business growth through innovation and opportunities for improving profitability. However, we actively avoid excessive concentrations of risk, and take risks that fit within our strategic direction, that can be effectively managed.

We also manage strategic risk through the organization's top and emerging risk program, to identify the risks that in the near and long-term could materially impact the delivery of the Credit Union's strategic plan. Top and emerging risk assessments are reported to the Risk Oversight Committee and the Risk Committee on a quarterly basis.

Financial Risk

The inherent nature and scope of our operations expose us to financial risks. When managed effectively with strong governance and sound financial practices, which are consistent with strategic objectives, this risk exposure can be reduced, and reasonable opportunities may be realized. Significant financial risk exposure can be found in liquidity risk, credit risk, and market risk.

Liquidity Risk

Liquidity risk is the risk that arises from the Credit Union's potential inability to meet both expected and unexpected current and future cash flow needs without impacting daily operations or the financial condition of the organization. This includes the risk of having insufficient financial resources to meet the cash and funding requirements and the ability to meet statutory liquidity requirements. The acceptable amount of risk is defined by policies approved by the Board and monitored by the AFC and ALCO.

We monitor liquidity by managing and forecasting cash flows and evaluating the concentration of assets and liabilities according to approved policies. The Treasury Department manages day-today liquidity within these policies and reports monthly to ALCO to ensure policy compliance. Management provides quarterly reporting on these matters to the AFC.

As at October 31, 2023 and 2022 we maintained liquidity levels above the regulatory minimum. This has allowed us to continue to grow our balance sheet by funding loans and making investments while maintaining a stable core of liquid assets and providing a well-established contingency liquidity plan to access if required.

Credit Risk

Credit risk is the potential for loss due to the failure of a borrower or counterparty to meet its financial or contractual obligations. It also includes the potential for loan growth that could exceed maximum risk tolerances, effective monitoring of credit risk, credit exposure limits, and concentration risk. The Credit Union has a diverse loan portfolio consisting of corporate, commercial, independent business, agricultural, residential, and consumer loans. As these loan balances make up the vast majority of our total asset base, credit risk is a substantial component in the risk profile of the Credit Union and is dealt within the ICAAP and the Board Credit Risk Oversight Policy. Both the BRC and the ECC take active roles in overseeing the risk exposure of the asset portfolio.

Credit is granted in accordance with regulator and Board-approved policies and detailed lending guidelines. Credit approvals require escalation in accordance with assigned delegated limits, which are subject to periodic reviews. Non-consumer credit is subject to annual review in a format commensurate with the risk of the individual exposure.

We report on loan performance monthly via the Credit Committees and conduct regular reviews of the effectiveness of our credit risk policies and the quality of our loan portfolio. In the event of a credit deterioration, credit management procedures are applied to ensure that we maximize our recovery while assisting our members to find their optimal credit solutions.

Market Risk

Market risk arises due to the risk of financial loss from movements in market prices that impact the value of the assets and liabilities of the Credit Union. Interest rate risk and foreign exchange risk are the primary market risks that can impact interest margin as well as equity. The balance sheet is comprised predominately of interest rate sensitive assets and liabilities. The degree of interest rate sensitivity will depend on the rate of interest, the term of the asset and liability, as well as the characteristics that would be matched between the assets and the liabilities. Managed effectively, market risk provides us the opportunity to realize financial investment gain on our loan and deposit portfolios. Our objective is to earn an acceptable return on these portfolios, within the parameters of acceptable risk, while meeting member needs. Policies are approved by the Board and monitored by the AFC and the BRC.

We manage market risk by developing and implementing asset and liability management policies, with day-to-day market risks managed by our Treasury department. These policies define acceptable market risk limits caused by changes in the volume, mix, maturity and quality, and interest and exchange rate sensitivity of assets and liabilities. Reports are prepared monthly by Treasury for the ALCO to ensure policy compliance, and quarterly reporting on these matters is provided to the AFC and BRC. Scenario and stress testing also make up an important part of the Credit Union's ability to manage uncertainty as current economic conditions remain volatile.

Operational Risk

Operational risk can arise during the performance of business functions or processes. Exposure to this risk can result from deficiencies or breakdowns in internal controls, and processes, technology failures, human error, dishonesty, fraud, usage of third parties and natural disasters. We manage operational risk through the maintenance of an internal control environment including governance, education, communication, policies, and procedures. Our success depends on the abilities, experience, and engagement of our employees.

Operational Risk Management & Governance

Operational risk management is achieved through the implementation of an operational risk management program, which includes policies, risk appetite (including quantitative thresholds), tools, process documentation and controls. We adhere to our desired operational risk appetite by conducting risk assessment, change initiative assessment, operational loss collection, analysis of key risk indicators, business continuity management and a robust corporate insurance program.

Operational Risk is reported and managed by the ROC, the ITOC and both the BRC and AFC committees of the Board on a quarterly basis. Internal audit staff attends all BRC and AFC committee meetings to report on their activities and findings related to operational risk and management’s representations and responses to the enterprise-wide risk management program and overall control environment.

Cyber and Technology Risk

Virtually all aspects of our business and operations use technology and information. The key risks are associated with the operational availability, integrity, confidentiality, and security of our information systems and infrastructure. Cybersecurity remains top of mind as we navigate through our increasing digital footprint with more of our members turning to online banking and remote service delivery channels. Volumes of e-transfer, EFT’s, and non-cash payments continue to escalate, and we have worked hard to transition our systems to ensure members have a safe, and user-friendly experience.

As more members turn to online and mobile channels, the risk of a cybersecurity breach can increase; however, the Credit Union has taken additional measures to improve its technology security infrastructure to mitigate these risks to our desired appetite. These risks are actively managed through enterprise-wide technology risk assessment and information security management programs using industry best practices. To ensure resiliency the Credit Union has robust programs to prevent, detect and respond to cyber events.

Third Party Risk Management

The Credit Union’s operations are inherently exposed to third-party risk through our credit union partnerships and through entering supplier relationships to deliver on our member and strategic objectives. While these relationships offer upside benefits such as cost reduction and innovation, they also introduce downside risks such as disruption, failure to provide goods & services and failure to protect data or systems in accordance with our agreements. connectFirst manages third party risk throughout the life cycle of the relationship through a robust risk management program which includes: third-party risk assessments, robust contracting controls, third-party monitoring programs, establishment and monitoring of controls and dedicated resources.

Fraud Risk Management

Fraud risk occurs from intentional acts of deception internally or externally that results in a loss to the credit union and/or its members. The credit union manages fraud risk in alignment with industry best practices and our desired risk appetite. Internal processes and controls exist to preserve the financial integrity of both our members and the credit union through ongoing risk assessments, loss analysis/reporting, fraud monitoring, fraud prevention, training, and segregation of duties.

Regulatory Compliance & Legal Risk

Regulatory risk is the risk of loss arising from potential violation of, or non-conformance with, laws, rules, regulations, prescribed practices, or ethical standards. Failing to manage these risks may result in litigation, increased regulatory supervision or intervention, supervisory findings, administrative penalties, enforcement actions, financial loss, restricted business activities, an inability to execute our strategic direction, a decline in member confidence, and damage to our reputation.

Effectively managing regulatory risk means we need to comply with relevant requirements specific to our credit union, as well as general business requirements both nationally and provincially. Over the past several years, the intensity of supervisory oversight of all financial institutions (both federally and provincially) has increased significantly in terms of both regulation and new standards. Our regulatory and compliance team monitors this area to minimize the cost of compliance with legal and regulatory changes and ensure up-to-date policies and procedures are in place to manage changes in regulatory requirements.

The credit union has established a robust program to manage all veins of regulatory risk with an emphasis on privacy risk, and money laundering & terrorist financing risk. Both programs have policies, procedures, and controls to ensure adherence to regulatory expectations and requirements. Additionally, the Credit Union has appointed accountability for this area to the Chief Anti-Money Laundering Officer and Privacy Officer, with oversight from the Chief Compliance Officer and the Chief Risk and Administration Officer. Management reports compliance and regulatory risk to the BRC and the Board on a quarterly basis.

Reputational Risk

Reputational risk is the potential for the connectFirst brand to lose value in market. In the long term, the connectFirst brand image and reputation will reflect our values and behaviours as a company. Any gap between how we want to be perceived and how we actually behave as a company is a risk. This is often measured in lost revenue, increased operating, capital or regulatory costs, or destruction of shareholder value. Reputational risk is inherently part of any adverse or potentially criminal event even if the company is not found guilty.

connectFirst does not view reputational risk as a separate category of inherent risk. It is a consequence of each of the inherent risk categories. Accordingly, it is an important consideration in the assessment of each risk category.

2023
Financial Report

connectFirst
credit union

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Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Connect First Credit Union Ltd. were prepared by management, who are responsible for their reliability, integrity, and completeness, including amounts that are based on estimates and judgements. They were prepared in accordance with the requirements of the Credit Union Act of the province of Alberta and the Credit Union Deposit Guarantee Corporation and conform in all material respects to IFRS Accounting Standards.

Management maintains the necessary reporting and internal control systems to provide reasonable assurance of the timely production of reliable and accurate financial information, the protection of assets against loss or unauthorized use, and the promotion of operational efficiency. Internal audit provides management with the ability to assess the adequacy of these controls. The Audit and Finance Committee has implemented a plan to review internal controls as deemed appropriate for this Credit Union. The Board of Directors, acting through its Audit and Finance Committee, oversee management's responsibilities for the financial reporting and internal control systems.

KPMG LLP, appointed by the Board of Directors, conducted an audit of these consolidated financial statements in accordance with Canadian generally accepted auditing standards. The Audit and Finance Committee reviewed these consolidated financial statements before recommending their approval to the Board of Directors.

K Holland

Kendra Holland
Interim Chief Executive Officer

Muhammad Shalwani
Chief Financial Officer

Independent Auditors' Report

To the Members of Connect First Credit Union Ltd.

Opinion

We have audited the consolidated financial statements of Connect First Credit Union Ltd. (the "Entity"), which comprise:

- the consolidated statement of financial position as at October 31, 2023
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in members' equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at October 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditor's Responsibilities for the Audit of the Financial Statements"*** section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises the information, other than the financial statements and the auditor's report thereon, included in the Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditor's report thereon, included in Management's Discussion and Analysis as at 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 the 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 Accounting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
January 17, 2024

Consolidated Statement of Financial Position

As at October 31

(Amounts in thousands of Canadian dollars)	Notes	2023	2022
Assets			
Cash and cash equivalents	7	43,954	65,841
Investments	8	700,619	679,423
Loans to members	10	6,419,117	6,350,316
Derivative assets	9	9,460	11,579
Foreclosed properties	11	3,670	1,740
Other assets	12	33,579	41,357
Intangible assets	13	14,046	13,595
Property and equipment	13	52,818	52,380
Right of use assets	29	19,853	20,654
Deferred tax assets	20	7,033	1,324
Total assets		**7,304,149**	**7,238,209**
Liabilities			
Members' deposits	14	6,232,605	6,039,681
Accounts payable and accruals		32,974	38,380
Derivative liabilities	9	4,885	7,693
Lease liabilities	29	28,050	29,090
Secured borrowings	28	372,196	479,887
Total liabilities		**6,670,710**	**6,594,731**
Members' Equity			
Common shares	17	295,089	288,158
Investment shares	17	150,519	153,305
Ownership dividend allocation	16	16,105	13,382
Investment share dividends declared	17	10,085	8,345
Contributed surplus	1	7,445	7,445
Retained earnings		154,196	172,843
Total members' equity		**633,439**	**643,478**
Total liabilities and members' equity		**7,304,149**	**7,238,209**

Commitments (Note 15)

Subsequent Event (Note 30)

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements

On behalf of the Board:

Andrew Eberl
Board Chair

Carey Taubert
Audit and Finance Committee Chair

Consolidated Statement of Comprehensive Income

For the year ended October 31 *(Amounts in thousands of Canadian dollars)*	Notes	2023	2022
Financial Income			
Interest on loans to members		282,113	209,729
Investment income	27	28,492	10,103
Unrealized gains on interest rate swaps	25	689	3,347
		311,294	223,179
Financial Expense			
Interest on members' deposits		158,778	56,763
Interest on loans payable		12,272	8,930
Interest on lease liabilities		1,273	1,272
		172,323	66,965
Financial margin		**138,971**	**156,214**
Charge for loan impairment	10	17,935	16,562
		121,036	139,652
Other income	18	24,586	22,710
Gross margin		**145,622**	**162,362**
Non-interest Expenses			
Personnel expenses	22	80,665	74,869
Operating lease expenses		2,688	2,641
Depreciation and amortization	13, 29	9,020	8,701
Other expenses	19	51,405	49,848
		143,778	**136,059**
Income before income taxes		**1,844**	**26,303**
Income taxes	20		
Current		2,892	4,997
Deferred		(2,578)	1,143
		314	**6,140**
Net income and comprehensive income		**1,530**	**20,163**

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements

Consolidated Statement of Changes in Members' Equity

Years ended October 31, 2023 and 2022

(Amounts in thousands of Canadian dollars)	Common shares	Series A-H investment shares	Ownership dividends declared	Investment share dividends declared	Contributed Surplus	Retained earnings	Total equity
Balance November 1, 2021	246,524	157,688	7,137	4,497	-	169,399	585,245
Acquisition of Spark (note 1)	5,096				7,445		12,541
Net and comprehensive income						20,163	20,163
Transactions with members							
Shares issued to members for cash	54,246						54,246
Shares issued by dividend	7,137	4,497	(7,137)	(4,497)		13	13
2022 dividends declared - investment (note 17)				8,345		(8,345)	-
2022 dividends declared - ownership (note 16)			13,382			(13,382)	-
Deferred income tax recovery, dividends declared						4,995	4,995
Shares redeemed for cash	(24,845)	(8,880)					(33,725)
Balance October 31, 2022	288,158	153,305	13,382	8,345	7,445	172,843	643,478
Net and comprehensive income						1,530	1,530
Transactions with members							
Shares issued to members for cash	27,863						27,863
Shares issued by dividend	13,382	8,345	(13,382)	(8,345)		(11)	(11)
2023 dividends declared - investment (note 17)				10,085		(10,085)	-
2023 dividends declared - ownership (note 16)			16,105			(16,105)	-
Current income tax recovery, dividends declared						6,024	6,024
Shares redeemed for cash	(34,314)	(11,131)					(45,445)
Balance October 31, 2023	295,089	150,519	16,105	10,085	7,445	154,196	633,439

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements

Consolidated Statement of Cash Flows

For the year ended October 31 *(Amounts in thousands of Canadian dollars)*	2023	2022
Cash flows from operating activities		
Income before income taxes	1,844	26,303
Adjustments for non-cash items		
Depreciation and amortization	9,020	8,701
Charge for loan impairment	18,741	17,409
Unrealized gain on interest rate swaps	(689)	(3,347)
Gain on leased assets	(285)	-
Interest on loans to members	(282,113)	(209,729)
Interest/dividends on investments	(28,492)	(10,103)
Interest expense	172,323	66,965
Changes in operating assets and liabilities		
Change in other assets	11,624	1,807
Change in accounts payable	(5,405)	3,010
Interest received	300,561	215,756
Interest paid	(128,304)	(52,076)
Increase in members' deposits	148,905	476,845
Increase in loans to members, net of repayments	(84,837)	(728,780)
Proceeds from sale of foreclosed property	1,605	6,627
Income taxes paid	(3,286)	(6,809)
Net cash (used in) from operating activities	131,212	(187,421)
Cash flows from financing activities		
Common shares issued for cash	27,863	54,246
Common share redemptions	(34,314)	(24,845)
Investment share redemptions	(11,131)	(8,880)
Advances of secured borrowing	149,775	389,788
Repayment of secured borrowing	(257,466)	(202,006)
Payment of lease liabilities	(2,857)	(2,850)
Net cash (used in) from financing activities	(128,130)	205,453
Cash flows from investing activities		
Cash acquired on amalgamation	-	218
Acquisition of investments	(1,230,428)	(1,477,949)
Proceeds from sale of investments	1,213,036	1,478,218
Acquisition of property and equipment, net	(4,572)	(3,025)
Acquisition of intangibles, net	(3,005)	(2,824)
Net cash (used in) investing activities	(24,969)	(5,362)
Net (decrease) increase in cash and cash equivalents	(21,887)	12,670
Cash and cash equivalents, beginning of year	65,841	53,171
Cash and cash equivalents, end of year	43,954	65,841

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements

Notes to the Consolidated Financial Statements

For the year ended October 31, 2023 with comparative figures for the year ended October 31, 2022.

(In thousands of Canadian dollars)

Connect First Credit Union Ltd. and its subsidiaries ("Connect First" or the "Credit Union") are located in Canada and provide financial services to its members through a network of credit union branches in the City of Calgary and central and southern Alberta. The registered office is located at 200, 2850 Sunridge Blvd., Calgary, Alberta, T1Y 6G2.

These consolidated financial statements include the accounts of the Credit Union and its wholly owned subsidiaries, 1549081 Alberta Ltd., First Calgary Savings Insurance Ltd., and Connect First Wealth Ltd. During the fiscal year ended October 31, 2023, the subsidiary 1549081 Alberta Ltd. held title to a certain foreclosed property. During the fiscal years ended October 31, 2023 and 2022, First Calgary Savings Insurance Ltd. and Connect First Wealth Ltd. had no activity. Therefore, the only difference between the consolidated and separate financial statements of the Credit Union would be the elimination of the foreclosed property on the statement of financial position. There would be no other significant differences from the consolidated financial statements.

The Credit Union Deposit Guarantee Corporation ("CUDGC"), a Provincial Corporation, guarantees the repayment of all deposits, including accrued interest, held with Alberta credit unions. The Credit Union Act ("the Act") provides that the Province of Alberta will ensure that this obligation of CUDGC is carried out.

The consolidated financial statements have been approved for issue by the Board of Directors on January 17, 2024.

1. Business Combination

On November 1, 2021, the Credit Union amalgamated with Spark The Energy Credit Union Ltd. ("Spark"). Pursuant to the terms of the amalgamation, all members of Spark exchanged their common shares for shares of Connect First on a one for one basis.

The business combination was accounted for using the acquisition method, with the Credit Union acquiring 100% of the net assets of Spark.

At the time of the business combination, Spark operated two branches, one in the city of Calgary and one in Fort Saskatchewan. The amalgamation allowed Connect First to serve a larger membership base and improve brand recognition within its target market. In turn, Spark members gained from a larger range of products and services, innovative technology offerings, and receive extended support through Connect First's Member Connection Centre.

The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of acquisition:

Cash and cash equivalents	218
Income taxes receivable	87
Investments	45,745
Member loans receivable	167,857
Other assets	79
Derivative financial assets	85
Property and equipment	138
Intangible assets	56
Right-of-use assets	241
Deferred tax asset	758
Total assets acquired	215,264
Member deposits	198,955
Loans payable and lines of credit	3,221
Accounts payable and accrued liabilities	214
Lease liabilities	248
Derivative financial liabilities	85
Total liabilities assumed	202,723
Net assets acquired	12,541

The par value of equity shares issued to former members of Spark was $5,096. The credit union has recognized the excess of the fair value of the net assets acquired over the par value of the equity interests of Connect First as Contributed Surplus within the Consolidated Statement of Financial Position in the amount of $7,445.

2. Basis of Presentation

a) Statement of compliance

The Credit Union's consolidated annual financial statements have been prepared in accordance with IFRS Accounting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The significant accounting policies as set out in Note 3 below, comply with the requirements of IFRS and have been applied consistently to all periods presented in the consolidated financial statements, except as otherwise noted.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain investments that are classified and measured as fair value through other comprehensive income and fair value through profit and loss, foreclosed property classified as held for sale at fair value less costs to sell, and all derivative financial instruments, which are classified and measured at fair value through profit and loss.

c) Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is also the

Credit Union's functional currency. Except as otherwise indicated, dollar amounts presented in the notes to the consolidated financial statements are presented in thousands of Canadian dollars. Financial information has been rounded to the nearest thousand.

d) Use of estimates and judgments

The preparation of the consolidated financial statements, in conformity with IFRS, requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the statement of financial position date, and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of estimates include the measurement of the allowance for loan impairment, the estimate of fair value of foreclosed property, the estimate of fair value of financial instruments measured at fair value, and the fair value of assets and liabilities acquired in a business combination. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

e) Comparative information

Certain comparative information in the consolidated statements and note disclosures have been reclassified to conform to current period presentation. This included reclassifications within the consolidated statement of financial position and consolidated statement of comprehensive income, including cash and cash equivalents, loans to members, derivative assets, other assets, members' deposits, interest on loans to members, interest on members' deposits, and other expenses, and also their impact on the statement of cash flows and notes to the consolidated financial statements.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Financial Instruments

Recognition, classification and measurement

Financial assets and liabilities are recognized when Connect First becomes a party to the contractual provisions of the instrument and are initially recorded at fair value on the trade date.

The following table summarizes the classifications of Connect First's financial instruments:

	Classification	Description
Financial Assets	FVTPL	Derivative assets Investment securities - other
	FVOCI	Investment securities • Non-statutory investments • Alberta Central shares
	Amortized Cost	Cash and cash equivalents Investment securities • Statutory liquidity deposits • Investments with other financial institutions Loans to members Accounts receivable
Financial Liabilities	FVTPL	Derivative liabilities
	Amortized Cost	Member deposits Secured borrowings Accounts payable

Financial assets

Financial assets are initially recorded at fair value and subsequently classified as measured at:

- amortized cost
- fair value through other comprehensive income ("FVOCI")
- fair value through profit or loss ("FVTPL")

Amortized cost

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 the asset to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

Financial assets measured at amortized cost are comprised of cash and cash equivalents, investments in term deposits and other debt securities, Alberta Central statutory term deposits, accounts receivable and lease residual, other assets, and loans to members.

FVOCI

A financial asset 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 solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at FVOCI are comprised of Alberta Central non-statutory term deposits and Alberta Central common shares.

On initial recognition of an equity instrument that is not held for trading, the Credit Union may irrevocably elect to present subsequent changes in fair value in Other Comprehensive Income (“OCI”). This election is made on an investment-by-investment basis.

FVTPL

A financial asset is measured mandatorily at FVTPL if it does not meet the criteria to be measured at amortized cost or fair value through other comprehensive income. Financial assets mandatorily measured at fair value through profit or loss include interest rate swaps and equity investments.

A financial asset may be irrevocably designated at FVTPL on initial recognition to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. The Credit Union holds shares in Concentra Bank that are measured at FVTPL.

For financial assets classified as mandatorily measured at FVTPL or designated at FVTPL, changes in fair value are recognized in the consolidated statement of income. For financial assets classified as measured at FVOCI or for financial assets for which an irrevocable election has been made to present subsequent changes in fair value in OCI, changes in fair value are recognized in the consolidated statement of comprehensive income. For financial assets and other financial liabilities measured at amortized cost, interest income and interest expense is calculated using the effective interest rate method and is recognized in the consolidated statement of income.

Financial assets that are debt instruments

Classification of financial assets that are debt instruments is based on the business model in which a financial asset is managed, and its contractual cash flow characteristics.

Business model assessment

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

- how the performance of the portfolio is evaluated and reported to management;
- how managers of the business are compensated;
- whether the assets are held for trading purposes;
- the risks that affect the performance of the financial assets held within the business model and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sale activity.

Contractual cash flow characteristics assessment

In assessing whether the contractual cash flows are solely payments of principal and interest, ‘principal’ is defined as the fair value of the financial asset on initial recognition and ‘interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

The Credit Union considers the contractual terms of the financial asset and whether the asset contains contractual terms that could change the timing or amount of cash flows such that it would not meet the condition of principal and interest. Contractual terms considered in this assessment include contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms, terms that limit the claim to cash flows from specified assets, and features that modify the consideration from time value of money.

Financial liabilities

All financial liabilities are initially recorded at fair value and subsequently classified as measured at amortized cost or FVTPL. On initial recognition, the Credit Union may irrevocably designate a financial asset or liability at FVTPL when doing so results in more relevant information, because either:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or
- a group of financial liabilities or financial assets and financial liabilities is managed with its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to key management personnel.

Financial liabilities measured at amortized cost are comprised of accounts payable and accruals, member deposits and secured borrowings.

Reclassification of financial assets

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Credit Union changes its business model for managing those assets.

Derecognition of financial assets and liabilities

Financial assets are derecognized when the contractual rights to receive cash flows from the assets have expired or transferred and either all of the risks and rewards of ownership have been substantially transferred; or the risks and rewards of ownership have not been retained nor substantially transferred but control has not been retained. Financial liabilities are derecognized when they are extinguished, that is when the obligation is discharged, is cancelled, or has expired.

Modification of financial assets

The Credit Union assesses the modification of terms of a financial asset to evaluate whether its contractual rights to the cash flows from that asset have expired in accordance with the Credit Union’s derecognition policy.

When the modifications do not result in derecognition of the financial asset, the gross carrying amount of the financial asset is recalculated with any difference between the previous carrying amount and the new carrying amount recognized in the consolidated statement of comprehensive income. The new gross carrying amount is recalculated as the present value of the modified contractual cash flows discounted at the asset’s original effective interest rate.

For the purpose of applying the impairment requirements, at each reporting date subsequent to the modification, the Credit Union continues to assess whether there has been a significant increase in credit risk on the modified financial assets from the date of initial recognition.

Derivative financial instruments
Derivative financial instruments are financial contracts whose values are derived from the performance of an underlying unit such as an interest rate, equity instrument, exchange rate, commodity or index. Connect First enters into derivative transactions to insure against pricing movements due to fluctuations in interest rates, foreign exchange rates and equity indices.

Derivative financial assets are classified as FVTPL and recorded at fair value in the consolidated statement of financial position as either a derivative asset (positive fair value) or a derivative liability (negative fair value). Unrealized gains and losses are included in the consolidated statement of comprehensive income. Realized gains/losses are recorded in net interest income.

Impairment
The expected credit loss ("ECL") impairment model applies to amortized cost financial assets, debt investments at FVOCI, off-balance sheet loan commitments, and financial guarantee contracts.

The ECL model results in an allowance for credit losses being recorded on financial assets regardless of whether there has been an actual impairment. The ECL model requires the recognition of credit losses based on 12 months of expected losses for performing loans (Stage 1) and the recognition of lifetime expected losses on performing loans that have experienced a significant increase in credit risk ("SICR") since origination (Stage 2) and credit impaired assets (Stage 3).

Assessment of significant increase in credit risk
The assessment of significant increase in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. Factors considered in the assessment include macroeconomic outlook, delinquency and monitoring, and management judgement. The importance and relevance of each specific macroeconomic factor depends on the loan portfolio, characteristics of the financial instruments, and the borrower. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement any gap.

For certain instruments with low credit risk at the reporting date, it is presumed that credit risk has not increased significantly relative to initial recognition. Credit risk is low if the instrument has a low risk of default and the borrower has the ability to fulfill their contractual obligations both in the short and long term, including periods of adverse changes in the economic or business environment.

Evaluating SICR is completed on a quarterly basis and is determined using the following factors:

- Internal risk ratings for commercial and agricultural loans
- Beacon scores for personal loans and residential mortgages
- Loans that are 30 days past due are considered to have a SICR and are moved to stage 2
- Loans that are 90 days past due are considered in default and moved into stage 3

The definition of default is consistent with the definition of default used for internal credit risk management purposes. The definition of default may differ across products and consider both quantitative and qualitative factors, such as terms of financial covenants, bankruptcy, and days past due. The Credit Union generally defines default as any financial instrument that is more than 90 days past due. However, default can also occur when delinquency is less than 90 days but when there is evidence that the borrower is unlikely to pay their obligation in full (eg. breach of covenants, bankruptcy).

Measurement of ECL

ECL is a probability-weighted estimate of credit losses. Credit losses are measured at the present value of all cash shortfalls, which is the difference between the cash flows due in accordance with the contract and the cash flows expected to be received. The measurement of ECL is based primarily on the product of the following variables: probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD").

The PD is an estimate of the likelihood that a loan will not be repaid and will go into default in either a 12-month or lifetime horizon. The LGD is an estimate of the amount that may not be recovered in the event of default. The EAD is an estimate of the outstanding amount of credit exposure at the time a default may occur. These estimates are modelled based on historic data, current market conditions, and reasonable and supportable information about future economic conditions.

The calculation of ECL includes explicit incorporation of forecasted economic conditions. The Credit Union has utilized models incorporating specific macroeconomic variables that are relevant to each specific portfolio. Experienced credit judgement is required to incorporate multiple probability-weighted forward-looking scenarios in the determination of the ECL allowance. The allowance is sensitive to changes in economic forecasts and the probability-weight assigned to each forward-looking scenario. The following key economic factors are used to estimate probability of default:

- Unemployment rate (Alberta specific)
- Housing price index (Alberta specific)
- Banker's acceptance rate

Our ECL methodology also requires the use of experienced credit judgement to incorporate the estimated impact of factors that are not captured in the modelled ECL results. Accordingly, we have applied experienced credit judgement to reflect the continued impact of the uncertain economic environment on credit conditions of certain specific segments of the Credit Union's portfolio.

Credit-impaired and restructured financial assets

If the terms of a financial asset are renegotiated or modified, or a financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and how ECL is measured. If the expected restructuring will not result in de-recognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset. If the expected restructuring will result in de-recognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow of the existing asset at the time of its de-recognition.

Presentation of impairment
Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. The charge for loan impairment is recognized in the consolidated statement of comprehensive income.

Write-off
Loan and debt securities are written off (either partially or in full) when there is no probable prospect of recovery.

(b) Cash and cash equivalents

Cash and cash equivalents include highly liquid financial assets with original maturities of three months or less, held for the purpose of meeting short-term cash commitments.

(c) Translation of foreign currencies

Financial assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing at the date of the financial statements. Revenues and expenses in foreign currencies are translated at the average exchange rates prevailing during the period. Realized and unrealized gains and losses on foreign currency positions are included in other income.

(d) Secured borrowings

The Credit Union enters into agreements to securitize pools of residential mortgages and recognizes a liability when the underlying asset is not de-recognized. The Credit Union reviews transfer agreements in order to determine whether the transfers of financial assets should result in all or a portion of the transferred mortgages being derecognized from its consolidated statement of financial position. The de-recognition requirements include an assessment of whether the Credit Union's rights to contractual cash flows have expired or have been transferred or whether an obligation has been undertaken by the Credit Union to pay the cash flows collected on the underlying transferred assets over to a third party. The de-recognition requirements also include an assessment of whether substantially all the risks and rewards of ownership have been transferred. When risks and rewards are not transferred, the securitization is accounted for as a secured borrowing.

(e) Foreclosed Properties

Foreclosed properties are classified as held for sale assets and are measured at the lower of the carrying amount and fair value less costs to sell.

(f) Intangible Assets

Intangible assets mainly consist of applications and internally developed software. Expenditure on internally developed software is recognized as an asset when the Credit Union can demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can reliably measure the costs to complete the development. Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and any accumulated impairment losses. Amortization is calculated on a straight-line basis over the estimated useful lives of the intangible assets. The estimated useful lives of the assets are as follows:

Software	3 to 10 years

The Credit Union does not have any intangible assets with indefinite lives.

(g) Property and Equipment

Property and equipment are initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, apart from land which is not depreciated.

Depreciation methods, useful lives and residual values are reviewed at each annual reporting date and adjusted as appropriate. Depreciation is recognized on a straight-line basis over the estimated useful lives of the assets:

Parking lots	25 years
Buildings	10 to 55 years
Furniture and equipment	7 to 40 years
Computer equipment	5 years
Leasehold improvements	Remaining term of lease

Property and equipment are classified as assets held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. Such assets are measured at the lower of carrying amount and fair value less costs to sell.

(h) Impairment of Non-Financial Assets

Non-financial assets are reviewed at each reporting date for indicators of impairment. If any such indicators exists, then the asset's recoverable amount is estimated. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in net income.

(i) Provisions

A provision is recognized if, because of a past event, the Credit Union has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Short term employee benefit obligations are measured on an undiscounted basis and expensed as the related service is provided.

(j) Income Taxes

Income tax expense comprises current and deferred income taxes. Current tax is the expected tax payable on the taxable income for the period. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Current tax and deferred tax are recognized in net income except to the extent that it relates to items recognized directly in equity or other comprehensive income.

(k) Share Capital

Common and investment shares are redeemable at the discretion of the Board of Directors and accordingly are presented as a component of issued capital within equity. Incremental costs directly attributable to the issue of shares are recognized as a deduction from equity, net of tax. Ownership and investment share stock dividends are recorded against retained earnings and increase share capital with no net change in equity.

(l) Revenue Recognition

Under IFRS 15, revenue is recognized when Connect First satisfies a performance obligation by transferring the promised good or service to the member and the member obtains control of the good or service. The recognition of revenue can either be over time or at a point in time depending on when the performance obligation is satisfied.

Revenues under the scope of IFRS 15 are described below:

Service charges
Service charges and other fees are derived from day-to-day banking services. The fees for these services are established in the member account agreement and are either billed individually at the time the service is performed and the performance obligation is met, or monthly for a package or bundle of services as the services are performed and the performance obligation is met. Fees billed individually at the time the service is performed are recognized in revenue at the point in time the service is performed. Where monthly services are provided over time throughout the month, revenue is recognized over time with full recognition at the end of each month.

Insurance commissions
Connect First earns fees for sale and renewal of insurance policies made on behalf of third-party insurance providers. The fee is earned and recognized into income at the point in time when the sale or renewal of an insurance policy is made.

Credit card fees
Connect First issues credit cards to its members who satisfy the credit card approval process. The cardholder agreement is between the member and a third-party credit card company. Connect First receives monthly income from the credit card company based on the number of card activations and a percentage of the interest collected on outstanding balances. The income is recognized over time on a monthly basis.

Wealth management
Connect First earns commissions, or trailer fees, on the sale of segregated investment funds and mutual funds to its members. These fees are paid on a monthly basis for as long as the member owns the investment.

Other
Other income includes profit share received from partners and rental income received from tenants of the Olds administration building. All other income is recognized when received.

Revenues in the scope of IFRS 9 include interest income, investment income, foreign exchange gains and losses, and gains and losses on interest rate swaps.

Interest income on loans to members
Interest income is calculated on loans to members held at amortized cost and is recognized in net income for the period using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the loan to the carrying amount. The calculation of the effective interest rate includes all transaction costs and fees paid or received that are directly attributable to the acquisition or issue of a loan. Interest is recorded on an accrual basis.

Interest income on impaired loans continues to be recognized at the rate of interest used to discount future cash flows to present values for the purpose of measuring the impairment loss.

Investment income
Investment income includes both interest on financial assets held at amortized cost and at FVOCI using the effective interest rate method, and dividends. Dividends are recognized when the Credit Union's right to receive the payment is established. Changes in the fair value of financial assets measured at FVOCI are recorded in the consolidated statement of income.

Gains and losses on interest rate swaps
Derivatives held for risk management purposes are measured at FVTPL. Realized gains and losses are included in interest on loans to members in the statement of comprehensive income. Changes in fair value are reported as unrealized gains/losses in the consolidated statement of comprehensive income.

(m) Defined contribution pension plan

A defined contribution plan is a post-employment benefit plan under which employees contribute a percentage of their salary that is matched by the Credit Union. Payment is made to the entity administering the plan on behalf of the employee and is paid by them to the employee upon their retirement from the Credit Union. Obligations for contributions to defined contribution pension plans are recognized as a personnel expense when they are due in respect of services rendered in the period.

(n) Leases

The Credit Union recognizes a ROU asset and a lease liability at the lease commencement date, except for short-term leases (less than 12 months) and low-value leases (less than $7). For short-term leases and low-value leases, lease payments are recognized on a straight-line basis over the term of the lease. 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 and equipment.

The ROU asset is periodically reviewed for impairments, if any, and adjusted for certain remeasurements of the lease liability.

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 Right-of-Use ("ROU") asset or is recorded in the consolidated statement of comprehensive income if the carrying amount of the ROU asset has been reduced to below zero.

(o) Consolidated financial statements

Subsidiaries are entities controlled by the Credit Union. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-company balances, and income and expenses arising from intra-company transactions, are eliminated in preparing the consolidated financial statements.

(p) Business combination

Connect First uses the acquisition method of accounting for its business combinations as required by IFRS 3. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired which is measured at acquisition date fair value. Connect First uses its best estimates and assumptions to accurately value assets and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, and these estimates are inherently uncertain and subject to refinement. Any gain on purchase is recognized in profit or loss immediately. Transaction costs incurred by the Credit Union in connection with a business combination are expensed as incurred.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships (if any). Such amounts are generally recognized in the consolidated statement of operations and comprehensive loss.

4. Current Accounting Changes

The following standards were effective November 1, 2022:

IAS 16 *Property, Plant, and Equipment*
In May 2020 amendments were made to IAS 16 to prohibit an organization to reduce the cost of property, plant, and equipment by any amount received from the selling of items while preparing the asset for use. Proceeds from sales must be recorded in profit or loss. Management has reviewed the impact of this new standard and has determined that the amendment does not have a material impact on the consolidated financial statements of Connect First.

IAS 37 *Provisions, Contingent Liabilities, and Contingent Assets*
In May 2020 amendments were made to IAS 37 that specifies what costs to include when fulfilling a contract to determine if the contract is onerous. The cost of fulfilling a contract should include the incremental costs of fulfilling the contract, as well as the allocation of other costs that are directly related to contract fulfillment. Management has reviewed the impact of this new standard and has determined that the changes do not have a material impact on the consolidated financial statements of Connect First.

5. Future Accounting Changes

Connect First monitors amendments and additions to accounting standards. The following changes have been issued but are not yet in effect:

IAS 1 *Presentation of Financial Statements*
IAS 1, originally issued in January 2011, outlines the overall requirements for financial statements, including content, structure, and concepts. In January 2020 the standard was amended to assist organizations in determining whether liabilities should be classified as current or non-current. The Credit Union intends to adopt the changes to IAS 1 in its financial statements for the annual period beginning November 1, 2023. The Credit Union has assessed the standard and determined that there will be no material impact on the financial statements.

IAS 1 *Disclosure of Accounting Policies*
In February 2021, the IASB issued amendments to IAS 1 *Disclosure of Accounting Policies*. The amendment requires businesses to disclose their material accounting policies rather than their significant accounting policies. Guidance is provided to assist in the determination of materiality. Connect First intends to adopt the changes in its financial statements for the annual reporting period beginning November 1, 2023. The Credit Union has assessed the standard and determined that there will be no material impact on the financial statements.

IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
In February 2021, amendments were made to IAS 8 in respect to the definition of accounting estimates. According to the IASB, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. The standard clarifies that a change in accounting estimates due to new information is not the correction of an error. The amendments are effective November 1, 2023. The Credit Union has assessed the standard and determined that there will be no material impact on the financial statements.

IAS 12 *Income Taxes*
In May 2021, amendments were made to IAS 12 that clarifies how to account for deferred tax related to assets and liabilities arising from a single transaction. The initial recognition exemption no longer applies to transactions where there is equal taxable and deductible temporary differences. The amendments are effective November 1, 2023. The extent of the impact of adoption of the standard has not yet been determined.

6. Capital Management

The Credit Union provides financial services to its members and is subject to regulatory capital requirements set out in the Act.

Capital requirements for the Credit Union, as mandated by the Act, is regulated through two approaches: a risk-weighted asset approach and a total asset approach. Risk-weighting for each asset class is determined using definitions and calculations as set out in the Act. The legislated minimum capital required under the Act is the higher of 4% of total assets or 8% of risk-weighted assets.

Minimum regulatory capital requirements for the Credit Union is calculated by taking the greater of the legislated minimum capital determined from the two approaches discussed above, *plus* a regulatory buffer of 3.50% of risk-weighted assets, *plus* a minimum internal buffer which is at least 2% of risk-weighted assets or a higher value as determined by the Internal Capital Adequacy Assessment Process ("ICAAP"). Consequently, the collective minimum regulatory capital requirement under this approach is 13.50% of risk-weighted assets.

During the third quarter, the Credit Union Deposit Guarantee Corporation ("CUDGC") approved a temporary 100 bps drop of its regulatory capital requirements to 12.50%, down from 13.50% in the previous reporting periods. This forbearance expires May 1, 2024.

Should the actual capital fall below the pre-defined amounts, management, together with the Board of Directors, will determine what corrective action is needed to bring the capital ratio back above the minimum required amount.

The Credit Union's goal is to hold various forms of capital, with a specific focus on growing retained earnings. Retained earnings are the most stable and least expensive form of capital for the Credit Union to hold.

When determining sufficiency of capital, the Credit Union includes in its calculation amounts permitted under the Act including:

- retained earnings and contributed surplus;
- common shares;
- investment shares;
- other forms of capital as determined from time to time by the Board of Directors and permitted under the Act.

The total value of the figures above is then reduced (increased) by:

- deferred income tax asset (liability)
- goodwill and other intangible assets

The Credit Union management ensures compliance with capital adequacy through an ICAAP that includes the following activities:

- Identifying the capital needed to support the current and planned operations of the Credit Union;
- Developing and submitting to the Board of Directors for its approval, appropriate and prudent capital management policies, including policies on the quantity and quality of capital needed to support the current and planned operations that reflect both the risks to which the Credit Union is exposed and its regulatory capital requirements;
- Regularly measuring and monitoring capital requirements and capital position, and ensuring Connect First meets its capital requirements;

- Establishing appropriate and effective procedures and controls for managing capital, monitoring adherence to those procedures and controls, and reviewing them on a regular basis to ensure that they remain effective;
- Providing the Board of Directors with appropriate reports on the Credit Union's capital position and on the procedures and controls for managing capital;
- Stress testing the capital levels on at least an annual basis. The tests include a variety of scenarios that vary growth and income assumptions. They include a test for the current year as well as for the following year. A sufficient number of scenarios are tested to ensure that sensitivity levels can reasonably be assessed and planned for.

As of the reporting date, the Credit Union has exceeded its minimum regulatory capital requirements. As at October 31, 2023, the Credit Union's regulatory capital is 13.49% (2022 – 13.63%) of risk-weighted assets.

7. Cash and Cash Equivalents

	As at October 31 2023	As at October 31 2022
Cash with Alberta Central	31,001	52,313
Cash on hand	9,923	9,563
ATM cash	3,030	3,965
Total	43,954	65,841

8. Investments

	2023	2022
Investments - term deposits and other	**52,066**	61,471
Alberta Central term deposits		
- Non-statutory term deposits	**44,565**	28,682
- Statutory term deposits	**530,834**	522,542
Alberta Central common shares	**67,335**	65,037
	694,800	677,732
Accrued interest	**6,003**	2,200
	700,803	679,932
Allowance for investment losses	**(184)**	(509)
Total	**700,619**	679,423

The Credit Union is required by the Act to hold common shares in Alberta Central, which are also a condition of membership in Alberta Central. The common shares entitle the holders to vote. Voting privileges are restricted to one vote per credit union member, regardless of the number of common shares held by a member. The common shares also provide the right to receive dividends declared. In certain limited circumstances where a weighted vote occurs, the Credit Union would have approximately 21% of the votes (proportionate to its shareholdings in

Alberta Central), however, the Credit Union has determined that it does not have significant influence over Alberta Central. Common shares of Alberta Central are redeemable at par.

As required by the Act, the Credit Union maintains statutory term deposits in Central to satisfy the legislated liquidity level, as described in Note 26 (c).

9. Derivative Financial Instruments

All derivative instruments are recorded at fair value in the consolidated statement of financial position. The following tables indicate the type of derivatives that the Credit Union is party to, the notional amount of these contracts along with their maturities, as well as the fair value on the reporting date.

Maturities of derivatives

	1 to 3 months	3 to 12 months	1 to 5 years	2023 Total	2022 Total
Interest rate swaps	-	-	50,000	50,000	50,000
Index-linked options	3,542	30,743	54,462	88,747	109,337
Total	3,542	30,743	104,462	138,747	159,337

Net fair value

	2023		2022	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	4,575	-	3,886	-
Index-linked options	4,885	4,885	7,693	7,693
Total	9,460	4,885	11,579	7,693

Interest rate swaps

These types of derivatives are agreements between two parties to exchange cash flows based upon agreed rates that are applied to a notional amount. The parties exchange floating and fixed interest rate payments, which are settled net. Connect First enters into interest rate swaps with Alberta Central to manage exposure to interest rate risk.

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 a reference stock market index performance. Connect First has entered into index-linked options with Desjardins and Alberta Central. Connect First pays a fixed amount on the notional amount at inception of the contract. At maturity, Connect First receives payments from Desjardins and Alberta Central equal to the amount that will be paid to the depositors based on the performance of the indices.

Connect First utilizes derivative contracts only for the purpose of hedging underlying risks and has not utilized any derivatives for the purpose of earning trading income.

10. Loans to Members

Loans to members comprise the following:

	2023		2022	
Performing loans	6,356,334	99.02%	6,300,096	99.21%
Non-performing loans	70,089	1.09%	60,152	0.95%
Accrued interest	26,075	0.41%	19,834	0.31%
Allowance for impairment	(33,381)	-0.52%	(29,766)	-0.47%
Total	6,419,117	100%	6,350,316	100%

The following table shows the gross carrying amount of loans measured at amortized cost as of October 31, 2023 and 2022. Stage 1 represents performing loans with a 12-month expected credit loss, Stage 2 represents performing loans with a lifetime expected credit loss, and Stage 3 represents impaired loans with a lifetime expected credit loss.

	Stage 1	Stage 2	Stage 3	Total	Accrued Interest	Allowance for Credit Losses	Total Net of Allowance
As at October 31, 2023							
Consumer	675,888	44,530	2,997	723,415	1,930	9,140	716,205
Residential mortgage	2,738,383	85,840	3,806	2,828,029	4,463	855	2,831,637
Commercial and agriculture	2,749,253	62,440	63,286	2,874,979	19,681	23,386	2,871,275
Total member loans	6,163,524	192,810	70,089	6,426,423	26,075	33,381	6,419,117

	Stage 1	Stage 2	Stage 3	Total	Accrued Interest	Allowance for Credit Losses	Total Net of Allowance
As at October 31, 2022							
Consumer	620,701	33,812	2,165	656,678	1,582	8,165	650,095
Residential mortgage	2,745,637	84,991	1,855	2,832,483	3,514	1,753	2,834,244
Commercial and agriculture	2,798,144	16,811	56,132	2,871,087	14,738	19,848	2,865,977
Total member loans	6,164,482	135,614	60,152	6,360,248	19,834	29,766	6,350,316

Allowance for expected credit losses consists of the following:

Residential mortgages	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at November 1, 2021	958	666	153	1,777
ECL acquired on business combination	16	14	40	70
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	410	(365)	(45)	-
Remeasurement of loss allowance other than stage transfers	(552)	281	177	(94)
Derecognitions and maturities	(158)	(94)	(66)	(318)
Loan originations	274	78	-	352
Total remeasurement of loss allowance	(26)	(100)	66	(60)
Write offs	-	(7)	(27)	(34)
As at October 31, 2022	948	573	232	1,753
As at November 1, 2022	948	573	232	1,753
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	177	(179)	2	-
Remeasurement of loss allowance other than stage transfers	(734)	(55)	150	(639)
Derecognitions and maturities	(79)	(43)	(51)	(173)
Loan originations	60	21	-	81
Total remeasurement of loss allowance	(576)	(256)	101	(731)
Write offs	-	-	(167)	(167)
As at October 31, 2023	372	317	166	855

Consumer loans	Stage 1	Stage 2	Stage 3	Total
As at November 1, 2021	2,969	1,473	775	5,217
ECL acquired on business combination	48	93	124	265
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	609	(465)	(144)	-
Remeasurement of loss allowance other than stage transfers	(27)	1,617	1,143	2,733
Derecognitions and maturities	(425)	(169)	(129)	(723)
Loan originations	1,820	837	334	2,991
Total remeasurement of loss allowance	1,977	1,820	1,204	5,001
Write offs	(1,171)	(229)	(918)	(2,318)
As at October 31, 2022	3,823	3,157	1,185	8,165
As at November 1, 2022	3,823	3,157	1,185	8,165
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	579	(529)	(50)	-
Remeasurement of loss allowance other than stage transfers	71	2,298	1,650	4,019
Derecognitions and maturities	(227)	(294)	(315)	(836)
Loan originations	992	169	221	1,382
Total remeasurement of loss allowance	1,415	1,644	1,506	4,565
Write offs	(1,597)	(1,039)	(954)	(3,590)
As at October 31, 2023	3,641	3,762	1,737	9,140

Commercial and agriculture loans	Stage 1	Stage 2	Stage 3	Total
As at November 1, 2021	2,697	794	19,690	23,181
ECL acquired on business combination	3	4	-	7
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	655	(433)	(222)	-
Remeasurement of loss allowance other than stage transfers	(295)	695	9,838	10,238
Derecognitions and maturities	(332)	(35)	(164)	(531)
Loan originations	1,253	30	1,529	2,812
Total remeasurement of loss allowance	1,281	257	10,981	12,519
Write offs	(20)	(91)	(15,748)	(15,859)
As at October 31, 2022	3,961	964	14,923	19,848
As at November 1, 2022	3,961	964	14,923	19,848
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	33	30	(63)	-
Remeasurement of loss allowance other than stage transfers	5,047	1,081	6,769	12,897
Derecognitions and maturities	(559)	(69)	(187)	(815)
Loan originations	2,271	8	-	2,279
Total remeasurement of loss allowance	6,792	1,050	6,519	14,361
Write offs	(250)	(50)	(10,523)	(10,823)
As at October 31, 2023	10,503	1,964	10,919	23,386

Totals at October 31, 2022	8,732	4,694	16,340	29,766
Totals at October 31, 2023	14,516	6,043	12,822	33,381

The total allowance for expected credit losses is reconciled as follows:		
	2023	**2022**
Opening allowance for impairment	29,766	30,175
ECL acquired on business combination	-	342
Charge for loan impairment:		
Net remeasurement due to stage transfers	-	-
Remeasurement of loss allowance other than stage transfers	16,277	12,877
Derecognitions and maturities	(1,824)	(1,572)
Loan originations	3,742	6,155
Write-offs	(14,580)	(18,211)
Allowance for expected credit losses, October 31	33,381	29,766
The charge for loan impairment on the statement of comprehensive income is reconciled as follows:		
Charge for loan impairment (remeasurement/derecognition/loan originations)	18,195	17,460
Charge for loan impairment on foreclosed property at October 31 (note 11)	290	-
Charge for impairment/(recovery) on investments	(326)	(354)
Recoveries	(224)	(544)
Total charge for loan impairment	17,935	16,562

As previously disclosed in Note 3, the measurement of the allowance for expected credit losses as well as foreclosed property (see Note 11) involves the use of significant judgements, estimates and assumptions. The Credit Union has applied judgment, including consideration of these factors in the assessment of any underlying credit deterioration, and considered both qualitative and quantitative information. Specifically, the Credit Union considered the following:

Significant Increase in Credit Risk ("SICR")

The judgements related to whether or not there is a SICR result in loans moving between stages and, therefore, being subject to different measurement. With respect to delinquencies, the judgements used related to SICR remain consistent with those at October 31, 2022.

Forward Looking Information ("FLI")

As of October 31, 2023, the following FLI has been used in the measurement of the ECL, as compared to that used at October 31, 2022. The FLIs used by the Credit Union is based on publicly available external data and our view of future economic conditions. We exercise experienced credit judgment to incorporate multiple economic forecasts, which are probability-weighted in the determination of the final ECL. Connect First determines ECL using three probability-weighted forward-looking scenarios. These scenarios include a "base" case scenario that represents the most likely outcome and two additional scenarios representing the optimistic and pessimistic outcomes. These additional scenarios are designed to capture material non-linearity of potential credit losses in portfolios. Consequently, the ECL allowance is sensitive to changes in both the economic forecasts and the probability-weight assigned to each forecast scenario.

In the base scenario, interest rates will remain elevated in the short term as the Bank of Canada keeps interest rates high to fight inflation. The protracted economic environment is also reflected in increasing unemployment rates and nominal growth in house prices. Over the long run, rates are expected to decline, along with an improvement in unemployment and house prices, consistent with a moderate economic recovery.

The best-case scenario reflects a stubborn inflationary environment with interest rates remaining higher for longer. House activity and unemployment are more favorable, consistent with accelerated economic growth.

In the worst-case scenario the interest rate spreads widen over time, consistent with an increase in credit risk, while general interest rates decline, which is consistent with an assumption of a long-term recession.

October 31, 2023	Base case scenario		Alternative scenario optimistic		Alternative scenario pessimistic	
	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Driver						
3 month BA rate %	4.14	2.80	5.78	4.29	2.10	1.65
3 month Government of Canada Bond Rate %	3.80	2.51	5.50	4.07	1.70	1.30
Alberta housing price index % change	3.98	1.92	5.97	2.77	(2.20)	0.15
Alberta unemployment rate %	6.10	5.30	5.09	4.74	8.14	7.16

October 31, 2022	Base case scenario		Alternative scenario optimistic		Alternative scenario pessimistic	
	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Driver						
3 month BA rate %	4.06	2.98	5.50	4.94	1.31	1.66
3 month Government of Canada Bond Rate %	3.60	2.54	5.10	4.57	0.75	1.12
Alberta housing price index % change	0.30	1.00	4.36	1.00	(2.01)	0.15
Alberta unemployment rate %	5.60	5.27	4.81	4.65	7.63	7.23

The reported expected credit losses for financial assets in Stage 1 and Stage 2 with 100% weighting under the optimistic macroeconomic conditions, including the application of management experience credit adjustment, with other assumptions held constant would decrease by approximately $1.0 million (2022 - $0.9 million).

The reported expected credit losses for financial assets in Stage 1 and Stage 2 with 100% weighting under the pessimistic macroeconomic conditions, including the application of management experience credit adjustment, with other assumptions held constant would increase by approximately $1.9 million (2022 - $2.5 million).

At October 31, 2023, management concluded that the weighting to be used would be 80% base, 10% best case, and 10% worst case (2022 – 80% base case, 10% best case, 10% worst case).

While management performs analysis at each reporting period to assess the weighting used in the ECL model, there still exists limitations of the model where industry specific or asset class specific factors are not considered in the broader-based assumptions. To account for these limitations, management has conducted sensitivity analysis to support an overlay that is added to the ECL outcome that is calculated by the model. At October 31, 2023 management has applied an overlay of $5.1 million to stage 1 and stage 2 loans in two industry specific commercial portfolios.

Shown below are the quarterly future looking indicators for the next 12 months.

Base case scenario

	Next 3 months	Next 4 to 6 months	Next 7 to 9 months	Next 10 to 12 months	Remaining forecast period
Driver					
3 month BA rate %	5.29	5.13	4.64	4.14	2.80
3 month Government of Canada Bond Rate %	4.95	4.80	4.30	3.80	2.51
Alberta housing price index % change	0.83	1.03	1.03	1.03	1.92
Alberta unemployment rate %	6.10	6.30	6.20	6.10	5.30

Alternative scenario pessimistic

	Next 3 months	Next 4 to 6 months	Next 7 to 9 months	Next 10 to 12 months	Remaining forecast period
Driver					
3 month BA rate %	3.77	3.27	2.46	2.10	1.65
3 month Government of Canada Bond Rate %	3.35	2.85	2.05	1.70	1.30
Alberta housing price index % change	(1.68)	(0.49)	(0.16)	0.12	0.15
Alberta unemployment rate %	7.06	8.23	8.63	8.14	7.16

Alternative scenario optimistic

	Next 3 months	Next 4 to 6 months	Next 7 to 9 months	Next 10 to 12 months	Remaining forecast period
Driver					
3 month BA rate %	5.54	6.03	5.98	5.78	4.29
3 month Government of Canada Bond Rate %	5.25	5.75	5.70	5.50	4.07
Alberta housing price index % change	1.33	1.54	1.54	1.44	2.77
Alberta unemployment rate %	5.60	5.50	5.28	5.09	4.74

Performing loans to members and their contractual maturities consist of the following:

2023	On Demand	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 Years & Over	Total
Residential Mortgages							
- Insured	-	96,123	159,263	225,341	155,357	126,257	762,341
- Conventional	237,352	294,086	417,613	529,064	409,821	173,942	2,061,878
Consumer Loans	89,458	141,133	125,467	110,902	86,306	167,153	720,419
Commercial Mortgages	1,524	552,509	404,412	407,991	283,397	53,811	1,703,644
Commercial Loans	478,685	43,060	31,551	23,734	26,632	28,160	631,822
Agricultural Loans	57,450	48,819	50,153	41,781	34,273	26,636	259,112
Agricultural Mortgages	-	36,344	39,788	47,161	47,125	46,700	217,118
Total	864,469	1,212,074	1,228,247	1,385,974	1,042,911	622,659	6,356,334

2022	On Demand	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 Years & Over	Total
Residential Mortgages							
- Insured	-	101,696	90,250	148,926	212,139	168,141	721,152
- Conventional	247,899	305,955	293,812	372,512	479,958	409,341	2,109,477
Consumer Loans	84,683	122,208	112,160	92,496	79,805	163,160	654,512
Commercial Mortgages	1,929	460,645	302,220	378,890	336,046	286,124	1,765,854
Commercial Loans	395,186	81,028	14,861	24,232	10,275	46,361	571,943
Agricultural Loans	58,029	5,940	3,168	2,322	3,938	2,954	76,351
Agricultural Mortgages	-	77,180	54,572	77,766	77,306	113,983	400,807
Total	787,726	1,154,652	871,043	1,097,144	1,199,467	1,190,064	6,300,096

11. Foreclosed Property

During the year ended October 31, 2023, a commercial building was moved into foreclosure and is currently being managed by the Credit Union. This has resulted in an increase of $3.5 million to the foreclosed property balance. The remaining foreclosed property balance relates to one insured residential loan and one conventional residential loan that have been foreclosed on in the process of realizing on the Credit Union's security.

12. Other Assets

	2023	2022
Accounts receivable	5,585	4,866
Lease residual	2,316	3,863
Prepaid expenses	8,021	7,747
Security deposits	7,879	9,629
Income tax receivable	3,253	6,845
Other	6,525	8,407
	33,579	41,357

13. Property and Equipment and Intangible Assets

	Land	Buildings	Furniture & equipment	Computer equipment	Leasehold improvements	Total	Intangible assets	
COST								
Balance at November 1, 2022	7,591	35,750	18,210	6,958	18,521	87,030	22,871	
Acquisitions	-	78	1,092	422	3,052	4,644	3,010	*
Disposals	-	-	(188)	(22)	(97)	(307)	(11)	
Balance at October 31, 2023	7,591	35,828	19,114	7,358	21,476	91,367	25,870	

	Land	Buildings	Furniture & equipment	Computer equipment	Leasehold improvements	Total	Intangible assets
DEPRECIATION AND AMORTIZATION							
Balance at November 1, 2022	-	(9,068)	(10,244)	(5,037)	(10,301)	(34,650)	(9,276)
Depreciation and amortization for the year	-	(1,324)	(1,194)	(793)	(824)	(4,135)	(2,555)
Disposals	-	-	142	7	87	236	7
Balance at October 31, 2023	-	(10,392)	(11,296)	(5,823)	(11,038)	(38,549)	(11,824)
NET BOOK VALUE							
October 31, 2022	7,591	26,682	7,966	1,921	8,220	52,380	13,595
October 31, 2023	7,591	25,436	7,818	1,535	10,438	52,818	14,046

*Intangible assets acquisitions include $261 (2022 - $461) of internal costs and $2,749 (2022 - $2,432) of external costs.

14. Members' Deposits

	2023	2022
Demand Deposits	2,584,204	2,588,294
Registered Savings Plans	421,769	412,159
Term Deposits	3,144,127	3,000,306
Registered Education Savings Plans	10,229	10,665
	6,160,329	6,011,424
Accrued Interest	72,276	28,257
Total	6,232,605	6,039,681

Maturities are as follows:

2023	On Demand	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 Years & Over	Total
Demand Deposits	2,584,204	-	-	-	-	-	2,584,204
Registered Savings Plans	9,428	219,145	90,128	41,185	18,412	43,471	421,769
Term Deposits	20,014	2,372,793	476,290	103,680	76,163	95,187	3,144,127
Registered Education Savings Plans	-	10,229	-	-	-	-	10,229
	2,613,646	2,602,167	566,418	144,865	94,575	138,658	6,160,329

2022	On Demand	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 Years & Over	Total
Demand Deposits	2,588,294	-	-	-	-	-	2,588,294
Registered Savings Plans	15,409	225,981	99,269	30,435	11,464	29,601	412,159
Term Deposits	34,551	2,222,959	506,458	137,609	33,721	65,008	3,000,306
Registered Education Savings Plans	-	10,665	-	-	-	-	10,665
	2,638,254	2,459,605	605,727	168,044	45,185	94,609	6,011,424

15. Commitments and Contingent Liabilities

(a) Credit Commitments

In the normal course of business, the Credit Union enters into various commitments to meet the credit requirements of its members. These include credit commitments and letters of credit, which are not included in the consolidated statement of financial position.

Standby letters of credit represent an irrevocable obligation to make payments to a third party in the event that the member is unable to meet its contractual financial or performance obligations. In the event of a call on such commitments, the Credit Union has recourse against the member.

Documentary and commercial letters of credit require the Credit Union to honour drafts presented by third parties upon completion of specific activities.

Commitments to extend credit represent undertakings to make credit available in the form of loans or other financing for specific amounts and maturities, subject to certain conditions, and include recently authorized credit not yet drawn down and credit facilities available on a revolving basis.

These credit arrangements are subject to the Credit Union's normal credit standards and collateral may be obtained where appropriate. The contract amounts set out below represent the maximum future cash requirements should the contracts be fully drawn. However, many of these arrangements will expire or terminate without being drawn.

	2023	2022
Letters of credit	21,636	17,067
Commitments to extend credit with a term to maturity of one year or less	885,222	851,734

(b) Contingencies

Various actions and legal proceedings arising from the normal course of business are pending against the Credit Union. Management does not anticipate that the ultimate loss, if any, of these actions and proceedings will be material.

16. Ownership Dividends

The Board of Directors has declared an ownership dividend to be paid in fiscal 2024 in respect of fiscal 2023 to members by way of an issuance of common shares in the amount of $16,105 (2022 - $13,382). The ownership dividend allocated to members is based on member common share holdings.

17. Share Capital

($ thousands, except per share amounts)

(a) Common Shares

Common shares have the following characteristics:

i) an unlimited number have been authorized to be issued;
ii) a par value of $1 per share, but fractional shares may be issued;
iii) transferable only in restricted circumstances;
iv) non-assessable;
v) redemption is at par value and is at the discretion of the Board of Directors of the Credit Union, subject to the restrictions contained in the Act;
vi) members must hold a minimum of 1 share to retain membership in the Credit Union; and
vii) carry the right to vote.

(b) Series A, B, C, D, E, F, G & H Investment Shares

In October 2023, the Board of Directors approved a 6.7% dividend to holders of record of Series A, B, C, D, E, F, G and H Investment Shares for the year ended October 31, 2023 in the aggregate amount of $10,085 (2022 – $8,345). The payment will be made in November 2023 through the issuance of additional Series A, B, C, D, E, F, G and H Investment Shares, respectively.

Series A, B, C, D, E, F, G and H Investment Shares were issued for consideration of $1 per share and have the following characteristics:

- i) no par value;
- ii) no voting rights;
- iii) transferable under limited circumstances;
- iv) callable at the discretion of the Credit Union upon 5 years written notice;
- v) dividends are non-cumulative and rank ahead of ownership dividend on common shares. They are also subject to the Credit Union’s dividend policy which can be changed at the discretion of the Board of Directors; and
- vi) redemptions are permitted in the Credit Union’s redemption policy, as approved by the Board of Directors, which is subject to change at their discretion. Redemptions are also subject to the limits outlined in the Act.

Common shares and Series A, B, C, D, E, F, G and H Investment Shares represent “at risk” capital and are not guaranteed by CUDGC.

18. Other Income

	2023	2022
Service charges and other fees	7,206	6,405
Foreign exchange gain/(loss)	1,669	1,399
Loan fees	1,789	1,401
Insurance	2,050	2,023
Credit card fees	99	574
Wealth management	9,596	9,225
Other	2,177	1,683
	24,586	22,710

19. Other Expenses

	2023	2022
Advertising	3,124	5,145
Technology	17,954	14,335
Member security and deposit insurance premium	4,463	4,230
Professional fees	6,051	6,005
Stationary, telephone, postage, courier	1,669	1,761
Financial planning	191	167
ATM/POS operations	2,206	1,648
Board expenses	845	760
Lending costs	2,079	2,435
Charitable donations/community investment	386	451
Occupancy	4,537	6,759
Other	7,900	6,152
	51,405	49,848

20. Provision for Income Taxes

The components of tax expense for the years ended October 31, 2023 and 2022 are as follows:

	2023	2022
Current tax expense:		
Current period	2,892	4,997
Deferred tax expense:		
Origination and reversal of temporary differences	(2,578)	1,143
Total income tax expense	**314**	**6,140**

Reconciliation of effective tax rate

	2023	2022
Income before tax	1,844	26,303
Income tax using the Credit Union's combined federal and provincial statutory Canadian tax rate of 23.00% (2022 - 23.00%)	424	6,050
Effect of tax rate changes and other	(148)	45
Non-deductible expenses	38	45
Total income tax expense	**314**	**6,140**

Recognized deferred tax assets and liabilities

	Property and Equipment	Provisions	ROU Assets	Lease Liabilities	Non-Capital Losses	Other Assets	Totals
As at November 1, 2022	(5,137)	4,158	(4,750)	6,690	1,257	(894)	1,324
Credit/(Charged) to the statement of income	1,555	1,198	184	(239)	38	(158)	2,578
Credit/(Charged) to other	-				3,131	-	3,131
As at October 31, 2023	**(3,582)**	**5,356**	**(4,566)**	**6,451**	**4,426**	**(1,052)**	**7,033**

21. Related Party Transactions

Related parties of Connect First include subsidiaries, key management personnel and close family members of key management personnel, including directors, as well as entities that have a control or significant influence relationship with key management personnel.

Outstanding loans to:	**2023**	2022
Key management personnel and entities controlled by key management personnel	4,505	26,480

Outstanding deposits from:	**2023**	2022
Key management personnel and entities controlled by key management personnel	25,603	29,081

All loans to key management personnel are current as of October 31, 2023.

Compensation of key management personnel ($)

The makeup of key management personnel changed in 2023 to incorporate positions that leadership felt had the ability to influence operations and were crucial to the effective management of the organization.

Connect First executive management earned the following remuneration and benefits ($):

2023	**Annual Remuneration**	**Performance Incentive**	**Total Benefits**	**2023 Total**
Chief Executive Officer	294,231	-	16,382	310,613
Intermin CEO / Chief Merger Officer	306,346	138,877	83,853	529,076
Chief Financial Officer	301,875	-	31,074	332,949
Chief Technology Officer	266,381	101,148	79,879	447,408
Chief People Brd & Clt Off	261,750	113,189	70,246	445,185
Chief Member Exp Officer	236,375	53,040	70,691	360,106
Interim Ch Rsk&Admin Off	214,779	58,357	38,605	311,741
EVP Amplified Experience	217,176	16,981	33,778	267,935
CAO & Int SVP Risk & Adm	66,923	68,808	18,886	154,617 *
EVP Bus Comm & Ag	61,684	17,864	14,191	93,739 *
SVP Brand & Reputation	37,404	41,110	9,486	88,000 *
SVP Product & Experience	15,327	53,901	9,307	78,535 *
EVP Consumer & Wealth	17,540	55,629	594	73,763 *

*Indicates employee resignation or termination
Terminated executive members were paid $422,595 in severance in the year.

The performance incentives shown above represent 2022 bonus amounts that were subsequently paid in 2023.

2022	Annual Remuneration	Performance Incentive	Total Benefits	2022 Total
Chief Executive Officer	1,755,750	347,200	304,707	2,407,657
Interim Chief Executive Officer	242,346	109,000	90,159	441,505
Chief Financial Officer	352,743	119,900	86,364	559,007
Interim Chief Financial Officer/Chief Audit Officer	194,038	25,108	33,014	252,160
Chief Technology Officer	234,615	117,500	72,078	424,193
Chief Strategy and Innovation Officer	475,556	111,500	67,169	654,225
Chief People & Culture Officer	219,423	108,500	66,290	394,213
EVP Consumer & Wealth	193,829	48,354	42,131	284,314
EVP Business, Commercial and Agriculture	47,596	-	4,227	51,823
SVP Product & Experience	171,197	33,652	39,051	243,900
SVP Brand & Reputation	155,776	24,129	30,075	209,980
SVP Credit Risk	172,950	48,350	37,653	258,953

Paid to directors ($):

	2023	2022
Directors' fees and committee remuneration	604,638	532,475
Directors' expenses	87,508	74,585

Compensation to directors ranged from $17,075 (2022 - $15,162) to $107,013 (2022 - $92,350) with an average of $43,188 (2022- $35,498). Members of the Board do not receive or pay preferred rates on products and services offered by the Credit Union and are only compensated with short term director fees.

22. Personnel Expenses

	2023	2022
Salaries and wages	56,935	54,188
Short term benefits	20,122	14,393
Long term benefits	3,273	2,883
Termination benefits	335	3,405
	80,665	74,869

23. Asset and Liability Management

Interest rate risk refers to the potential impact of changes in interest rates on the Credit Union's earnings when the maturities of its financial liabilities are not matched with the maturities of its financial assets. In the normal course of business, the Credit Union enters into interest rate swaps and option contracts to manage exposure to interest rate fluctuations and to manage the asset and liability mismatch. These financial instruments are subject to normal credit standards, financial controls, and risk management and monitoring procedures.

Payments exchanged under the swaps are calculated on a fixed rate, pay floating rate basis. The notional principal amounts related to derivative contracts, shown in the table below, are not exchanged by the Credit Union and its counterparties. They are used as the basis for determining payments under the contracts.

The fair value of these contracts is included in derivative assets on the statement of financial position if positive and derivative liabilities if negative and represents the estimated consideration that would be received or paid, as applicable, to settle these derivative contracts. However, it is the intention of the Credit Union to maintain these contracts to maturity when the contract expires with no value. Accordingly, over the life of each of these derivative contracts, cumulative unrealized gains and losses recognized will total nil.

Interest receivable or payable under the terms of the interest rate swaps is recorded as an adjustment to interest on loans to members on an accrual basis.

The table below summarizes key Statement of Financial Position categories by maturity dates and weighted average effective interest rates.

2023

($ Thousands)	Average Rate	Variable & Within 3 Months	3 Months to 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	Over 4 Years	Non-Interest Sensitive	Total
October 31, 2023									
ASSETS									
Cash	1.70%	43,954	-	-	-	-	-	-	43,954
Investments	3.94%	403,154	124,733	54,638.00	44,744	-	67,335	6,015	700,619
Loans to Members	4.75%	1,272,724	866,598	1,228,248	1,385,977	1,042,910	622,660	-	6,419,117
Other	0.00%	344	1,715	1,109	1,060	330	327	135,327	140,212
	4.56%	**1,720,176**	**993,046**	**1,283,995**	**1,431,781**	**1,043,240**	**690,322**	**141,342**	**7,303,902**
LIABILITIES and EQUITY									
Deposits	3.06%	2,769,889	2,100,084	566,418	144,865	94,574	138,658	418,117	6,232,605
Other	2.26%	2,826	27,384	82,297	177,191	87,056	327	694,216	1,071,297
	2.94%	**2,772,715**	**2,127,468**	**648,715**	**322,056**	**181,630**	**138,985**	**1,112,333**	**7,303,902**
BALANCE SHEET MISMATCH		(1,052,539)	(1,134,422)	635,280	1,109,725	861,610	551,337	(970,991)	-
Interest Rate Swaps		50,000	-	-	(25,000)	(25,000)	-	-	-
NET MISMATCH		(1,002,539)	(1,134,422)	635,280	1,084,725	836,610	551,337	(970,991)	-

2022

($ Thousands)	Average Rate	Variable & Within 3 Months	3 Months to 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	Over 4 Years	Non-Interest Sensitive	Total
October 31, 2022									
ASSETS									
Cash	0.45%	-	-	-	-	-	-	65,841	65,841
Investments	3.05%	364,815	159,173	33,568.00	30,422	26,363	65,037	45	679,423
Loans to Members	3.99%	1,114,738	863,520	871,043	1,097,144	1,207,819	1,196,052	-	6,350,316
Other	0.00%	347	2,648	2,149	1,308	892	349	134,936	142,629
	3.79%	**1,479,900**	**1,025,341**	**906,760**	**1,128,874**	**1,235,074**	**1,261,438**	**200,822**	**7,238,209**
LIABILITIES and EQUITY									
Deposits	1.73%	2,919,030	1,928,404	605,727	168,044	45,185	96,281	277,010	6,039,681
Other	0.00%	1,616	47,112	46,924	92,023	172,221	127,684	710,948	1,198,528
	1.44%	**2,920,646**	**1,975,516**	**652,651**	**260,067**	**217,406**	**223,965**	**987,958**	**7,238,209**
BALANCE SHEET MISMATCH		(1,440,746)	(950,175)	254,109	868,807	1,017,668	1,037,473	(787,136)	-
Interest Rate Swaps		50,000					(50,000)		
NET MISMATCH		(1,390,746)	(950,175)	254,109	868,807	1,017,668	987,473	(787,136)	-

24. Credit Facilities

The Credit Union has certain credit facilities in place allowing it to borrow funds on a short-term basis from Alberta Central. These facilities are classified as other financial liabilities and are measured at amortized cost. As at October 31, 2023, the following facilities were in place:

(a) A revolving line of credit authorized to a maximum amount of $144,331 (2022 - $130,022) including a US dollar component equivalent of up to CAD $7,250 (2022 - $13,775) that is repayable on demand and bears interest at prime less one-half of one percent per annum.

(b) A revolving term loan with an authorized limit of $432,995 (2022 - $390,065) that is available for terms up to 30 days. Prime rate-based loans are payable at the Prime rate in effect less 1%. Subject to Alberta Central's discretion, the Credit Union can enter into a fixed rate loan for terms of 1 to 24 months repayable at a rate determined by Alberta Central at the date of draw down for the loan.

As at October 31, 2023 and 2022, the credit facilities were undrawn.

The total guaranteed commitment level for the above facilities at October 31, 2023 is limited to 2% of the Credit Union's assets. Total borrowing facilities can be increased to 8% of the Credit Union's assets in the case of an unexpected emergency liquidity event. The balance of the facility is subject to availability. A security agreement covering substantially all of the Credit Union's assets is collateral for the credit facilities.

25. Fair Value of Financial Instruments

The amounts set out in the table below represent the fair values of the Credit Union's financial instruments using the valuations and assumptions described below.

The estimated fair value approximates amounts at which instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act; however, many of the Credit Union's financial instruments lack an available trading market and are intended to be held to maturity. Therefore, fair values are based on estimates using present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates which reflect current market rates of interest and varying degrees of credit risk. Because of the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

The Credit Union's derivative instruments and investments classified as FVTPL and FVOCI are reported in the consolidated statement of financial position at fair value. Fair value is a point-in-time estimate that may change in subsequent reporting periods, primarily in response to changes in market interest rates. A fair value hierarchy is used to categorize the inputs used in valuation techniques to measure fair value.

The fair value of derivative instruments and non-statutory term deposits are measured with internal models using observable future interest rates as inputs to a discounted cash flow model (level 2 of the hierarchy). The fair value of the Alberta Central common shares is based on redemption value, which approximates the cost of the shares.

The fair value of investment funds that are classified as FVTPL are based on values quoted by the fund managers. The determination of the asset value requires the use of unobservable inputs such as forecasts and discount rates which classifies these assets as level 3 of the hierarchy.

The fair values of cash and other financial assets and liabilities are not included below as they are assumed to approximate carrying values, due to their short-term nature and would be classified as level 1 in the fair value hierarchy. The estimated fair value of floating rate member loans and member deposits are assumed to equal book value as the interest rates automatically re-price to market. The estimated fair value of fixed rate member loans and fixed rate member deposits are determined by discounting the expected future cash flows of these loans and deposits at current market rates for products with similar terms and credit risks. The fair values for secured borrowings are estimated using discounted cash flow calculations at market prices.

From time to time, transfers between various fair value hierarchy levels may result as there may be changes in the availability of quoted market prices or observable market inputs because of changes in market conditions. Transfers between levels in the fair value hierarchy are recognized at the end of the reporting period. During the year ended October 31, 2023, there were no transfers between levels of the hierarchy for any financial assets and liabilities.

2023

	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial assets at amortized cost					
Member loans		6,185,140		6,185,140	6,419,117
Investment securities		581,167		581,167	586,670
Financial assets at FVTPL					
Investment securities			1,989	1,989	1,989
Derivatives		9,460		9,460	9,460
Financial assets at FVOCI					
Investment securities		111,960		111,960	111,960
Total financial assets	-	6,887,727	1,989	6,889,716	7,129,196
Financial liabilities at amortized cost					
Deposits		6,170,945		6,170,945	6,232,605
Secured borrowings		347,877		347,877	372,196
Financial assets at FVTPL					
Derivatives		4,885		4,885	4,885
Total financial liabilities	-	6,523,707	-	6,523,707	6,609,686

2022

	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Financial assets at amortized cost					
Member loans		6,017,221		6,017,221	6,350,316
Investment securities		575,698		575,698	584,511
Financial assets at FVTPL					
Investment securities			1,187	1,187	1,187
Derivatives		11,579		11,579	11,579
Financial assets at FVOCI					
Investment securities		93,725		93,725	93,725
Total financial assets	-	6,698,223	1,187	6,699,410	7,041,318
Financial liabilities at amortized cost					
Deposits		5,979,665		5,979,665	6,039,681
Secured borrowings		448,614		448,614	479,887
Financial assets at FVTPL					
Derivatives		7,693		7,693	7,693
Total financial liabilities	-	6,435,972	-	6,435,972	6,527,261

26. Nature and Extent of Risk Arising from Financial Instruments

The Credit Union is exposed to the following risks as a result of holding financial instruments: credit risk, market risk, and liquidity risk. The Credit Union does not have a significant exposure to foreign exchange risk. The following is a description of those risks and how the Credit Union manages them.

a) Credit Risk

Credit risk is the risk that a financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to the Credit Union. Credit risk arises principally in lending activities that result in loans to members as described in Note 10. Credit risk is also present in interest rate swaps, cash and investments held for liquidity purposes. The Credit Union monitors counterparty published credit ratings to mitigate risks with respect to these assets.

The impaired retail loans plus accrued interest disclosed below are included in Stage 3 of the expected credit loss model, as disclosed in Note 10. The remainder of the retail mortgages and loans included below are classified as either Stage 1 or Stage 2, including accrued interest as disclosed in Note 10.

Credit Quality

2023	Stage 1	Stage 2	Stage 3	Total
Commercial mortgages and loans				
1 to 5 - satisfactory risk	2,755,302	11,273	4,548	2,771,123
6 to 7 - unimpaired	9,510	51,454	11,567	72,531
8 to 9 - impaired	-	-	51,007	51,007
Allowance for credit losses	(10,504)	(1,964)	(10,918)	(23,386)
Carrying amount	**2,754,308**	**60,763**	**56,204**	**2,871,275**

	Consumer loans	Residential mortgages	Total
Retail mortgages and loans			
Satisfactory risk	722,277	2,828,582	3,550,859
Impaired retail loans	3,068	3,910	6,978
Allowance for impaired loans	(9,140)	(855)	(9,995)
Carrying amount	**716,205**	**2,831,637**	**3,547,842**

2022	Stage 1	Stage 2	Stage 3	Total
Commercial mortgages and loans				
1 to 5 - satisfactory risk	2,800,941	5,866	22,287	2,829,094
6 to 7 - unimpaired	9,964	11,031	13,027	34,022
8 to 9 - impaired	-	-	22,709	22,709
Allowance for credit losses	(3,961)	(964)	(14,923)	(19,848)
Carrying amount	**2,806,944**	**15,933**	**43,100**	**2,865,977**

	Consumer loans	Residential mortgages	Total
Retail mortgages and loans			
Satisfactory risk	656,064	2,834,109	3,490,173
Impaired retail loans	2,196	1,888	4,084
Allowance for impaired loans	(8,165)	(1,753)	(9,918)
Carrying amount	**650,095**	**2,834,244**	**3,484,339**

The Credit Union monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans to members, excluding accrued interest, at the reporting date is shown below:

Concentration by sector

		2023	2022
Commercial:			
	Real estate, rental & leasing	1,170,117	1,232,953
	Construction	359,339	273,531
	Accommodation & food services	249,498	219,157
	Health care & social assistance	45,184	49,608
	Retail trade	110,829	112,533
	Finance & insurance	25,213	17,073
	Other	433,257	486,688
		2,393,437	2,391,543
Retail:			
	Mortgages	2,828,029	2,832,483
	Dealer loans & leases	558,120	483,033
	Unsecured lending	107,910	72,941
	Secured lending	57,385	100,703
		3,551,444	3,489,160
Agriculture:			
	Mortgages	395,896	400,461
	Loans	85,646	79,084
		481,542	479,545
		6,426,423	**6,360,248**

Credit Risk Management

The Credit Union employs a number of credit risk management activities for its loan portfolio. Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. Risk is measured by reviewing exposure to individual borrowers, and by reviewing qualitative and quantitative factors that impact the loan portfolios. Qualitative and quantitative analysis of a borrower's financial information are important factors used in determining the financial state of the counterparty.

Borrowers are subject to a credit review process. These reviews ensure that the borrower complies with internal policy and underwriting standards. The Credit Union reduces credit risk through various forms of collateral security, including mortgages. Credit risk is also managed through analysis of the ability of members and potential members to meet principal and interest repayment obligations and by changing lending limits where appropriate. Risk is generally assessed on residential mortgage loans based on their classification as either conventional mortgages or insured mortgages. A residential mortgage is classified as conventional if the amount borrowed does not exceed 80% of the assessed value of the property held as collateral. Mortgages that exceed the 80% loan-to-value are insured. Consumer loans have a marginally higher credit risk, which is mitigated through a variety of methods including collateral requirements. The Credit Risk Committee monitors credit risk and approves policies for the Credit Union.

The collateral and other enhancements held by Connect First as security for loans include: i) insurance (for insured residential mortgages), ii) mortgages over residential lots and properties,

iii) recourse to business assets such as real estate, equipment, inventory and accounts receivable, and iv) recourse to liquid assets and securities.

Specialized risk management policies and underwriting practices also protect the Credit Union in commercial lending.

b) Market Risk

Market risk arises from changes in interest rates that affect the Credit Union's financial margin. Exposure to this risk directly impacts the Credit Union's income from its loan and investment portfolios, and interest expense related to its deposit portfolios. The Credit Union's objective is to earn an acceptable return on these portfolios, without taking unreasonable risk, while meeting member-owner needs.

Risk management

The Credit Union's risk position is measured based upon the potential impact of a change in interest rates on interest payments: charged to and received from member-owners, received on investments, and paid on deposits and borrowings. The Asset Liability Committee (ALCO) is a committee comprised of senior management that meets at least quarterly and ad-hoc as required. Every meeting must include the Chief Executive Officer. Responsibilities include:

- Reviewing variances between actual, budgeted and projected financial margin;
- Reviewing management of interest rate sensitivity and financial margin including investing, liquidity management, hedging and securitization activities;
- Reviewing asset/liability management, ("ALM") and hedging strategies to manage interest rate risk in order to achieve policies;
- Assessing the current interest rate risk position and the potential effect of the Credit Union's primary ALM strategy;
- Reviewing and providing input and feedback on key risk modeling assumptions.

Interest rate risk in the one-year time frame is managed to keep the negative impact for every 100 basis points ("bps") change in prime rate to within 10 basis points of the projected most likely financial margin. At this level, no corrective action to reduce risk is required, but may be taken as a proactive step based upon management's judgment, allowing for potential deviations from assumptions and the resultant risk that may occur.

The following table provides the potential before-tax impact of a 100 bps increase or decrease in interest rates on our financial margin. These measures are based on assumptions made by management and validated by experience. All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and our risk management initiatives.

	2023	2022
Before tax impact on financial margin of:		
100 basis point increase in rates	2,483	(766)
100 basis point decrease in rates	(6,054)	(5,944)

c) Liquidity Risk

Liquidity risk is the risk of having insufficient financial resources to meet the Credit Union's cash and funding requirements, statutory liquidity requirements, or both. The Credit Union has a strong liquidity base, is active in the securitization market, and has a well-established contingency liquidity plan.

The desired liquidity level above the statutory requirement is determined by taking into account the balance between the cost of liquidity and the yield achieved. The Credit Union will at all times maintain above statutory liquidity levels as required by regulations. Immediate corrective action will be taken if the ratio approaches the regulatory minimum. The Act requires that statutory liquidity deposits be held with Alberta Central. Statutory liquidity includes eligible deposits and shares of Central. The statutory liquidity ratio is 9.0% of average deposits and borrowings for the second prior month. Based on average deposits and borrowings for August 2023 the Credit Union's liquidity as at October 31, 2023 exceeds minimum requirements by $1,564 (2022 - $175).

d) Capital Management

The Credit Union is well capitalized and has the ability to maintain the required capital buffers. Refer to Note 6 for details on our capital management.

27. Investment Income

	2023	2022
Interest on statutory investments	21,266	6,197
Dividends on statutory investments	934	898
Interest on other investments	6,292	2,720
Interest on bond forward	-	288
	28,492	10,103

28. Securitization

During the fiscal year, the Credit Union, as part of its program of liquidity, entered into asset transfer agreements with a third party to securitize pools of residential mortgages.

The Credit Union has determined that these securitization transactions should be accounted for as secured borrowings as the Credit Union did not transfer substantially all of the risks and rewards of ownership, including principal prepayment, interest rate and credit risk of the mortgages in the securitization transactions. The balance at October 31, 2023 is $372,196 (2022 - $479,887). The residential mortgages are categorized as Loans to Members and they are held as security for the secured borrowings. The carrying amount as at October 31, 2023, of the associated residential mortgages as at October 31, 2023 is $600,169 (2022 - $517,457). Connect First has no obligation to repurchase the securitized mortgages.

The National Housing Act Mortgage-Backed Securities ("NHA MBS") program consists of investments that are financed by pools of insured mortgages. Investors in these pools receive monthly payments of principal and interest where principal is distributed from the payments of the mortgagors and interest is based on the pool's coupon rate. Timely payment of the blended payments is guaranteed by the Canada Mortgage and Housing Corporation ("CMHC").

In the Canadian Mortgage Bond ("CMB") program, the monthly and amortizing cash flows are converted into a fixed interest coupon bond. Interest payments are made semi-annually with a final principal payment at maturity.

Secured Borrowings	Maturity Date	Pricing Yield	**As at October 31, 2023**	As at October 31, 2022
CMB	May 1, 2023 to July 1, 2023	1.0268% to 1.0464%	-	2,875
NHA MBS	December 1, 2023 to September 1, 2027	1.1586% to 4.7962%	372,196	477,012
Total			372,196	479,887

29. Leases

The nature of the leases that the Credit Union has recognized relate primarily to real estate leases for branches and office space, as well as corporate vehicles.

Right of use (ROU) asset	Property	Vehicles	Total
Cost			
Balance at November 1, 2022	27,154	64	27,218
Acquisitions	3,100	-	3,100
Disposals	(2,849)	(19)	(2,868)
Balance at October 31, 2023	27,405	45	27,450
Accumulated Depreciation			
Balance at November 1, 2022	(6,551)	(13)	(6,564)
Depreciation and amortization for the year	(2,313)	(17)	(2,330)
Disposals	1,291	6	1,297
Balance at October 31, 2023	(7,573)	(24)	(7,597)
Net Book Value			
October 31, 2022	20,603	51	20,654
October 31, 2023	**19,832**	**21**	**19,853**

Lease Liabilities	As at October 31 2023	As at October 31 2022
Maturity analysis - contractual undiscounted cash flows		
Less than one year	3,831	3,624
One to five years	14,851	13,750
More than five years	18,065	16,602
Total undiscounted future lease payments at October 31	36,747	33,976
Less present value discount	8,697	4,886
Lease liabilities included in the statement of financial position	28,050	29,090

Amounts recognized in profit or loss

	2023	2022
Interest on lease liabilities	(1,273)	(1,272)
Variable lease payments not included in the measurement of lease liabilities	(2,550)	(2,528)
Expenses relating to short term leases	(138)	(113)
Expenses relating to leases of low-value assets	(24)	(30)

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.

30. Subsequent Event

On March 3, 2023 the Board of Directors of Connect First and Servus Credit Union (“Servus”) announced their intent to pursue a transaction to merge the two organizations (the “Transaction”).

Servus is a member-owned, community-based financial institution with over $18.2 billion in assets under administration that serves more than 380,000 members from over 100 locations across Alberta.

A memorandum of understanding was signed by both Boards of Connect First and Servus. Each credit union conducted their own independent due diligence reviews and assessments, and the findings of the due diligence process were presented to the Board of Directors of both Servus and Connect First. On August 2, 2023 the Boards of both Credit Unions approved the merger business case and amalgamation agreement. Special General Meetings and member votes on the proposed merger were held on September 19, 2023 for Servus and on November 9, 2023 for Connect First. Members of both Credit Unions voted in favour of the merger and on November 23, 2023 CUDGC also granted their approval. The final step before the merger can proceed is to complete compliance with the merger provisions of Canada’s Competition Act; the timing of this is currently unknown.