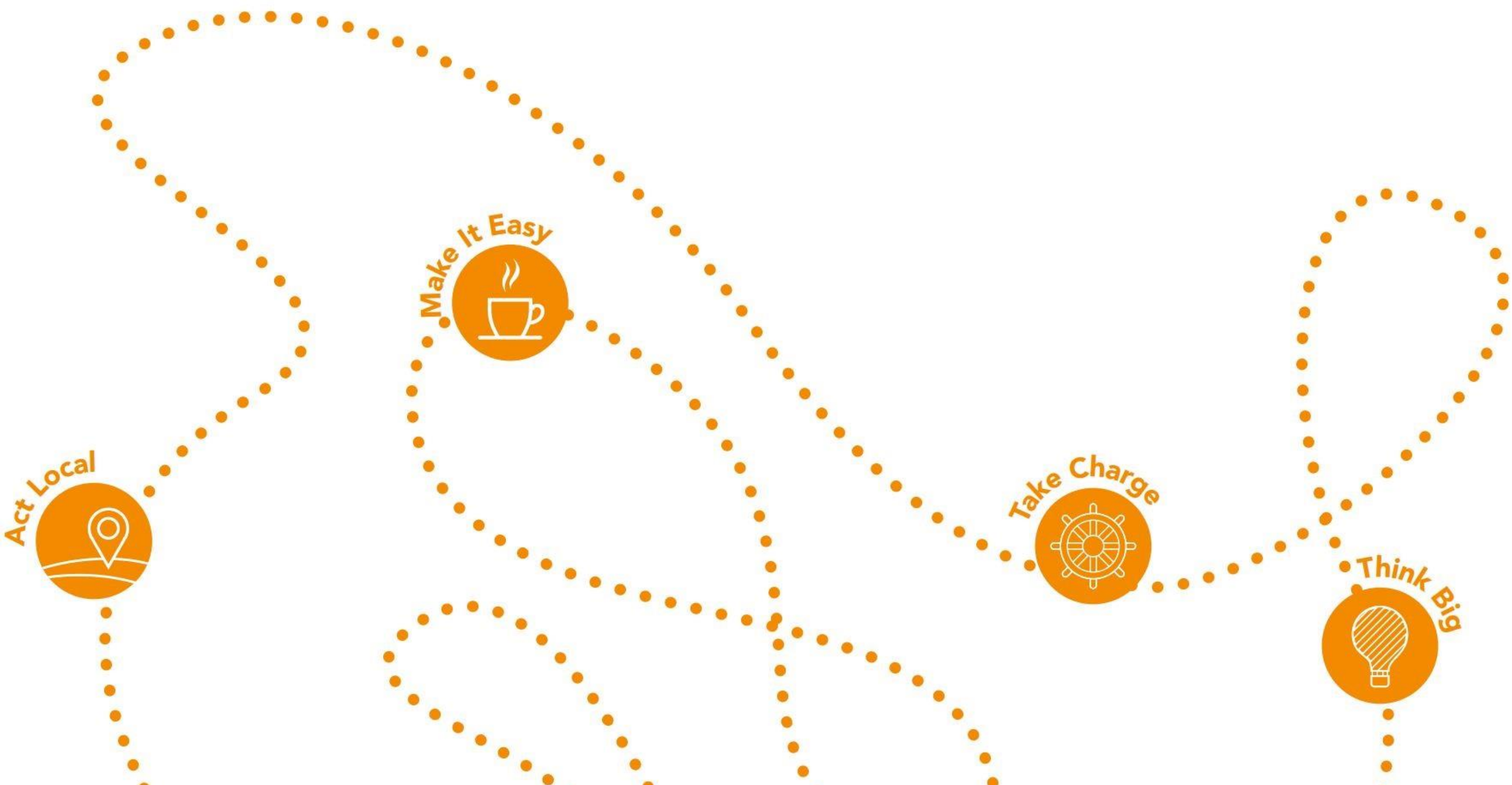
ConnectFirst Credit Union

2020

Management's Discussion & Analysis

For the year ended October 31, 2020



Making Money Make a Difference

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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. (Connect First or the credit union). These statements are subject to risk and uncertainty. Actual results may differ depending on a number of factors, including but not limited to legislative or regulatory changes, interest rates, 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, 2020. 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 reflect what happened, while the MD&A explains why these changes occurred.

By providing a balanced discussion of operational results, financial condition, and future prospects, the MD&A lets members look at Connect First through the eyes of management. The MD&A compares the 2020 and 2019 audited financial statements of the credit union.

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

As a credit union, we're different than a bank - and we like it that way

At Connect First, we spend our days helping our members achieve their financial aspirations through our local brands − and a community-focused approach to banking that's true to our co-operative principles. You're our member, not a number. We're your neighbours and your partner. Over 80 years ago we started from humble beginnings. Through the years, we've grown to become one of Alberta's leading financial institutions through a desire to connect the dots between your dreams, your goals, your community, and your financial wellness. We believe that banking is about more than money − it's a cornerstone of every vibrant community and that our members should expect us to positively impact the financial success and viability of the communities that we call home. We invest meaningfully in the potential and well-being of our employees, and what matters most to our members. We have honest conversations about real things, as real people. Our members are owners, they have a say in how we operate, they earn dividends on common shares and investment shares, and they have access to an extensive array of financial products and services.

We're committed to providing remarkable experiences to our members, our communities, and our employees, and we're proud to be regarded as one of the best:

- Named among Canada's Most Admired Corporate Cultures™ by Waterstone Human Capital
- Recipient of Canada's Best Managed Companies award for 21 consecutive years

Vision

To Do What's Right For Every Member:
Creating an experience where we stand up for your financial wellness and earn your business through every interaction.

Mission

To Make Money Make a Difference:
We deliver meaningful impact to our members and communities in ways that make sense to them.

Values

Think Big:
We embrace new ideas to create the greatest possible value for our members.

Act Local:
We actively seek out local ways to positively impact the communities we live, work and thrive in.

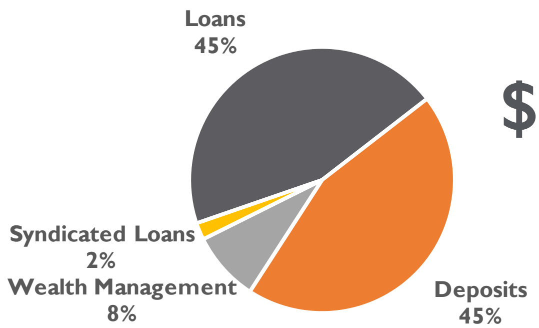
Take Charge:
We succeed when you succeed. We're accountable and take ownership over situations to deliver results.

Make it Easy:
We listen, seeking to understand and find every opportunity to make your experiences with us helpful and easy.

2020 – FINANCIAL HIGHLIGHTS

2020 was a challenging year due to the ongoing COVID-19 pandemic, however we were able achieve solid financial performance and asset growth despite the environment. We translated this growth into a 2.2% common share dividend and a 3.5% investment share dividend for our 128,000 plus members.

Book of business



$11.2 billion

755 Employees

Member's equity

$527 million

Asset growth

$167 million or 2.9% reaching $5.9 billion

Income before taxes

$3.9 million

Deposits from members

$5.0 billion

Loans to members

$5.0 billion

Dividends paid

$99 million

in dividends paid to our members over the last 10 years

2020 – YEAR IN REVIEW

2020 was a year like no other. As the COVID-19 pandemic swept the world, it brought many economies to a halt as lockdowns were introduced to limit the spread of the virus. Like many others, we were forced to adapt to a changing landscape to ensure the safety and security of our employees all while ensuring we remained available to assist our members during this challenging time. The struggling resource economy placed additional pressure on many Albertans, above and beyond impacts from the pandemic. As an Alberta based credit union, it is our honour to rise to the occasion and support our members through these challenging times. At the height of the pandemic, we deferred payments on more than $2.3 billion of our member loans providing our members the flexibility and peace of mind to focus on what mattered most. We engaged with government authorities and our regulator to streamline our response to the pandemic and by October 31, 2020 had distributed nearly $56 million in Canada Emergency Business Account (CEBA) loans.

Our strength as a credit union has always been, and always will be our employees. During the pandemic, we supported our staff as we transitioned many to work-from-home arrangements through access to expanded mental health and wellness support. To protect our frontline branch staff and in-branch members, we implemented measures to limit the spread of COVID-19 on our premises through the installation of plexiglass barriers, floor markers to facilitate physical distancing measures, additional resources to staff to ensure a wipe down of common areas occurred frequently, and encouraged all staff who feel sick to stay home and follow provincial health guidelines. We continue to access and implement new measures as needed in response to this dynamic environment.

A number of years ago we committed to revolutionizing our members' digital online experience. And that decision could not have been more appropriate today. The pandemic accelerated our members' desire to interact with our employees in an increasingly digital way. We obsessively worked throughout 2020 in preparation for our banking system conversion that occurred in the Fall. We launched an entirely new online digital experience, supported by the alignment of our back-end processes to create the foundation for a world-class member experience. We set the stage to create a remarkable experience that does what's right for every member – and for all Albertans.

Our province has been through ups and downs before. We know that there will be a time when the pandemic ends and we are excited for the many opportunities that lay on the horizon. We pledge to do what is right for every member, and to us that means helping our members achieve their dreams through our expertise, know-how, and passion. Whether in the good times or bad, we are committed to creating a more prosperous Alberta and growing the communities we live and work in each day.

FINANCIAL PERFORMANCE TO BUDGET

($ Thousands)	**2018**	**2019**	**2020**	**2021 Budget**
Statement of Financial Position				
Assets	5,695,039	5,787,141	5,954,170	6,197,646
Liabilities	5,209,056	5,265,139	5,427,421	5,595,474
Equity	484,867	522,002	526,749	602,171
Statement of Comprehensive Income				
Financial Margin	99,234	107,999	101,853	113,406
Other income	21,900	22,844	21,932	21,966
Managed Expenses	92,874	104,873	102,978	109,548
Provisions	6,268	5,960	16,938	7,700
Income Before Taxes	21,992	20,010	3,869	18,124
Regulatory Capital & Ratios				
Regulatory Capital	482,770	516,710	521,975	572,658
Capital to Assets	8.4%	8.9%	8.6%	9.2%
Risk Weighted Capital	14.5%	14.7%	14.4%	14.7%
Return on Assets	0.43%	0.35%	0.07%	0.30%
Interest Margin	1.95%	1.88%	1.73%	1.87%

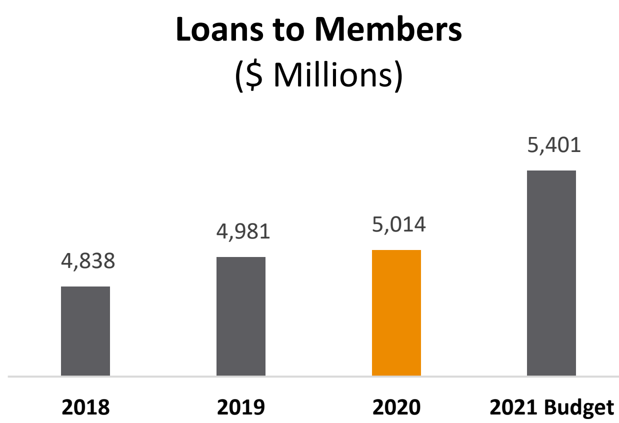
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets

Total assets of the credit union increased $166.6 million (2.88%) over the previous year.

Loans

Total loans to members increased $33.7 million (0.68%) from a year ago.

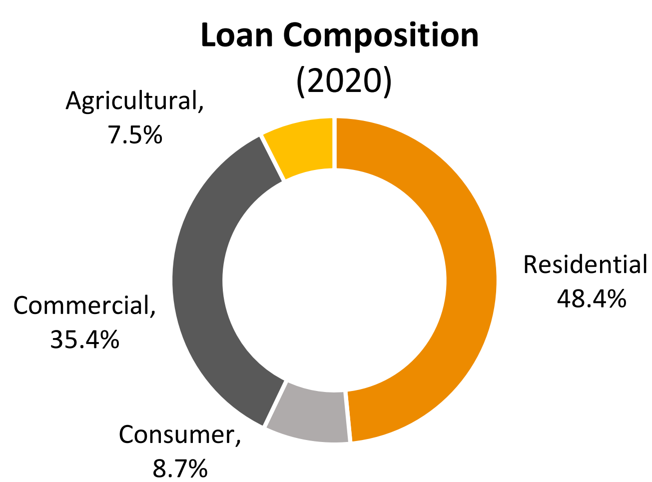


Loans to members are comprised of four categories that reflect the demand for credit within southern Alberta. These categories include:

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

Residential mortgages remain a key focus of the credit union, however the onset of COVID-19 has had a significant impact on the competitive environment for these lower-risk assets as financial institutions manage increased deposits and excess liquidity generated from government program support for consumers. We continue to be competitive in the marketplace and remain committed to growing this area of our portfolio. Surpassing $2.4 billion, traditional residential lending comprises over 48% of the lending portfolio. However, during 2020, residential mortgages decreased by $77.3 million (3.08%) over the previous year as mortgage pools (loans purchased from other financial institutions) declined, and paydowns occurred as members reduced debt loads through the uncertain economic environment. For fiscal 2021, residential mortgage growth is expected to recover as the credit union pivots towards a renewed focus of enhancing the member experience and capitalizing on stronger economic growth compared to 2020.

We continued to remain competitive for our members with consumer loans in 2020, however, our members did not require the same level of funds due to the pandemic shutdowns and travel restrictions. Consistent with other financial institutions, consumer loans saw a decline. On our financial statements, consumer loans decreased by $43.4 million (9.06%) as our members required less funds and were able to rely on government programs and their savings deposits to fund expenses. At year-end, our consumer loan portfolio comprises 9% of our total loan portfolio, consistent with the prior year and is made up primarily of



automotive loans and individual member loans such as lines of credits and term loans.

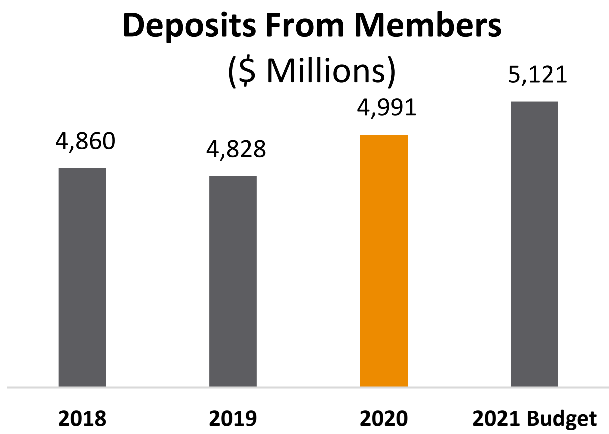
We continue to be here for members, supporting your requirements as government programs continue to evolve.

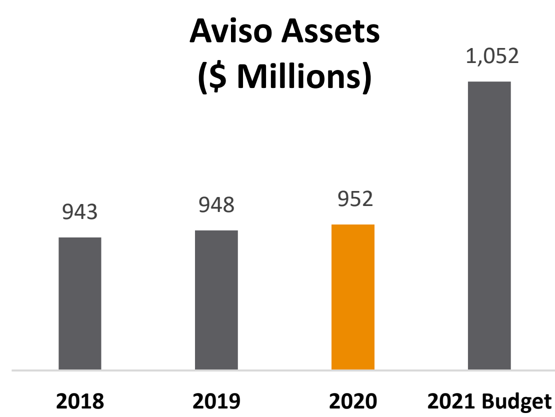
Commercial loan growth during fiscal 2020 was $135.4 million, 8.23% above one year ago. We continued to support our members and businesses in the community by offering competitive rates and advice to manage through the pandemic. Overall, commercial loans comprised 35% of the total loan portfolio in 2020, compared to 33% during 2019.

Agricultural loans had significant growth, reaching $375.4 million (8.25% growth) in 2020. Agricultural loans continue to be a strategic focus of ours and comprise 7% of the total loan portfolio.

Deposits

The credit union continues to have a stable deposit base with $2.5 billion (50%) of the deposit portfolio in term deposits. Demand deposits comprise $2.1 billion (42%) of the total deposit portfolio along with $0.4 billion (8%) represented by registered deposits.





Total member deposits were up $164 million from one year ago, or 3.39%. The increase in member deposits was partially driven by retail members who have reduced spending habits under COVID-19 restrictions, coupled with access to government support programs that have allowed for members to set aside funds for times of need. Term deposits decreased by $99.6 million, or 3.89%. With ready access to funds being a priority for members, demand accounts increased by $266.6 million (14.72%) and registered deposits by $0.8 million (0.19%). The Credit Union Deposit Guarantee Corporation (CUDGC) guarantees all deposits held with the credit union, including accrued interest.

Off-balance sheet deposits (investments with our wealth management partner Aviso) increased by $4.0 million (0.42%).

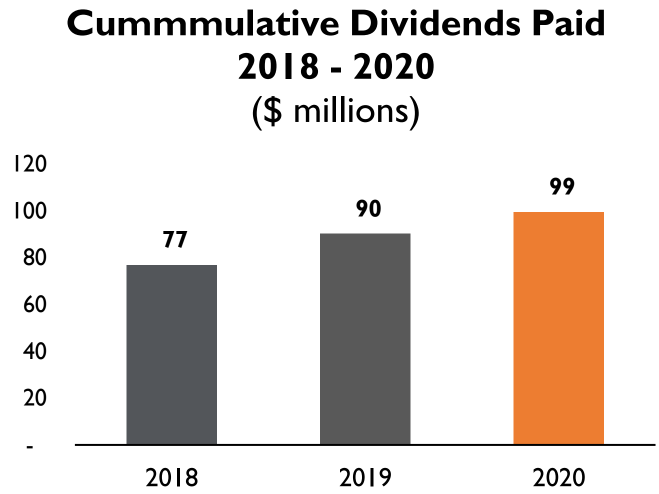
During fiscal 2020, we continued to issue National Housing Act Mortgage-Backed Securities (NHA MBS). Securitizations offer a cost-effective alternative and a source of liquidity in periods of accelerated lending. With the slow down of lending activity and increased liquidity, we anticipate this program to be less active into 2021.

Members' Equity

Members' equity increased by $4.7 million (0.91%) in 2020. Member's equity was supported by continued growth in common share purchases.

In 2020, we were proud to declare a common share dividend rate of 2.2%, resulting in $5.0 million returned to members. Dividends on investment shares were 3.5% for each investment share series, resulting in a total investment share dividend of $4.2 million.

Over the past ten years, the credit union has paid over $99 million in dividends to our membership.



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Financial Margin

The financial margin represents the difference between the income the credit union earns on loans and the interest paid on member deposits. The drop in Bank of Canada rates in March 2020 of 150 basis points contributed to a significant drop in interest earned on variable rate loans. This drop and the low interest rate environment continue to be a tough market for all financial institutions, further compounded this year by the growth in member deposits. As a result of this market dynamic, financial margin as a percentage of average assets declined during 2020 to 1.73% from 1.77% in 2019. On a dollar for dollar basis, financial margin was $101.9 million in 2020 compared to $108.0 million in 2019.

Non-Interest Revenue

Non-interest revenue, which includes banking fees, mutual-fund sales fees, foreign-exchange transactions, and insurance-related services, was $21.9 million in 2020, compared to $22.8 million in 2019. The decline can be attributed to reduced foreign exchange revenue from reduced international travel by our members as well as a reduction of in-branch service charges as members shifted towards online banking to complete day-to-day transactions.

Managed Expenses

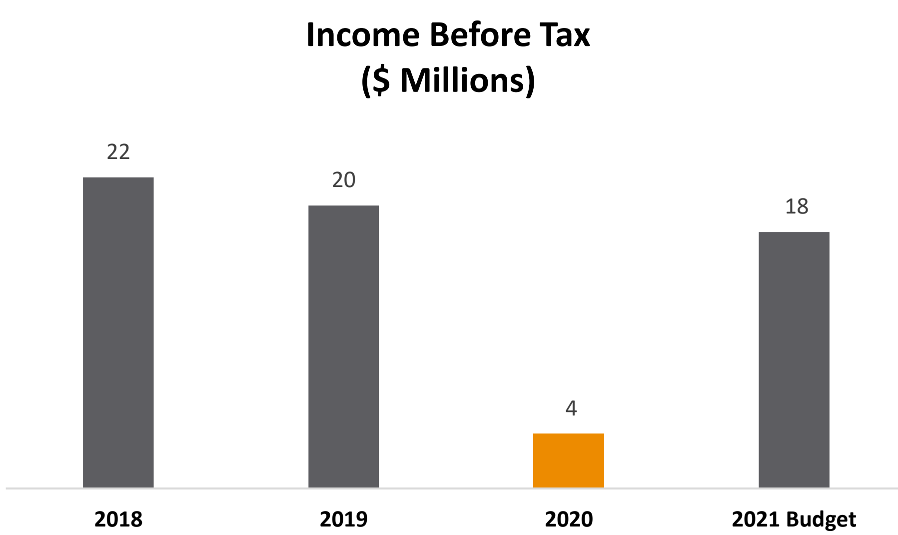
Expense management was a key focus for the organization during the year, even while COVID-19 required increases in measures to protect our members and staff. We worked hard to ensure members had access to our staff through alternative channels online or through our call centre, while managing the ever-changing government requirements. Health and safety remain our number one priority for members and staff. Naturally, as lockdowns and restrictions were imposed, travel requirements for our staff and Board of Directors reduced, resulting in a decrease in some of these expenses. Overall managed expenses decreased in the current year to $103.0 million compared to $104.9 million.

Charges for Loan Impairment

Charges for loan impairment represents the amount the credit union records for loan loss provisions. The economic climate within Alberta, both in relation to COVID-19 and oil and gas, significantly impacts our members. We must balance managing risk for our large membership base with supporting our members. Large economic impacts were felt by some of our members, resulting in an increase in our loan write-downs and allowances. Similar to other financial institutions there was an increase in charges for loan impairment due to the impact COVID-19 has had on our members. Total charges for loan impairment were $16.9 million up from $6.0 million in 2019. Our historical conservative lending practices have minimized the economic impact to our financial position. We continue to work proactively with our members to ensure support is provided during periods of impairment by offering relief programs such as deferral payments and interest-only options to eligible members in the hardest hit industries. Our teams maintain strict oversight over these programs and closely monitor the portfolio for signs of stress.

Income Before Income Taxes

While our members are thankful for the decline in rates that have reduced the interest on their variable rate loans and mortgages, we feel the impact most significantly through the decline of income as illustrated. Throughout 2020 our team worked to balance the impacts of many factors with ensuring we continued to support our members, our communities, and our staff. Income before income taxes was $3.9 million in fiscal 2020. We are budgeting for an increase in income for 2021 as deposits re-price to market rates and as operations normalize. There are many factors that influence the length of economic recovery that will drive income; however, we are confident that we are well positioned into 2021.



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 reached $527 million in fiscal 2020.

The Credit Union Deposit Guarantee Corporation (CUDGC), which regulates Alberta credit unions, mandates regulatory capital targets. The minimum supervisory capital target, expressed as capital as a percentage of risk-weighted assets, is 11.5%. The credit union's objectives when managing capital are to maintain the minimum regulatory requirement plus a cushion of 2.0% of risk-weighted assets for a total target of 13.5%, allowing for the impact of operational risk and strategic initiatives. Our regulatory capital ended the year at $522 million. 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.

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% cushion of risk-weighted assets, as noted above. 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.

Through its balanced approach to capital growth, the credit union has a capital to risk-weighted assets ratio of 14.4% (at October 31, 2020). We will continue to strengthen our capital position in 2021, maintaining a solid base for sustainable growth, and ensuring sufficient capital buffer against unexpected negative developments or further economic downturn.

ECONOMIC GROWTH

Alberta's current economic landscape has seen a tremendous downturn caused by the COVID-19 pandemic in addition to continued challenges for the energy industry and business investment seen in previous years. Due to COVID-19, the banking industry has seen a record low-interest environment caused by the slow growth of Gross Domestic Product (GDP).

The Bank of Canada's rate decisions in March 2020 had a profound impact on all financial institutions. This was a proactive measure taken in light of the negative shocks to Canada's economy arising from the COVID-19 pandemic and the sharp drop in oil prices. Recent announcements indicate that the policy rates will continue to hold until the inflation objective is achieved, creating a prolonged low rate environment and stunting revenue recovery potential for financial institutions.

As it relates to Alberta, GDP is forecasted to partially recover at 4.4% in 2021 following the economic factors mentioned. The unemployment rate is expected to gradually decline from its average high of 11.6% recorded in 2020 to approximately 9.5% in 2021. Loan deferral programs that have helped members deal with job losses and business shutdowns, however, have caused a level of uncertainty as there is a greater than normal risk of borrowers defaulting on such loans once re-payment obligations resume. Our credit teams are actively monitoring our exposure and continually work with our members through this challenging time. Our strong capital position has allowed us to support our members, with many taking advantage of our deferral programs, with approximately $180 million in loans remaining in deferral status at year-end. Current conditions and forecasts are indicative of a slow recovery but with a full recovery expected in 2023. This future growth can be credited to increased consumer spending, positively affecting the market and investor interest.

COVID-19 Response

The Canadian economy has experienced significant disruption and market volatility related to the ongoing global COVID-19 pandemic. The overall impact of the pandemic continues to be uncertain and is dependent on actions taken by Canadian governments, businesses, and individuals to limit the spread of COVID-19, as well as fiscal and monetary response and support efforts. The COVID-19 pandemic continues to evolve and the economic environment in which the credit union operates, continues to be subject to sustained volatility, which could continue to negatively impact the credit union's financial results, as the duration of the COVID-19 pandemic and the effectiveness of steps undertaken by governments and central banks in response to the COVID-19 pandemic remains uncertain. The full extent of the impact that COVID-19, including government and/or regulatory responses to the outbreak, will have on our results is highly uncertain and difficult to predict at this time. Accordingly, there is a higher level of uncertainty with respect to management's judgments and estimates. We have detailed policies and internal controls that are intended to ensure that these judgments and estimates are well controlled and independently reviewed, and that policies are consistently applied from period to period.

Connect First is here to Help

Our priority has been the safety and well-being of our members and staff. Since the first shutdown at the onset of the pandemic, our team has been working to stay safe while continuing to serve our members. This has included many of our staff working remotely at home, and changes to our branch operations and our call centre. We are following guidance issued by provincial health authorities and have used this guidance to amend our operations as needed, focussing on the health and well-being of our staff and members. In-branch we follow physical distancing requirements and have implemented enhanced cleaning and sanitization practices as well as mandatory mask protocol. This has been an adjustment for everyone, but we navigated through it as a team and have been able to stay connected through technology.

We worked closely with our members that reached out during the pandemic as they were faced with layoffs or business closures. We offered relief options to help members manage through challenges of the COVID-19 pandemic through payment deferrals, interest-only payments, skipped payments, and extended amortization. Similarly, we worked hard to reduce the impact to our staff, while focussing on offering flexible arrangements while they navigated the impacts of closed schools and daycares.

Connect First offered relief to business members through the Canada Emergency Business Account Program (CEBA) with funding provided by the Government of Canada and Export Development Canada (EDC). Under the CEBA Program, eligible businesses receive a $60,000 interest-free loan until December 31, 2022. If $40,000 is repaid on or before December 31, 2022, the remaining amount of the loan is eligible for complete forgiveness. The credit union had provided approximately 1,390 members with CEBA loans and had funded approximately $56 million in loans under the program as of October 31, 2020.

BUSINESS MODEL

Strategy

In 2019, Management and the Board of Directors undertook a strategic review to assess Connect First's regionally focused operating model and its long-term fit in our evolving marketplace. Entering the 2020's, the credit union unveiled an exciting new strategic direction. Guided by our new Vision **to do what's right for every member**, we are on a journey to create the ultimate member experience – one that builds a prosperous Alberta, one member at a time.

While we remain open to future amalgamations with like-minded credit unions, our focus will be on organic growth. We are committed to deepening relationships with our existing members and growing in our current communities. The first step in our journey is uniting under the Connect First Credit Union banner – both internally and in the eyes of our members. Organizing ourselves around four new lines of business, *Consumer & Concierge Services*, *Independent Business & Agriculture*, *Corporate & Commercial*, and *Wealth* allows us to better serve our members.

This foundational work to unite under a single brand has been further supported by the launch of a unified technology platform. The alignment and modernization from these initiatives will streamline our processes, ensure a consistent member experience, and allow us to be future-ready to serve our members in the 2020's and beyond.

At Connect First, we are on a mission to **make money make a difference**. We have a relentless focus on connecting with you – our members – to understand your needs, stand up for your financial wellness, and earn your business through every positive interaction.

COMMUNITY INVESTMENT

Credit unions do more than just banking. From urban to rural, we know each of our communities' face both common and distinct challenges. As a locally owned financial co-operative, we have the unique opportunity to help communities address these challenges through our NeighbourGood community giving program. Like many other areas of our business, we had to pivot our community investment strategy to respond to the COVID-19 pandemic. We focused on three top initiatives to ensure we continued to provide support to our community. At Connect First we're **making money make a difference**.

Our initiatives included:

- Supporting non-profits who have impacted by COVID-19 through our first ever member donation matching platform. We contributed $50,000 to match donations to Alberta non-profits, raising over $150,000 for local causes.
- We continued to fund grassroots community initiatives in response to COVID-19 through $1,000 Stepping Stones grants. We funded over 40 grant requests from the creation of grocery hampers, to equipping local libraries with plexiglass work stations.
- And we carried on with our focus on financial literacy by delivering our financial literacy sessions through a virtual format.

We recognize that 2020 was a challenging year which contributed to us not being able to invest the same amount of resources as we have in previous years. We are committed to and look forward to returning to previous levels of support for our community investment programs.

ACCOUNTING POLICY DEVELOPMENTS

Significant accounting estimates, assumptions and judgements

During the current period, the global COVID-19 pandemic and its related economic impacts have resulted in heightened measurement uncertainty, primarily related to the estimates, assumptions and judgements used in the measurement of the allowance for loan impairment and the estimate of the fair value of foreclosed property. For the year ended October 31, 2020, we included all information available up to the approval date of the financial statements by our Board of Directors, including the timing of economic recovery and other uncertainties. 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.

The judgments related to whether or not there is a significant increase in Credit risk (SICR) result in loans moving between stages and, therefore, being subject to different measurement. Due to the ongoing pandemic, we have implemented programs to allow for the deferral of payments on loans to members in certain circumstances. With respect to delinquencies, the judgements used related to SICR remain consistent with those at October 31, 2019. With respect to those loans where the member has taken advantage of the loan payment deferral programs or where the loan is in an industry that is particularly hard hit by the pandemic, we assessed whether this is indicative of a SICR, including consideration on whether this is indicative of a short-term change or an increase in the risk the member will default over the life of the loan. Utilization of a payment deferral program by a member was not necessarily considered an immediate trigger of a significant increase in credit risk.

International Financial Reporting Standards (IFRS)

IFRS 16 *Leases*

Effective November 1, 2019 (hereafter referred to as the "date of initial application"), the credit union adopted IFRS 16 Leases as issued by the IASB in January 2016. The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both the lessee and lessor. The standard supersedes IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 introduces a single lessee accounting model that requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Lease assets and liabilities are initially recognized on a present value basis and subsequently, similarly to other non-financial assets and financial liabilities, respectively. The lessor accounting requirements are substantially unchanged and, accordingly, continue to require classification and measurement as either operating or finance leases. The new standard also introduces detailed disclosure requirements for both the lessee and lessor.

On transition to IFRS 16 Leases, the credit union recognized right of use assets of $23,326 and lease liabilities of $32,639 with a $6,415 (net of tax of $2,142) impact to retained earnings. When measuring lease liabilities, the credit union discounted lease payments using its incremental borrowing rate at November 1, 2019. The weighted average rate applied is 4.26%. The nature of the leases that the credit union has recognized related primarily to real estate leases for branches and office space.

RISK MANAGEMENT

Our credit union has always made a strong commitment to managing risk strategically with the objectives of protecting and increasing member value. 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 impacts of COVID-19.

We continue to 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. Risk management processes are embedded within all major functions of our business as a means 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 the building of a risk culture, where everyone is an owner of risk, from the Board of Directors to Management to all employees. The ongoing discussion of the inherent risks of Connect First allows us to navigate through market disruptions such as the COVID-19 pandemic in a continued effort to balance both opportunities and risk.

Risk Governance

Supporting the foundation of risk management are the four lines of defence. Our first line, which consists of operational management, is responsible for developing policy and controls. Our second line consists of our risk, control and compliance team and is responsible for assessing the processes put in place by the first line. Our third line of defense is internal audit which evaluates both preventative and detective controls and provides an independent review of key risk areas within our credit union. The Board Risk Committee, the fourth line of defence has ultimate oversight and approves the Risk Management Policy.

Key Risks

The categories of key risk affecting our credit union are strategic, financial, operational and compliance (or regulatory). We have established a risk profile to assess our risk levels, their trends, and actions being taken on a quarterly basis. This framework includes appropriate tolerances, risk reporting and Board and Management risk policies to effectively manage and monitor risk. Management committees exist for Asset and Liability Management, Credit, Information Technology, and Risk Oversight. These committees meet regularly to discuss both inherent and emerging risks and report quarterly to the Board through the Board Risk Committee and Audit and Finance Committee on our risk profile and compliance with risk policies.

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

Strategic Risk

Strategic risk is the risk that we are not able to implement appropriate business strategies or plans or to effectively allocate resources. In addition, this risk may also arise from an inability to adapt to changes in the business environment. Effectively managing strategic risk results in good business decisions and effective execution which enables us to successfully implement our strategies. This results in better financial and community returns for our efforts and enables us to successfully seize upon opportunities. In order to ensure the successful implementation of our business strategy, we perform a comprehensive internal and external analysis of our three-year planning cycle. During this review, we also validate new and emerging opportunities that support our strategic direction. Considering the strategic impact of COVID-19 as it relates to future member behavior was a key discussion during our most recent review of our business strategy.

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 of Directors and monitored by the Audit and Finance Committee and Risk Committee.

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-to-day liquidity within these policies and reports monthly to management's Asset and Liability Management Committee to ensure policy compliance. Management provides quarterly reporting on these matters to the Audit and Finance Committee.

We continue to maintain liquidity levels well 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 provide a well-established contingency liquidity plan to access if required through the COVID-19 situation.

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 commercial, agricultural, residential, and consumer loans. As these loan balances make up the vast majority of our asset base, credit risk is a substantial component in the risk profile of the credit union and is dealt with in the ICAAP.

Credit is granted in accordance with Board-approved policies and detailed lending guidelines. Credit approvals require escalation in accordance with assigned delegated limits, which are subject to periodic review. 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 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. Overall monitoring and processes have changed and will continue to change due to COVID-19. This includes changes to current processes to ensure that the overall portfolio will be protected while continuing to support our members. The stages of our loan book will be affected by COVID-19 and adjusted as we progress through the pandemic.

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 Audit and Finance Committee and the Risk Committee.

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 Asset and Liability Management Committee to ensure policy compliance, and quarterly reporting on these matters is provided to the Audit and Finance Committee and Risk Committee.

The resulting impact from COVID-19 to the credit union's margin has been and will continue to be monitored consistently, with scenario and stress testing being adopted as a required tactic and adjusting responses as the current economic conditions unfold.

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, and natural disasters. We manage operational risk through the maintenance of an effective internal control environment including: governance, education, communication, policies, and procedures. Our success depends on the abilities, experience, and engagement of our employees.

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 the pandemic 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 benefit our members. We have a number of initiatives in progress at year-end that will transform the digital banking experience for members. As more members utilize 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 as best as possible. Our IT team is focused primarily on ensuring uninterrupted service of our banking platform and remote access for our teams while we continue to work from home for the safety of our employees. These risks are actively managed through enterprise-wide technology risk assessment and information security management programs using industry best practices.

With regards to operational risk, management reports to the Audit and Finance Committee and to the Board on a quarterly basis. Internal audit staff attends all Audit and Finance Committee, Risk Committee, and the Board 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.

Compliance (Regulatory) 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 results in compliance with relevant requirements specific to credit unions and 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 ensures up-to-date policies and procedures to manage changes in regulatory requirements.

Management reports compliance and regulatory risk to the Risk Committee and to the Board of Directors on a quarterly basis.

Risk Management and COVID-19

Overall monitoring and processes have changed and will continue to change due to COVID-19 in order to continue to effectively manage our risks. We remain well-positioned to manage these risks, despite the prolonged adverse business and economic conditions and the low interest rate environment. As a regulated financial institution, we are prudent in our risk activities, aligning them with our strategic objectives and risk appetite. We continually monitor COVID-19 and the evolving risks associated with it. For a comprehensive description of our risk management practices, refer to the *Risk Management* section of the MD&A.

Crisis Management was a key part of navigating the COVID-19 pandemic and early day impacts. During that time, our executive management was meeting daily, assessing and managing immediate risks. As the pandemic continued, crisis management remained an ongoing process, with management of risks and touchpoints reducing until the level of crisis management was incorporated into normal risk management processes. We continue to closely monitor any potential escalations and are ready to deploy our crisis management team as necessary. Specific considerations for COVID-19 significantly impacted risks are described below.

Credit Risk

We have enhanced our credit risk management with COVID-19 due to the significant impact of government changes such as the closure of non-essential businesses, employee layoffs, and mandated measures that have significantly impacted the economy. While many measures were relaxed, the second wave this fall resulted in further curtailment of economic activity, which could result in higher credit loss exposure in future periods. While payment deferrals were granted and government relief programs accessed by many members, the conclusion of these programs and support could lead to further challenges and negatively impact the market value of underlying collateral securing member loans.

We have been working with our members to resume normal payments and have seen limited requests for new or extended deferrals since late summer. Our loan portfolio remains diversified among industries, and our strong underwriting standards and conservative loan-to-value ratios help manage the increased risk during this time. We continue to work with our members during this difficult time while maintaining our credit risk management practices.

Operational Risk

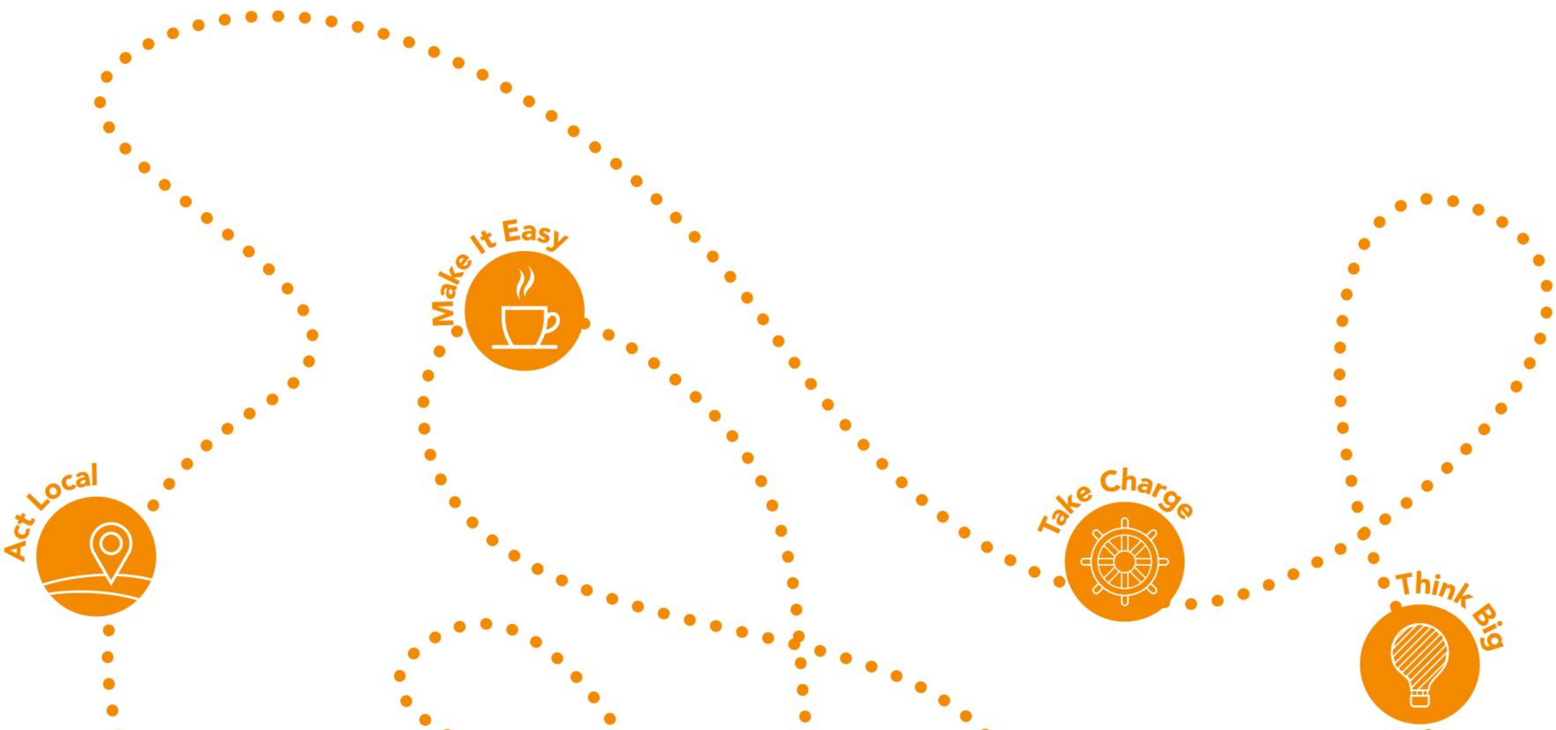
Our operations have seen significant changes with the increased dependence on remote access and reliance on information technology to support our business. We have remained diligent in our practices and have continued to update our business continuity approach in response to the changes. Cybersecurity continues to be top of mind as the volume of cyber attacks increases among businesses. We remain vigilant as it relates to our controls around cyber security and fraud, working diligently to ensure uninterrupted access to our systems through secure platforms.

Liquidity Risk

As noted in our financial review section, liquidity has not been a challenge as members consider deposits in Connect First to be a safe alternative for funds until they need them. Our deposit guarantee provides peace of mind during this volatile time. We continue to offer competitive deposit rates to members while being cognizant of net interest margin. We continue to watch the impacts of Bank of Canada decisions, along with other market disruptions to predict how our members will manage their deposits and loans. We have seen reduced usage of loans and lines of credits, however, we want to ensure that members can access funding sources as or when needed.

ConnectFirst Credit Union

2020 Financial Report



Making Money Make a Difference

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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, 2020;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of members' equity for the year then ended;
- the consolidated statement of cash flow 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, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

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 International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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 auditors' 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 auditors' 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

January 26, 2021
Calgary, Canada

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at October 31	
($ Thousands)	Notes	**2020**	**2019**
ASSETS			
Cash and cash equivalents		72,785	71,874
Investments	6	725,313	613,127
Loans to members	7	5,014,343	4,980,596
Foreclosed properties	8	5,413	6,738
Other assets	9	41,529	50,059
Intangible assets	10	13,625	6,349
Property and equipment	10	55,171	58,398
Right of use assets	26	21,142	-
Deferred tax asset	17	4,849	-
		5,954,170	**5,787,141**
LIABILITIES			
Members' deposits	11	4,991,483	4,827,908
Accounts payable and accruals		17,615	17,392
Lease liabilities	26	30,500	-
Secured borrowings	25	387,823	419,115
Deferred tax liability	17	-	724
		5,427,421	**5,265,139**
MEMBERS' EQUITY			
Common shares	14	238,477	217,260
Investment shares	14	120,123	121,242
Ownership dividend allocation	13	4,999	7,913
Investment share dividends declared	14	4,192	5,441
Retained earnings		158,958	170,146
Accumulated other comprehensive income		-	-
		526,749	**522,002**
		5,954,170	**5,787,141**

Commitments (Note 12)

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
Chair, Audit Committee

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

($ Thousands)	Notes	YEARS ENDED OCTOBER 31 2020	2019
FINANCIAL INCOME			
Interest on loans to members		176,752	182,154
Investment income	24	7,039	12,749
Unrealized gains/(losses) on interest rate swaps	22	-	10
		183,791	194,913
FINANCIAL EXPENSE			
Interest on members' deposits		69,987	78,662
Interest on loans payable		10,720	8,252
Interest on lease liability		1,231	-
		81,938	86,914
Financial margin		**101,853**	**107,999**
Charge for loan impairment	7	16,938	5,960
		84,915	102,039
Other income	15	21,932	22,844
Gross margin		**106,847**	**124,883**
Personnel expenses	19	58,835	57,820
Operating lease expenses		2,032	5,833
Depreciation and amortization		7,804	5,270
Other expenses	16	34,307	35,950
		102,978	**104,873**
Income before income taxes		**3,869**	**20,010**
Income taxes	17		
Current		2,908	3,071
Deferred (recovery)		(984)	2,234
		1,924	**5,305**
Net income and comprehensive income		**1,945**	**14,705**

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

CONSOLIDATED STATEMENT OF MEMBERS' EQUITY

Years ended October 31, 2020 and 2019

($Thousands)	Common shares	Series A-G investment shares	Ownership dividends declared	Investment share dividends declared	Retained earnings	Accumulated other comprehensive income	Total equity
Balance November 1, 2018	177,355	121,941	7,944	6,112	171,499	16	484,867
Transition to IFRS 9 net of tax of $2,447 (note 2)					(6,620)		(6,620)
Revaluation of Mountain View branches					(450)		(450)
Transfer to retained earnings					16	(16)	-
Net and comprehensive income					14,705		14,705
Transactions with members							
Shares issued to members for cash	47,558						47,558
Shares issued by dividend	7,944	6,112	(7,944)	(6,112)			-
2019 dividends declared - investment (note 14)				5,441	(5,441)		-
2019 dividends declared - ownership (note 13)			7,913		(7,169)		744
Income tax recovery, dividends declared					3,606		3,606
Shares redeemed for cash	(15,597)	(6,811)					(22,408)
Balance October 31, 2019	217,260	121,242	7,913	5,441	170,146	-	522,002
Transition to IFRS 16 net of tax of $2,142 (note 26)					(6,415)		(6,415)
Net and comprehensive income					1,945		1,945
Tax recovery, prior period adjustment					195		195
Transactions with members							
Shares issued to members for cash	34,258						34,258
Shares issued by dividend	7,913	5,441	(7,913)	(5,441)	26		26
2020 dividends declared - investment (note 14)				4,192	(4,192)		-
2020 dividends declared - ownership (note 13)			4,999		(4,999)		-
Deferred income tax recovery, dividends declared					2,252		2,252
Shares redeemed for cash	(20,954)	(6,560)					(27,514)
Balance October 31, 2020	238,477	120,123	4,999	4,192	158,958	-	526,749

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

CONSOLIDATED STATEMENT OF CASH FLOW

($ Thousands)	YEARS ENDED OCTOBER 31 2020	2019
Cash flows from operating activities		
Net Income	1,945	14,705
Adjustments for:		
Interest on loans to members	(176,752)	(182,154)
Interest/dividends on investments	(7,039)	(12,749)
Interest expense	81,938	86,914
Unrealized gain/(loss) on interest rate swaps	-	(10)
Depreciation and amortization	7,804	5,270
Charge for loan impairment	17,383	6,376
Current/deferred income tax expense	1,924	5,305
Change in other assets	8,330	839
Change in accounts payable	2,661	1,613
Interest received	182,424	193,668
Interest paid	(86,217)	(78,942)
Income tax (paid)/refund	(4,551)	(6,081)
Current tax recovery on dividends	-	3,606
Increase (decrease) in members' deposits	167,854	(39,702)
(Increase) in loans to members, net of repayments	(48,592)	(164,206)
Proceeds from sale of foreclosed property	1,751	1,353
Net cash from (used in) operating activities	**150,863**	**(164,195)**
Cash flows from financing activities		
Common shares issued for cash	34,258	47,558
Common share redemptions	(20,954)	(15,597)
Investment share redemptions	(6,560)	(6,811)
Advances of secured borrowing	96,000	136,996
Repayment of secured borrowing	(127,292)	(47,670)
Payment of lease liabilities	(2,139)	-
Net cash from (used in) financing activities	**(26,687)**	**114,476**
Cash flows from investing activities		
Acquisition of investments	(1,309,260)	(1,106,113)
Proceeds from sale of investments	1,195,664	1,173,605
(Acquisition) of property and equipment, net	(1,173)	(7,827)
(Acquisition) of intangibles, net	(8,496)	(4,157)
Net cash from (used in) investing activities	**(123,265)**	**55,508**
Increase in cash and cash equivalents	911	5,789
Cash and cash equivalents, beginning of year	71,874	66,085
Cash and cash equivalents, end of year	**72,785**	**71,874**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended October 31, 2020 with comparative figures for the year ended October 31, 2019.

($ Thousands)

Connect First Credit Union Ltd. ("Connect First" or the "Credit Union") operates 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 First Calgary Financial Investment Services Ltd. During the fiscal years ended October 31, 2020 and 2019, the subsidiary 1549081 Alberta Ltd. held title to certain foreclosed property. During the fiscal years ended October 31, 2020 and 2019, 1549081 Alberta Ltd., First Calgary Savings Insurance Ltd. and First Calgary Financial Investment Services 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 26, 2021.

1. BASIS OF PRESENTATION

a) Statement of compliance

The Credit Union's consolidated annual financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The significant accounting policies as set out in Note 2 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, foreclosed property 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, 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 and 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, and the estimate of fair value of financial instruments measured at fair value. 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.

During the current period, the global COVID-19 pandemic and its related economic impacts have resulted in heightened measurement uncertainty, primarily related to the estimates, assumptions and judgments used in the measurement of the allowance for loan impairment and the estimate of the fair value of foreclosed property. For the year ended October 31, 2020, the Credit Union has included all information available to the date of these financial statements in these estimates. The overall impact of the pandemic continues to be uncertain and is dependent on actions taken by Canadian governments, businesses and individuals to limit spread of the COVID-19 virus, as well as government economic response and support efforts. Refer to Note 7 for further details.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, with the exception of IFRS 16 Leases (“IFRS 16”), as described in Note 3.

(a) Financial Instruments

A. Recognition, classification and measurement

All financial assets are initially recorded at fair value and subsequently classified as measured at amortized cost, fair value through OCI (“FVOCI”), or fair value through profit and loss (“FVTPL”). Classification of financial assets is based on the business model in which a financial asset is managed, and its contractual cash flow characteristics.

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.

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 OCI. This election is made on an investment-by-investment basis.

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.

A financial asset may be irrevocably designated at FVTPL on initial recognition in order 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 does not hold any financial assets designated to be 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.

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.

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.

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 profit or loss. 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.

B. 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 since origination (Stage 2) and credit impaired assets (Stage 3).

<u>Assessment of significant increase in credit risk</u>

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 considered to be 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 significant increases in credit risk 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 significant increase in credit risk and are moved to stage 2
- Loans that are 90 days past due are considered in default and moved into stage 3

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
- Housing price index
- Banker's acceptance rate

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 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 consist of application and internally developed software. Expenditure on internally developed software is recognized as an asset when the Credit Union is able to 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:

Computer software	3 to 10 years

(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, with the exception of 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 indication 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, as a result of a past event, the Credit Union has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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. Investment share stock dividends are recorded against retained earnings and increase share capital with no net change in equity. Ownership dividend is charged to 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 on a monthly basis 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 such as Aviso and CUMIS and rental income received from tenants of the Olds administration building. All other income is recognized when received.

Revenues outside the scope of IFRS 15 include interest income, investment income, foreign exchange gains and losses, and gains/(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 fair value through other comprehensive income 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 fair value through other comprehensive income are recorded in other comprehensive income.

Gains (losses) on interest rate swaps

Derivatives held for risk management purposes are measured at fair value through net income. 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 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) Lease payments

On November 1, 2019, Connect First adopted IFRS 16, which replaces IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and lessor. As such, Connect First has amended its accounting policies for leases, as detailed in Note 3. Refer to Note 26 for transition impacts.

The following policy applies to leases prior to November 1, 2019:

Payments made under operating leases are recognized in net income for the year on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(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.

3. CHANGES IN ACCOUNTING POLICIES

IFRS 16 *Leases*

Effective November 1, 2019 (hereafter referred to as the "date of initial application"), the Credit Union adopted IFRS 16 *Leases* as issued by the IASB in January 2016. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and lessor. The standard supersedes the requirements in *IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases - Incentives*, *and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The adoption of this standard removes the current requirement for lessees to classify leases as finance leases or operating leases. It instead requires the recognition of lease assets and lease liabilities on the Consolidated Statement of Financial Position for most leases with the exception of short-term and low value leases. Lessees will also recognize depreciation expense on the lease asset and interest expense on the lease liability in the Consolidated Statement of Comprehensive Income. The Credit Union has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The cumulative effect of applying IFRS 16 as at the date of initial application is recognized in the opening Consolidated Statement of Financial Position with differences between assets and liabilities recognized, if any, recorded in retained earnings. The comparative information contained within these financial statements has not been restated and continues to be reported under previous lease standards.

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 profit or loss if the carrying amount of the ROU asset has been reduced to below zero.

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

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

The Credit Union has elected to not recognize ROU assets and lease liabilities for leases of low-value assets (less than $5 thousand USD) and short-term leases (less than 12 months) and recognizes these lease payments as other expenses (low-value) and operating lease expenses (short-term) and records both on a straight-line basis over the lease term. Variable lease payments that are not included in the measurement of the lease liability are included in operating lease expense.

The Credit Union also elected the following practical expedients under the standard:

- Existing operating leases with a remaining lease term of less than 12 months from the transition date of November 1, 2019 were treated as short term leases
- Application of a single discount rate to a portfolio of leases with reasonably similar characteristics
- Exclusion of initial direct costs related to existing leases from the measurement of the right of use assets

4. FUTURE ACCOUNTING CHANGES

The Credit Union has not yet applied the following new standards, interpretations and amendments to standards that have been issued as at October 31, 2020 but are not yet effective. Unless otherwise stated, the Credit Union does not plan to early adopt any of these new or amended standards and interpretations.

IFRS 3 Business Combinations

Amendments to IFRS 3, issued in October 2018, provide clarification on the definition of a business. The amendments permit a simplified assessment to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amendments are effective for transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. The Credit Union does not expect the amendments to have a material impact on its consolidated financial statements.

IFRS 17 Insurance Contracts

IFRS 17, issued in May 2017, introduces single principle-based standard to account for all types of insurance contracts to enhance the comparability of financial reporting between entities. The new standard provides guidance on the recognition, measurement, presentation and disclosure of insurance contracts issued. The standard will supersede IFRS 4 Insurance Contracts.

IFRS 17 is effective for annual periods beginning on or after January 1, 2021. The Credit Union does not expect this standard to have a material impact on its consolidated financial statements.

IAS 1 Presentation of Financial Statements

Amendments to IAS 1, issued in October 2018, provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS standards and other publications.

The amendments are effective for annual periods beginning on or after January 1, 2020 and are required to be applied prospectively. The Credit Union does not expect these amendments to have a material impact on its consolidated financial statements.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Amendments to IAS 8, issued in October 2018, provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS standards and other publications.

The amendments are effective for annual periods beginning on or after January 1, 2020 and are required to be applied prospectively. The Credit Union does not expect these amendments to have a material impact on its consolidated financial statements.

5. CAPITAL MANAGEMENT

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

The Credit Union is required under the Act to hold capital equal to or exceeding the greater of: 4.0% of the consolidated statement of financial position assets or 13.5% of risk-weighted assets (comprised of 8.0% of risk-weighted assets plus a regulatory buffer of 3.5%, plus a minimum internal buffer of 2.0% as mandated by the regulator), allowing for the impact of operational risk and strategic initiatives. Should the cushion fall below the pre-defined amounts, management together with the Board of Directors will determine what corrective action needs to be taken, if any.

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 Internal Capital Adequacy Assessment Process (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.

The Credit Union has exceeded its minimum regulatory capital requirements. As at October 31, 2020, the Credit Union's regulatory capital is 14.38% (2019 – 14.74%) of risk-weighted assets.

6. INVESTMENTS

	2020	2019
Investments - term deposits and other debt securities	37,400	33,992
Alberta Central term deposits		
- Non-statutory term deposits	201,276	114,217
- Statutory term deposits	428,743	406,494
Alberta Central common shares	57,894	58,424
	725,313	613,127

Term deposits and other debt securities and Statutory term deposits are classified as amortized cost. The Non-statutory term deposits and Alberta Central common shares are classified at FVOCI.

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 share-holdings 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 23 (c).

7. LOANS TO MEMBERS

The following table shows the gross carrying amount of loans measured at amortized cost as of October 31, 2020. 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.

Loans to members comprise as follows:

	2020	**2019**
Performing loans	4,951,566	4,938,364
Non performing loans	75,290	45,210
Accrued interest	17,278	14,314
Allowance for impairment	(29,791)	(17,292)
Total	5,014,343	4,980,596

	Stage 1	Stage 2	Stage 3	Total	Accrued Interest	Allowance for Credit Losses	Total Net of Allowance
As at October 31, 2020							
Consumer	422,835	10,647	1,731	435,213	1,080	6,996	429,297
Residential mortgage	2,325,950	102,617	6,664	2,435,232	2,731	1,959	2,436,003
Commercial and agriculture	2,070,971	17,606	67,834	2,156,411	13,468	20,836	2,149,043
Total member loans	4,819,756	130,870	76,229	5,026,855	17,278	29,791	5,014,343

	Stage 1	Stage 2	Stage 3	Total	Accrued Interest	Allowance for Credit Losses	Total Net of Allowance
As at October 31, 2019							
Consumer	465,288	11,760	1,526	478,574	1,088	6,340	473,322
Residential mortgage	2,385,876	118,370	8,315	2,512,561	2,991	2,064	2,513,488
Commercial and agriculture	1,919,610	38,707	34,122	1,992,439	10,235	8,888	1,993,786
Total member loans	4,770,774	168,837	43,964	4,983,574	14,314	17,292	4,980,596

Allowance for expected credit losses consists of the following:

Residential mortgages	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at November 1, 2018	873	545	57	1,475
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	(2)	170	160	328
Remeasurement of loss allowance other than stage transfers	(2)	2	209	209
Derecognitions and maturities	(107)	(39)	(17)	(163)
Loan originations	163	86	70	319
Total remeasurement of loss allowance	52	219	422	693
Write offs	-	-	(104)	(104)
As at October 31, 2019	925	764	375	2,064
Remeasurement of loss allowance:				-
Net remeasurement due to stage transfers	14	(8)	86	92
Remeasurement of loss allowance other than stage transfers	(19)	45	(89)	(63)
Derecognitions and maturities	(150)	(73)	(94)	(317)
Loan originations	145	101	11	257
Total remeasurement of loss allowance	(10)	65	(86)	(31)
Write offs	-	-	(74)	(74)
As at October 31, 2020	915	829	215	1,959

Consumer loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at November 1, 2018	3,243	1,451	1,371	6,065
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	(46)	371	588	913
Remeasurement of loss allowance other than stage transfers	492	298	1,662	2,452
Derecognitions and maturities	(419)	(164)	(564)	(1,147)
Loan originations	1,135	196	130	1,461
Total remeasurement of loss allowance	1,162	701	1,816	3,679
Write offs	(742)	(496)	(2,166)	(3,404)
As at October 31, 2019	3,663	1,656	1,021	6,340
Remeasurement of loss allowance:				-
Net remeasurement due to stage transfers	(16)	227	560	771
Remeasurement of loss allowance other than stage transfers	677	385	947	2,009
Derecognitions and maturities	(452)	(193)	(250)	(895)
Loan originations	1,023	179	187	1,389
Total remeasurement of loss allowance	1,232	598	1,444	3,274
Write offs	(591)	(521)	(1,505)	(2,617)
As at October 31, 2020	4,304	1,733	959	6,996

Commercial and agriculture loans	Stage 1	Stage 2	Stage 3	Total
As at November 1, 2018	1,170	4,456	7,289	12,915
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	71	(1,320)	950	(299)
Remeasurement of loss allowance other than stage transfers	91	(498)	3,580	3,173
Derecognitions and maturities	(127)	(1,408)	(1,630)	(3,165)
Loan originations	391	1	217	609
Total remeasurement of loss allowance	426	(3,225)	3,117	318
Transfer to foreclosed property	-	-	(2,600)	(2,600)
Write offs	(40)	(12)	(1,693)	(1,745)
As at October 31, 2019	1,556	1,219	6,113	8,888
Remeasurement of loss allowance:				-
Net remeasurement due to stage transfers	-	(147)	4,702	4,555
Remeasurement of loss allowance other than stage transfers	1,249	(18)	5,616	6,847
Derecognitions and maturities	(208)	(57)	(438)	(703)
Loan originations	987	1	485	1,473
Total remeasurement of loss allowance	2,028	(221)	10,365	12,172
Write offs	(57)	-	(167)	(224)
As at October 31, 2020	3,527	998	16,311	20,836

Totals at October 31, 2019	6,144	3,639	7,509	17,292
Totals at October 31, 2020	8,746	3,560	17,485	29,791

The total allowance for expected credit losses is reconciled as follows:	2020	2019
Opening allowance for impairment	17,292	11,663
IFRS transition adjustment	-	8,792
Restated November 1 allowance for expected credit losses	17,292	20,455
Charge for loan impairment:		
Net remeasurement due to stage transfers	5,418	942
Remeasurement of loss allowance other than stage transfers	8,793	5,834
Derecognitions and maturities	(1,915)	(4,475)
Loan originations	3,119	2,389
Transfer to foreclosed property	-	(2,600)
Write-offs	(2,915)	(5,253)
Allowance for expected credit losses, October 31	29,791	17,292
The charge for loan impairment on the statement of comprehensive income is reconciled as follows:		
Charge for loan impairment as above	15,415	4,690
Charge for loan impairment on foreclosed property at October 31 (note 8)	1,436	1,468
Charge for impairment on investments	346	34
Recoveries	(259)	(232)
Total charge for loan impairment	16,938	5,960

As previously disclosed in Note 1, the measurement of the allowance for expected credit losses as well as foreclosed property (see Note 8) involves the use of significant judgements, estimates and assumptions. Due to the current global COVID 19 pandemic and related economic impacts, the Credit Union considered the impact and uncertainty on the outlook, including timing of economic recovery, combined with continued shutdowns and uncertainties on re-opening and vaccination rollouts. 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 judgments related to whether or not there is a SICR result in loans moving between stages and, therefore, being subject to different measurement. Due to the ongoing pandemic, the Credit Union has implemented programs to allow for the deferral of payments on loans to members in certain circumstances. With respect to delinquencies, the judgements used related to SICR remain consistent with those at October 31, 2019. With respect to those loans where the member has taken advantage of the loan payment deferral programs or where the loan is in an industry that is particularly hard hit by the pandemic, the Credit Union has assessed whether this is indicative of a SICR, including consideration on whether this is indicative of a short-term change or an increase in the risk the member will default over the life of the loan. Utilization of a payment deferral program by a member was not necessarily considered an immediate trigger of a significant increase in credit risk. The table below shows the total balance of loans in the deferral program and the staging of these loans.

	Stage 1	Stage 2	Stage 3	Total
As at October 31, 2020				
Consumer	1,759	278	23	2,060
Residential mortgage	29,366	1,869	-	31,235
Commercial and agriculture	143,020	3,734	-	146,754
Total balance of loans in deferral program	174,145	5,881	23	180,049

Forward Looking Information ("FLI")

As of October 31, 2020, the following FLI has been used in the measurement of the ECL, as compared to that used at October 31, 2019. The impact of the pandemic on the long-term outlook remains fluid and uncertain, and FLI has been updated to the best of the Credit Union's knowledge based on external economic data, including consideration of other Canadian banks' macroeconomic factors.

For the base and best-case scenarios the recovery is V shaped, while in the worst case scenario the recovery is W shaped.

In the base scenario, the spreads remain narrow in the short term and widen in the long term while both the BA and GOC rates remain at a low level in the short term and increase over the long run, which is consistent with a moderate recession over the next couple of years followed by moderate economic recovery.

The best-case scenario shows both BA rate and GOC rate increasing consistently every quarter, which indicates immediate and substantial economic recovery followed by tighter monetary policy.

In the worst-case scenario the spreads widen over time while both the BA and GOC rates remain at a low level, which is consistent with an assumption of a long-term recession.

October 31, 2020	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 %	0.33	1.11	1.06	2.36	0.67	0.79
3 month Government of Canada Bond Rate %	0.25	0.73	0.75	1.97	0.25	0.33
Alberta housing price index % change	0.92	1.46	12.60	2.42	(3.32)	0.12
Alberta unemployment rate %	9.10	7.35	7.00	5.34	10.36	8.41

October 31, 2019	Base case scenario		Alternative scenario		Alternative scenario	
	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Driver						
3 month BA rate %	1.52	1.92	2.81	4.03	0.54	0.92
3 month Government of Canada Bond Rate %	1.25	1.65	2.55	3.78	0.25	0.63
Alberta housing price index % change	1.66	1.65	4.50	2.37	- 2.55	0.15
Alberta unemployment rate %	6.40	6.00	4.11	3.75	8.61	8.24

The reported expected credit losses for loans in Stage 1 and Stage 2 under the optimistic macroeconomic conditions, with other assumptions held constant would decrease by approximately $0.7 million (2019 - $1.9 million).

The reported expected credit losses for loans in Stage 1 and Stage 2 under the pessimistic macroeconomic conditions, with other assumptions held constant would increase by approximately $1.4 million (2019 - $1.3 million).

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

Base case scenario

	Next 3 months	Next 6 months	Next 9 months	Next 12 months	Remaining forecast period
Driver					
3 month BA rate %	0.33	0.35	0.36	0.33	1.11
3 month Government of Canada Bond Rate %	0.25	0.25	0.25	0.25	0.73
Alberta housing price index % change	(0.21)	0.38	0.38	0.37	1.46
Alberta unemployment rate %	10.90	10.20	9.60	9.10	7.35

Alternative scenario pessimistic

	Next 3 months	Next 6 months	Next 9 months	Next 12 months	Remaining forecast period
Driver					
3 month BA rate %	0.50	0.71	0.69	0.67	0.79
3 month Government of Canada Bond Rate %	0.25	0.25	0.25	0.25	0.33
Alberta housing price index % change	(3.56)	(0.95)	0.71	0.49	0.12
Alberta unemployment rate %	12.57	14.30	11.92	10.36	8.41

Alternative scenario optimistic

	Next 3 months	Next 6 months	Next 9 months	Next 12 months	Remaining forecast period
Driver					
3 month BA rate %	0.50	0.50	0.90	1.06	2.36
3 month Government of Canada Bond Rate %	0.30	0.30	0.50	0.75	1.97
Alberta housing price index % change	7.49	1.50	1.58	1.60	2.42
Alberta unemployment rate %	9.50	8.50	7.70	7.00	5.34

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

2020	On Demand	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 Years & Over	Total
Residential Mortgages							
- Insured	-	141,912	124,783	85,132	52,523	114,723	519,073
- Conventional	260,241	390,147	384,607	333,394	216,069	322,220	1,906,678
Consumer Loans	51,518	88,261	80,355	64,401	49,225	99,333	433,093
Commercial Mortgages	29,908	408,553	240,279	312,380	208,870	262,530	1,462,520
Commercial Loans	179,356	20,527	12,894	20,339	3,891	16,603	253,610
Agricultural Loans	55,511	215	942	847	495	287	58,297
Agricultural Mortgages	-	60,083	61,642	60,611	40,148	95,811	318,295
Total	576,534	1,109,698	905,502	877,104	571,221	911,507	4,951,566

2019	On Demand	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 Years & Over	Total
Residential Mortgages							
- Insured	2,716	256,997	184,787	164,788	138,336	103,331	850,955
- Conventional	277,454	438,098	299,635	288,829	225,454	123,711	1,653,181
Consumer Loans	58,544	109,858	88,296	66,794	50,168	103,246	476,906
Commercial Mortgages	33,908	534,217	247,940	229,403	211,556	148,445	1,405,470
Commercial Loans	150,848	19,743	15,652	8,958	11,736	1,698	208,635
Agricultural Loans	12,213	1,321	1,498	812	814	188	16,846
Agricultural Mortgages	37,818	95,419	49,745	46,149	50,491	46,749	326,372
Total	573,501	1,455,652	887,553	805,734	688,556	527,368	4,938,364

8. FORECLOSED PROPERTY

During the year ended October 31, 2019, a commercial loan secured by real estate was moved into foreclosure and continues to be managed by the Credit Union. During the fiscal year, the Credit Union’s exposure to the loan increased by \$0.6 million as a portion owed by the syndicated partner was paid upfront by the Credit Union and will be recovered at the time of sale. The recorded value of the loan at October 31, 2020 is \$5.04 million (2019 \$5.7 million) and appears under foreclosed properties on the statement of financial position. The remaining foreclosed property balance of approximately \$0.4 million relates to various residential properties and one small commercial property that have been foreclosed on in the process of realizing on the Credit Union’s security.

9. OTHER ASSETS

	2020	2019
Accounts receivable	3,850	10,159
Lease residual	7,435	10,400
Prepaid expenses and deposits	19,735	20,358
Fair value of swaps (Note 22)	-	186
Income tax receivable	10,500	8,933
Other	9	23
	41,529	50,059

10. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

	Land	Buildings	Furniture & equipment	Computer equipment	Leasehold improvements	Total	Intangible assets
COST							
Balance at November 1, 2019	7,606	36,770	17,736	5,074	16,468	83,654	18,556
Acquisitions	-	374	514	817	349	2,054	8,496
Disposals	(15)	(1,167)	(620)	-	-	(1,802)	-
Balance at October 31, 2020	7,591	35,977	17,630	5,891	16,817	83,906	27,052

	Land	Buildings	Furniture & equipment	Computer equipment	Leasehold improvements	Total	Intangible assets
DEPRECIATION AND AMORTIZATION							
Balance at November 1, 2019	-	(5,222)	(8,848)	(3,029)	(8,157)	(25,256)	(12,207)
Depreciation and amortization for the year	-	(1,599)	(1,467)	(547)	(787)	(4,400)	(1,220)
Disposals	-	546	375	-	-	921	-
Balance at October 31, 2020	-	(6,275)	(9,940)	(3,576)	(8,944)	(28,735)	(13,427)
NET BOOK VALUE							
October 31, 2019	7,606	31,548	8,888	2,045	8,311	58,398	6,349
October 31, 2020	7,591	29,702	7,690	2,315	7,873	55,171	13,625

*Intangible assets acquisitions include $2,403 (2019 - $1,144) of internal costs and $6,093 (2019 - $3,014) of external costs.

11. MEMBERS' DEPOSITS

	2020	2019
Demand Deposits	2,077,335	1,810,713
Registered Savings Plans	416,835	416,796
Term Deposits	2,462,881	2,562,471
Registered Education Savings Plans	6,458	5,674
	4,963,509	4,795,654
Accrued Interest	27,974	32,254
Total	4,991,483	4,827,908

Maturities are as follows:

2020	On Demand	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 Years & Over	Total
Demand Deposits	2,077,335	-	-	-	-	-	2,077,335
Registered Savings Plans	20,416	241,414	75,547	40,015	28,041	11,400	416,833
Term Deposits	594	1,880,107	353,080	104,651	67,048	57,403	2,462,883
Registered Education Savings Plans	-	6,458	-	-	-	-	6,458
	2,098,345	2,127,979	428,627	144,666	95,089	68,803	4,963,509

2019	On Demand	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 Years & Over	Total
Demand Deposits	1,810,713	-	-	-	-	-	1,810,713
Registered Savings Plans	81,702	168,186	73,734	42,922	24,453	25,799	416,796
Term Deposits	397,700	1,616,304	272,403	120,005	66,693	89,366	2,562,471
Registered Education Savings Plans	-	5,674	-	-	-	-	5,674
	2,290,115	1,790,164	346,137	162,927	91,146	115,165	4,795,654

12. 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.

	2020	2019
Letters of credit	11,558	11,227
Commitments to extend credit with a term to maturity of one year or less	602,388	576,418

(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.

13. OWNERSHIP DIVIDENDS

The Board of Directors has declared an ownership dividend to be paid in fiscal 2021 in respect of fiscal 2020 to members by way of an issuance of common shares in the amount of $4,999 (2019 - $7,913). The ownership dividend allocated to members is based on member common share holdings.

14. 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 Investment Shares

In October 2020, the Board of Directors approved a 3.5% dividend to holders of record of Series A, B, C, D, E, F and G Investment Shares for the year ended October 31, 2020 in the aggregate amount of $4,192 (2019 – $5,441). The payment will be made in November 2020 through the issuance of additional Series A, B, C, D, E, F and G Investment Shares, respectively.

Series A, B, C, D, E, F and G 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 and G Investment Shares represent "at risk" capital and are not guaranteed by CUDGC.

15. OTHER INCOME

	2020	2019
Service charges and other fees	7,279	8,265
Foreign exchange gain/loss	738	1,590
Loan prepayment and other fees	3,315	2,074
Insurance	1,507	1,903
Credit card fees	364	705
Wealth management	7,208	6,656
Other	1,521	1,651
	21,932	22,844

16. OTHER EXPENSES

	2020	2019
Advertising	2,481	2,682
Technology	9,985	9,954
Member security and deposit insurance premium	3,338	5,327
Professional fees	1,980	1,389
Stationary, telephone, postage, courier	2,147	2,044
Financial planning	248	329
ATM/POS operations	1,460	1,823
Board expenses	676	733
Lending costs	1,023	1,162
Charitable donations/community investment	513	592
Occupancy	3,871	3,872
Other	6,585	6,043
	34,307	35,950

17. PROVISION FOR INCOME TAXES

The components of tax expense for the years ended October 31, 2020 and 2019 are as follows:

	2020	2019
Current tax expense:		
Current period	2,908	3,071
Deferred tax expense:		
Origination and reversal of temporary differences	(984)	2,234
Total income tax expense	**1,924**	**5,305**

Reconciliation of effective tax rate

	2020	2019
Income before tax	3,869	20,010
Income tax using the Credit Union's combined federal and provincial statutory Canadian tax rate of 24.50% (2019 - 27.00%)	948	5,403
Effect of tax rate changes and other	956	(139)
Non-deductible expenses	20	41
Total income tax expense	**1,924**	**5,305**

Recognized deferred tax assets and liabilities

	Property and Equipment	**Provisions**	**ROU Assets**	**Lease Liabilities**	**Non-Capital Losses**	**Other Assets**	**Totals**
As at November 1, 2019	(4,257)	3,544	-	-	-	(11)	(724)
Credit/(Charged) to the statement of income	(1,087)	521	502	(492)	1,529	11	984
Acquisition and other	195	-	(5,365)	7,507	2,252	-	4,589
As at October 31, 2020	**(5,149)**	**4,065**	**(4,863)**	**7,015**	**3,781**	**-**	**4,849**

18. 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:	**2020**	2019
Key management personnel and entities controlled by key management personnel	26,888	23,460

Outstanding deposits from:	**2020**	2019
Key management personnel and entities controlled by key management personnel	4,311	6,590

All loans to key management personnel are current as of October 31, 2020.

Compensation of key management personnel ($)

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

2020	**Annual Remuneration**	**Performance Incentive**	**Total Benefits**	**2020 Total**
Chief Executive Officer	435,000	0	190,259	625,259
Chief Financial Officer	231,462	0	89,053	320,515
Chief Strategy and Innovation Officer	226,600	0	72,645	299,245
Chief Technology Officer	223,077	0	77,340	300,417
Chief People and Culture Officer	188,077	0	64,893	252,970
Chief Credit and Risk Officer	188,077	0	73,550	261,627
Chief Operating Officer	179,769	0	22,956	202,725

An executive restructuring occurred in 2020 with a new COO joining the team in March 2020.

2019	Annual Remuneration	Performance Incentive	Total Benefits	2019 Total	
Chief Executive Officer	426,346	235,654	195,908	857,908	
Chief Financial Officer	223,086	81,214	74,516	378,816	
Chief Strategy and Innovation Officer	220,000	76,714	66,630	363,344	
Chief Technology Officer	212,115	75,530	67,676	355,321	
President, First Calgary Financial	220,260	69,612	77,320	367,192	
President, Chinook Financial	199,039	63,122	68,720	330,881	
Chief People and Culture Officer	184,088	18,888	48,872	251,848	
Chief Credit and Risk Officer	182,832	19,588	44,131	246,551	
Chief Operating Officer	735,908	70,000	49,590	855,498	*
President, Mountain View Financial	188,173	28,203	47,091	263,467	

* Included in the annual remuneration is a one time contractual amount of $593,754 paid to the Chief Operating Officer related to the business combination with Mountain View.

The performance incentives shown above represent 2018 bonus amounts that were subsequently paid in 2019.

Paid to directors ($):

	2020	2019
Directors' fees and committee remuneration	471,708	478,302
Directors' expenses	37,608	59,388

Compensation to directors ranged from $13,500 (2019 - $24,800) to $60,000 (2019 - $62,775) with an average of $27,748 (2019- $31,887). 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.

19. PERSONNEL EXPENSES

	2020	2019
Salaries and wages	44,571	44,753
Short term benefits	9,415	9,673
Long term benefits	3,181	2,647
Termination benefits	1,668	747
	58,835	57,820

20. 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, 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 other assets on the statement of financial position if positive and accounts payable 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.

2020

($ 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, 2020									
ASSETS									
Cash	0.20%	72,785	-	-	-	-	-	-	72,785
Investments	0.20%	625,520	7,970	5,000	-	-	86,290	533	725,313
Loans to Members	3.49%	994,773	783,944	911,976	860,685	585,485	825,464	52,016	5,014,343
Other	0.00%	-	-	-	-	-	-	141,729	141,729
	2.97%	**1,693,078**	**791,914**	**916,976**	**860,685**	**585,485**	**911,754**	**194,278**	**5,954,170**
LIABILITIES and EQUITY									
Deposits	1.17%	2,433,036	1,601,978	309,976	138,460	124,003	29,310	354,720	4,991,483
Other	1.97%	9,166	55,655	128,875	114,526	79,600	-	574,865	962,687
	1.30%	**2,442,202**	**1,657,633**	**438,851**	**252,986**	**203,603**	**29,310**	**929,585**	**5,954,170**
BALANCE SHEET MISMATCH		(749,124)	(865,719)	478,125	607,699	381,882	882,444	(735,307)	-
Derivatives									
NET MISMATCH		(749,124)	(865,719)	478,125	607,699	381,882	882,444	(735,307)	-

2019

($ 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, 2019									
ASSETS									
Cash	0.23%	67,106	-	-	-	-	-	4,768	71,874
Investments	1.79%	421,621	108,818	976	5,000	-	75,082	1,630	613,127
Loans to Members	3.83%	1,038,574	996,033	887,553	805,733	687,741	527,179	37,783	4,980,596
Other	0.00%	-	-	-	-	-	-	121,994	121,994
	3.49%	**1,527,301**	**1,104,851**	**888,529**	**810,733**	**687,741**	**602,261**	**166,175**	**5,787,591**
LIABILITIES and EQUITY									
Deposits	1.71%	2,393,621	1,422,884	346,137	162,927	91,146	115,165	296,028	4,827,908
Other	2.25%	4,022	36,363	71,962	117,779	115,794	73,194	540,569	959,683
	1.80%	**2,397,643**	**1,459,247**	**418,099**	**280,706**	**206,940**	**188,359**	**836,597**	**5,787,591**
BALANCE SHEET MISMATCH		(870,342)	(354,396)	470,430	530,027	480,801	413,902	(670,422)	-
Derivatives		(10,000)	10,000		-	-	-	-	-
NET MISMATCH		(880,342)	(344,396)	470,430	530,027	480,801	413,902	(670,422)	-

21. 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, 2020, the following facilities were in place:

(a) A revolving line of credit authorized to a maximum amount of $113,808 (2019 - $113,808) including a US dollar component equivalent of up to CAD $13,775 (2019 - $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 $341,423 (2019 - $341,423) 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, 2020, the credit facilities are undrawn.

The total guaranteed commitment level for the above facilities at October 31, 2020 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.

22. 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 interest rate swaps and investments classified as 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 interest rate swaps 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 values of cash and other financial assets and liabilities not included below 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.

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 as a result 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, 2020, there were no transfers between levels of the hierarchy for any financial assets and liabilities.

2020

	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Assets					
Investments - amortized cost		483,741		483,741	466,143
Investments - FVOCI		259,170		259,170	259,170
Loans		5,097,926		5,097,926	5,014,343
Total	-	5,840,837	-	5,840,837	5,739,656
Liabilities					
Deposits		4,993,898		4,993,898	4,991,483
Secured borrowings		395,999		395,999	387,823
Total	-	5,389,897	-	5,389,897	5,379,306

2019

	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Assets					
Investments - amortized cost	-	442,849		442,849	440,486
Investments - FVOCI	-	172,641		172,641	172,641
Loans	-	4,983,413		4,983,413	4,980,596
Total	-	5,598,903	-	5,598,903	5,593,723
Liabilities					
Deposits	-	4,822,471	-	4,822,471	4,827,908
Secured borrowings	-	418,898	-	418,898	419,115
Total	-	5,241,369	-	5,241,369	5,247,023

Derivative Financial Instruments

The following table provides the notional value outstanding for derivative financial instruments and the related fair value.

2020

	Notional Amount	Positive Fair Value
Interest Rate Swaps	0	0

2019

	Notional Amount	Positive Fair Value
Interest Rate Swaps	10,000	186

The fair values of derivative financial instruments are calculated based on market conditions at the reporting date and may not be reflective of future fair values. The fair values are recognized in other assets (note 9). During the year ended October 31, 2020, outstanding interest rate swaps resulted in realized losses of $157 (2019 – gain of $64) and unrealized losses of $0 (2019 – $10). Realized losses are included in interest on loans to members in the statement of comprehensive income. At October 31, 2020 all interest rate swaps had matured.

23. 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 7. 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 disclosed below are included in Stage 3 of the expected credit loss model, as disclosed in Note 7. 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 7.

Credit Quality

2020	Stage 1	Stage 2	Stage 3	Total
Commercial mortgages and loans				
1 to 5 - satisfactory risk	2,079,298	2,941	7,079	2,089,318
6 to 7 - unimpaired	2,639	14,882	33,381	50,901
8 to 9 - impaired	-	-	29,659	29,659
Allowance for credit losses	(3,527)	(998)	(16,311)	(20,836)
Carrying amount	**2,078,410**	**16,825**	**53,808**	**2,149,043**

	Consumer loans	Residential mortgages	Total
Retail mortgages and loans			
Satisfactory risk	434,589	2,431,193	2,865,782
Impaired retail loans	1,704	6,769	8,473
Allowance for impaired loans	(6,996)	(1,959)	(8,955)
Carrying amount	**429,297**	**2,436,003**	**2,865,300**

2019	Stage 1	Stage 2	Stage 3	Total
Commercial mortgages and loans				
1 to 5 - satisfactory risk	1,923,997	2,523	2,191	1,928,711
6 to 7 - unimpaired	4,296	36,741	9,541	50,578
8 to 9 - impaired	-	-	23,385	23,385
Allowance for credit losses	(1,556)	(1,219)	(6,113)	(8,888)
Carrying amount	**1,926,737**	**38,045**	**29,004**	**1,993,786**

	Consumer loans	Residential mortgages	Total
Retail mortgages and loans			
Satisfactory risk	477,994	2,507,127	2,985,121
Impaired retail loans	1,669	8,424	10,093
Allowance for impaired loans	(6,340)	(2,064)	(8,404)
Carrying amount	**473,323**	**2,513,487**	**2,986,810**

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 at the reporting date is shown below:

Concentration by sector

	2020	2019
Commercial:		
Real estate, rental & leasing	1,028,968	967,535
Construction	183,735	105,005
Accommodation & food services	150,832	155,014
Health care & social assistance	82,587	94,675
Retail trade	62,821	75,469
Finance & insurance	8,134	10,861
Other	261,127	237,078
	1,778,204	1,645,637
Retail:		
Mortgages	2,434,872	2,512,561
Dealer loans & leases	277,282	296,870
Unsecured lending	40,378	44,842
Secured lending	116,953	136,862
	2,869,485	2,991,135
Agriculture:		
Mortgages	320,870	329,956
Loans	58,297	16,846
	379,167	346,802
	5,026,856	**4,983,574**

Credit Risk Management

The Credit Union employs a risk measurement process 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. Mortgages that do not meet specific underwriting standards are insured. 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. 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.

Overall monitoring and processes have changed and will continue to change due to COVID-19. This has and will include changes to our current processes to ensure that the overall portfolio will be protected and will continue to support our members to find their optimal credit solutions. The stages of our loan book will be affected by COVID-19 and adjusted as we progress through the pandemic.

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.

The resulting impact from COVID-19 to the Credit Union's margin has been and will continue to be monitored consistently, with scenario and stress testing being adopted as a required tactic and adjusting responses as the current economic conditions unfold.

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 point 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 basis point ("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.

	2020	2019
Before tax impact on financial margin of:		
100 basis point increase in rates	9,996	9,581
100 basis point decrease in rates	(8,215)	(5,689)

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 to access if required through the COVID-19 situation.

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 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 2020 the Credit Union's liquidity as at October 31, 2020 exceeds minimum requirements by $71 (2019 - $1,002).

d) Capital Management

The Credit Union is well capitalized and has the ability to maintain the required capital buffers through the COVID-19 period. Refer to Note 5 for details on our capital management.

24. INVESTMENT INCOME

	2020	2019
Interest on statutory investments	3,839	7,620
Dividends on statutory investments	1,196	2,131
Interest on other investments	2,004	2,998
	7,039	12,749

25. 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, 2020 is $387,823 (2019 - $419,115). 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, 2020, of the associated residential mortgages as at October 31, 2020 is $408,338 (2019 - $417,756). 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, 2020	As at October 31, 2019
CMB	December 1, 2019 to July 1, 2023	1.0268% to 2.5898%	39,017	48,037
NHA MBS	June 1, 2020 to September 1, 2024	1.1565% to 3.2152%	348,806	371,078
Total			387,823	419,115

26. TRANSITION TO IFRS 16 LEASES

On transition to IFRS 16 *Leases*, the Credit Union recognized right of use assets of $23,326 and lease liabilities of $32,639 with a $6,415 (net of tax of $2,142) impact to retained earnings. In addition, previously recognized deferred rent of $756 was eliminated on transition. When measuring lease liabilities, the Credit Union discounted lease payments using its incremental borrowing rate at November 1, 2019. The weighted average rate applied is 4.26%. The nature of the leases that the Credit Union has recognized related primarily to real estate leases for branches and office space.

	2020
Right of use (ROU) assets	
	Property
2019	
Balance at November 1, 2019	23,326
Depreciation charge for the year	(2,184)
Balance at October 31, 2020	21,142

There were no additions to the right-of-use assets in 2020.

Lease Liabilities

	2020
Maturity analysis - contractual undiscounted cash flows	
Less than one year	3,439
One to five years	15,367
More than five years	19,761
Total undiscounted lease liabilities at October 31, 2020	**38,567**
Lease liabilities included in the statement of financial position at October 31, 2020	**30,500**

Amounts recognized in profit or loss

	2020
Interest on lease liabilities	(1,231)
Variable lease payments not included in the measurement of lease liabilities	(1,973)
Expenses relating to short term leases	(59)
Expenses relating to leases of low-value assets	(103)

Amounts recognized in the statement of cash flows

	2020
Total cash outflow for leases	(2,139)

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.