Member Financial Package.

MD&A and F2022 Financial Statements

connectFirst credit union

2022 Management's Discussion & Analysis

connectFirst credit union

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NOTE REGARDING FORWARD LOOKING INFORMATION

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) provides additional commentary and information on the results of operations and financial performance of our Credit Union for the year ended October 31, 2022. 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 connectFirst through the eyes of management. The MD&A is current as of January 17, 2023 and should be read in conjunction with connectFirst's Consolidated Financial Statements as at and for the year ended October 31, 2022 (the Consolidated Financial Statements).

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

ABOUT US

connectFirst, one of the largest and most successful credit unions in Canada, is a full-service financial institution with over $8 billion in Assets Under Administration (AUA). connectFirst employs 755 Albertans who provide a range of financial products and advice in more than 40 communities across central and southern Alberta. It serves over 130,000 members through a community-focused approach to banking.

We're unlike your typical bank. We offer banking, borrowing, and investment solutions to members across Alberta, but that's not all we're about. To us, banking is about more than money – it's about people. Each year, all employees recommit to Our Member Pledge which is to help our members achieve their dreams by growing our expertise, know-how and passion; create remarkable experiences with every interaction by connecting with and understanding our members; and build a more prosperous Alberta by helping our members and communities grow (the Pledge).

We rely on great employees to help us achieve our goals, and we're constantly building a culture where employees feel engaged and inspired to do their best work

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;
- $643 million in member's equity.

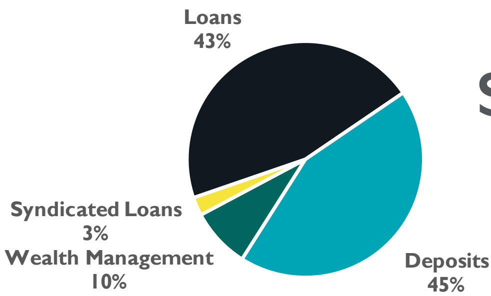
Our success is our members' success, and in 2022 our members will receive nearly $22 million in dividends following a record-breaking year of growth.

We also invested over $350,000 in our communities through our branch-led NeighbourGood investment program and our community investment team. We bank on brighter futures by investing in, mentoring and supporting students through our scholarship programs. We co-create community systems of support and contribute to shifting social and economic conditions in the communities we operate in through our partnerships with non-profits and community focused organizations. As a partner, we engage authentically where shared value is generated, recognizing that our members rely on healthy communities to thrive.

2022 – FINANCIAL HIGHLIGHTS

2022 was year of strong financial results with record loan growth and earnings despite a volatile interest rate environment. The Credit Union achieved profitable financial performance which exceeded the prior fiscal year and experienced significant asset growth as we continue to expand our membership base. The success translated into a 4.95% common share dividend and a 5.45% investment share dividend for our 130,000 plus members.

Book of business



$13.8
billion

Asset growth

$930 million or 14.8% reaching $7.2 billion

765
Employees

Member's equity

$643
million

Income before taxes

$26.3
million

Deposits from members

$6.0
billion

$677
million

Loans to members

$6.3
billion

$862
million

Dividends paid

$116 million

in dividends paid to our members over the last 10 years

2022 – YEAR IN REVIEW

For connectFirst, this year has been one of pervasive change; changes to our senior leadership and structure, record inflation, extreme weather events, supply chain disruptions and the rapidly evolving needs of Albertans in response to geopolitical and economic volatility. We are committed to strengthening our foundation for the future, including our people, culture, and infrastructure to ensure we deliver what our members need. We are future focused and intentional about tackling our challenges and promoting our strengths.

We have made brave decisions to redesign the way we work together to build the organizational capabilities required for sustained growth. We are investing deeply, in our human resources and our technology, building competitive compensation structures, strengthening our brand and creating a company people believe in and want to be a part of.

Our strength as a credit union has always been, and always will be our employees. Attraction and retention of quality people is a basic requirement to achieve our strategic objectives. While the economy cooled down in the later months of 2022, the labour market remained very competitive throughout the year. A market compensation review was completed, and based on its results we implemented a plan to improve our base compensation across the organization to mitigate people risk, specifically for attraction and retention of highly skilled employees in a competitive labour market.

A Customer Relationship Management (CRM) platform was rolled to our member-facing teams at the end of March. Providing a 360 degree view of our members, this new platform moves us closer to executing on our Pledge and opens the door for staff to take a focused, team-based approach to serving our members and solving for their unique needs. Since implementation, proactive calls to our members are up 50% and products opened for our members are up 18%. We are looking forward to reaping the benefits of this powerful tool as we move into the new fiscal year.

After much anticipation our newest full-service branch in Medicine Hat opened in November. As our first flexible open-concept branch space, it attempts to combine our Pledge, flexible work arrangements and the mobile member experience philosophies into a physical layout that can be leveraged to increase the chances of connection and accessibility between our members, community, branch staff and line of business teams.

Our province has been through ups and downs before and has always been a beacon of resilience throughout the most challenging of times. With a changing economic landscape, we know that our external environment will continue to be difficult and unpredictable to navigate. Nonetheless, 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

($ Thousands)	**2022**	**2021**	**2020**	**2019**	**2018**
Statement of Financial Position					
Assets	7,216,582	6,286,489	5,954,170	5,787,141	5,695,039
Liabilities	6,573,104	5,701,244	5,427,421	5,265,139	5,209,056
Equity	643,478	585,245	526,749	522,002	484,867
Statement of Comprehensive Income					
Financial Margin	156,236	126,647	101,853	107,999	99,234
Other income	24,872	23,522	21,932	22,844	21,900
Managed Expenses	138,243	119,338	102,978	104,873	92,874
Provisions	16,562	5,664	16,938	5,960	6,268
Income Before Taxes	26,303	25,167	3,869	20,010	21,992
Regulatory Capital & Ratios					
Regulatory Capital	642,846	580,747	521,975	516,710	482,770
Capital to Assets	8.91%	9.23%	8.77%	8.93%	8.48%
Risk Weighted Capital	13.63%	14.15%	14.34%	14.68%	14.51%
Return on Assets	0.39%	0.41%	0.07%	0.35%	0.43%
Interest Margin	2.31%	2.07%	1.73%	1.88%	1.95%

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets

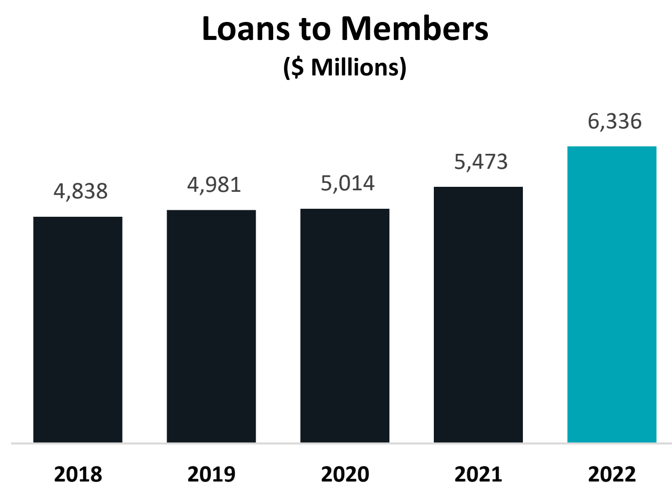
Total assets of the Credit Union increased $930.1 million (14.8%) over the previous year.

Loans

Total loans to members increased $862.3 million (15.8%) from a year ago, showing growth in all service areas, with excellent growth in Residential and Commercial and exceptional growth in Consumer lending.

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

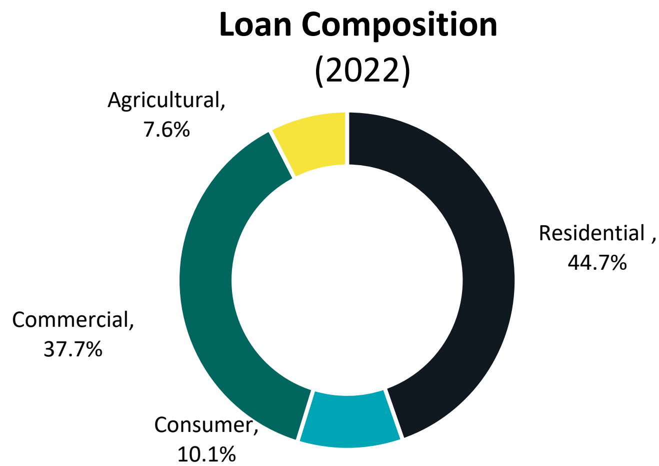
- Residential mortgages;
- Consumer loans;
- Commercial and business banking;
- Agricultural loans.



Home ownership for our members remains a key priority for the Credit Union. Rapidly rising interest rates through 2022 has made affordability more difficult in Alberta compared to the low interest rate environment we have experienced for over a decade. However, affordability in Alberta remains more achievable than in other areas of the country such as Ontario and British Columbia. We continue to be competitive in the marketplace and remain committed to growing this area of our portfolio. The Credit Union reached $2.83 billion with traditional residential lending comprising over 44.7% (2021 – 45.3%) of the total lending portfolio. During 2022, residential mortgages increased by $350.0 million (14.1%) over the previous year, with the merger with Spark Credit Union (Spark) accounting for roughly $133.2 million of the growth. In addition, much of this increase was fuelled by a boom in real estate activity in the first quarter of the fiscal year, allowing connectFirst to realize healthy growth to its residential lending. For fiscal 2023, residential mortgage growth is expected to continue to grow but at a moderated level.

connectFirst continues to offer competitive consumer lending products to our members. As health and safety restrictions have been almost entirely lifted during 2022, our members utilized the diverse suite of lending products available to them through the Credit Union that help them achieve their financial goals. Consumer loans increased by $191.3 million (42.6%) as we expanded our presence to new markets and as health and safety restrictions were lifted improving transaction activity in the markets we serve. At year-end, our consumer loan portfolio comprised 10.1% (2021 – 8.2%) of our total loan portfolio. This is made up primarily of automotive loans and individual member loans such as lines of credits and term loans.

Investment into our local economies is an important part of how connectFirst is helping to create a more prosperous Alberta. Our commercial members are growing and despite economic uncertainties, they are hiring and investing in their businesses. We supported our members and businesses by providing competitive rates and unparalleled advice leading to commercial loan growth during fiscal 2022 at a stellar $276.1 million, 13.1% increase from the previous year. Overall, commercial loans comprised 37.7% (2021 – 37.8%) of the total loan portfolio in 2022, compared to 37.8% during 2021. The focus will remain on maintaining existing and building new relationships with our business members in order to help them achieve their goals which in turn will help stimulate the Albertan economy.



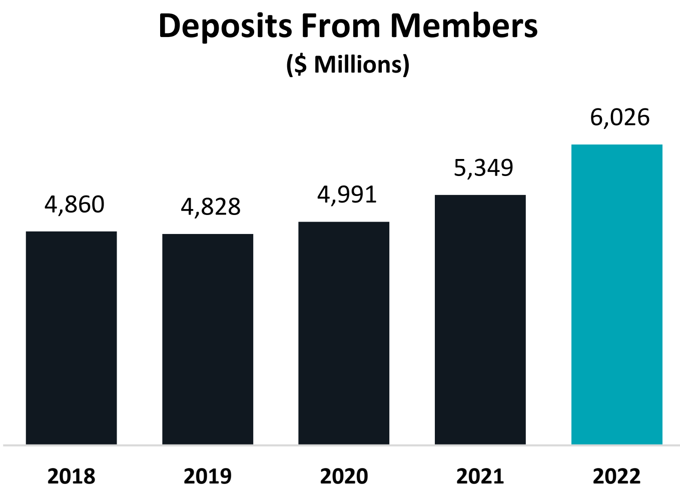
connectFirst is committed to helping our agricultural sector in Alberta by supporting our members acquire land, machinery, equipment, other capital purchases and for financing input costs. As a result, agricultural loans had another stellar growth year, reaching $479.5 million (10.4% growth) in 2022. Agricultural loans and supporting our rural communities continues to be a strategic focus of the Credit Union and comprise 7.6% (2021 – 8.7%) of the total loan portfolio.

Looking forward, we plan to realign sales employees into four teams set up in quadrants of the province that will directly serve assigned branches and members. This structure will enhance the member experience as it provides for deeper relationship coverage, continuity after an Advisor transition and the opportunity for team member knowledge and skill development.

Deposits

We are committed to doing what is right for our members and offering them a variety of choices, given that each of our members have different needs and risk tolerances. connectFirst will continue to focus on upskilling teams for more robust investment advisory conversations which present a solution for deposit and wealth offerings and tailor each experience to the individual member.

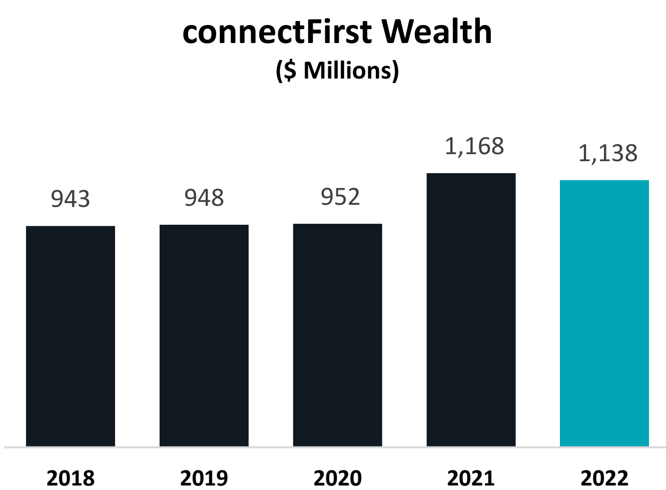
Demand deposit trend was relatively flat compared to the previous year with a decrease of $12.9 million (-0.5%) ending at $2.57 billion which represents 42.9% (2021 – 48.5%) of the total deposit portfolio. Term deposits increased by $650.5 million (27.7%) to a total of $3.0 billion while registered deposits increased by $24.3 million (6.1%) to a total of $422.8 million. Term and registered deposits represent 50.0% (2021



– 44.1%) and 7.1% (2021 – 7.5%) respectively of the total deposit portfolio at the Credit Union. This trend contrasts with 2021 where we saw funds being moved into more liquid options such demand deposits. During the 2022 fiscal year, as a result of several interest rate hikes, our members are moving funds into term deposits and GIC's to take advantage of the higher yields and we are devoted to providing them with competitive rates.

Total member deposits were up $676.8 million from 2021 or 12.7%. The Spark merger contributed $197.9 million in deposits at the beginning of the year and we were able to retain 4,000+ members after the merger, over the year.

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

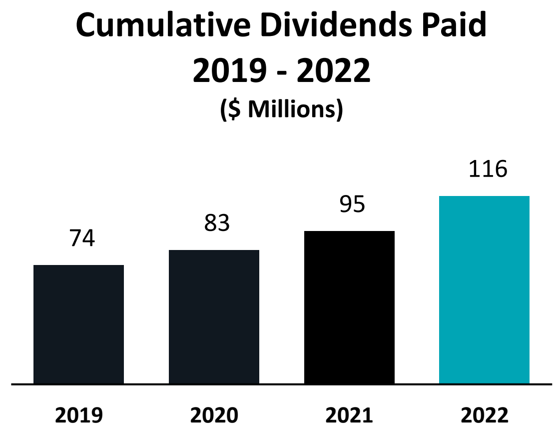


Off-balance sheet assets, which are assets under administration (AUA) related to our Wealth business, decreased by $30.0 million (2.7%) primarily due to fair value declines in the market during a tumultuous year. connectFirst places a great importance in growing our members wealth and is committed to ensuring that we provide the right advice while ensuring that our members understand the risks associated with wealth management. We also aim to reassure our members that wealth management is a long-term initiative as opposed to focussing on single year performance.

Members' Equity

Members' equity increased by $58.2 million (10.0%) in 2022. The growth in Member's equity was largely supported by growth in common shares and an increase in retained earnings from record setting earnings of the organization over the 2022 fiscal year.

In 2022, dividends totalling $21.7 million (2021 – $11.6 million) were shared back with our members through common share and investment share dividends. We were proud to declare a common share dividend rate of 4.95% (2021 – 3.00%), resulting in $13.4 million (2021 - $7.1 million) returned to members. Dividends on investment shares were 5.45% (2021 – 3.50%) for each investment share series, resulting in a total investment share dividends of $8.3 million (2021 - $4.5 million).



Over the past ten years, the Credit Union has paid over $116 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 Bank of Canada raised the benchmark rate six consecutive times through fiscal 2022 from 0.25% to 3.75% and has since announced two more increases in December and January of 0.50% and 0.25% respectively. This brings the overnight lending rate to 4.50% by January 2023. At the latest announcement, the Bank of Canada also signalled their intent to pause any further rate hikes but also made it clear that it is conditional, keeping the door open to more increases if inflation isn't tamed.

With our initiatives surrounding membership growth and the significant loan activity in fiscal 2022, we saw financial margin increase to $156.2 million, up from $126.6 million in 2021, an increase of $29.6 million (23.4%). Increased rates are generally signs of a strong economy and help widen the financial margin of financial institutions in the long run, although rapid rate increases can squeeze the financial margin in the short term as funding costs tend to reprice quicker than the loan portfolio. With the large deposit growth that we have seen over the last few years, we anticipate that we will see a financial margin squeeze over the next year, further compounded by the switch of member sentiment towards term deposits over demand deposits. However, given that there shall be easing of the rates once inflation is curbed, and with continued and diligent expense management, connectFirst is expected to continue to see sustained positive financial margins in the longer term.

Non-Interest Revenue

Non-interest revenue, which includes banking fees, wealth management fees, foreign-exchange transactions, and insurance-related services, was $24.9 million in 2022, compared to $23.5 million in 2021. The increase can largely be attributed to wealth management, service charges & other fees, insurance fees and foreign exchange gains. Loan prepayment fees decreased during the fiscal year as the rising rate environment increased price sensitivity and resulted in lower volumes of payouts and paydowns, as options to refinance elsewhere at lower rates reduced.

Managed Expenses

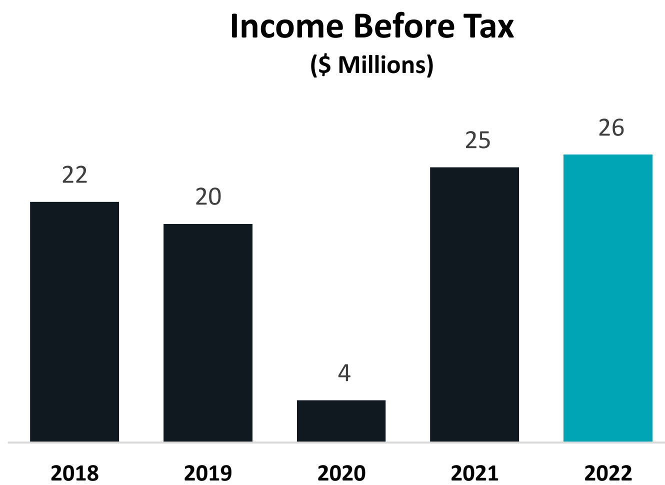
Expenses increased year over year to support strategic decisions to invest in technology, our services, our brand, and our employees. During the year, management completed the process to adjust our employees' base compensation levels which now better aligns with the broader labour market compensation trends in the financial services industry. From a strategic perspective, the focus on compensation in 2022 was intended to mitigate people risk, specifically attraction and retention of employees with key skills that support initiatives that deliver maximum value to our members. A significant investment was also made into developing new state-of-the-art products and services to our members like the launch our new Visa Debit cards during the fiscal year; these investments will create new sources of revenue as well as strengthen our core product offering. Furthermore, investment was also made into implementing a CRM platform that will allow us to deliver a remarkable experience to our members, while creating efficiencies in the back-end office. Occupancy expenses increased as we aligned the visual identity of our branches to our new brand. During the year, we welcomed and integrated the SPARK membership into connectFirst, however we also absorbed the associated expenses. Overall managed expenses increased in the current year to $138.2 million compared to $119.3 million in 2021.

Charges for Loan Impairment

Charges for loan impairment represents the amount the Credit Union records for loan loss provisions. While Alberta's economy rebounded in 2022, the recovery has been uneven. Inflationary pressures, volatile economic environment, and increasing interest rates have reduced the available cashflow of businesses and families to service their debt obligations, driving an increase in our Expected Credit Losses (ECL). The ECL allowance has increased over the year and with the heightened risk of a global recession, we could potentially see further increases in 2023. Total charges for loan impairment, net of recoveries was $16.6 million up from $5.7 million in 2021.

Income Before Income Taxes

Increase in the lending portfolio and membership base have led to another record-breaking year in terms of our earnings. Income before income taxes was $26.3 million for fiscal 2022. The past calendar year was significantly different from macro economic environment seen during 2021 because it was a full year without the COVID-19 pandemic restrictions and saw a tighter Bank of Canada monetary regime with several interest rate hikes throughout the year. However, we believe that connectFirst is positioned well to continue to expand on it services, see further growth, and continue to generate profitability even as the industry faces stronger economic headwinds into 2023.



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 $643 million in fiscal 2022.

The 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.

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 13.63% at the end of the current fiscal year. We will continue to drive initiatives that support sustainable long-term capital growth in 2023 and beyond, while also recognizing the impact of spending decisions on the member experience.

ECONOMIC GROWTH

Alberta's economy saw a strong rebound in 2022 as the economy emerged from the effects of the COVID-19 pandemic. Higher energy prices and strong growth in the non-energy sector have helped boost exports and corporate revenues. Alberta's Gross Domestic Product (GDP) is forecasted to grow 4.8% for 2022 and begin to slow in fiscal 2023 to roughly 2.7%.

Soaring inflation has resulted in the Bank of Canada recently announcing its eighth straight rate hike, bringing the overnight rate to 4.50%, a significant increase from this time last year when the overnight rate was at just 0.25%. They have now signaled their intent to take a pause from further rate increases to assess whether the monetary policy tightening is working as expected to slow demand, which will continue to help improve supply chain backlog and further reduce inflation. CPI inflation is expected to decrease to 3% by mid-2023 and further to the target of 2% in 2024. The expected slowdown in the Canadian economy has GDP forecasted to be 1% for 2023 before slightly increasing to 1.8% in 2024.

Despite the high interest rates and expected economic slowdown in the coming year, Alberta is expected to weather the slowdown better than the rest of the country. Alberta's housing market, albeit has slowed in recent months but remains strong due to continued positive provincial migration and low inventory. Unemployment remains at historical lows at 5.6% (December 2022). And the energy sector continues to strengthen with the number of wells drilled back to 2014 levels. While energy prices have declined from the highs seen in 2022, energy exports are expected to remain stable for 2023/24 with the expected completion of the Trans Mountain pipeline.

Overall, the outlook for the province of Alberta remains positive for the upcoming year. While economic growth will slow down, an outright recession will likely be avoided thanks to the strength of the housing, labour and energy markets.

BUSINESS MODEL

Strategy

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

Having embarked on this Strategic Direction in 2019, we have pursued an aggressive journey to transform our Credit Union. Having completed the conversion of and upgrade to our internal banking and related systems in 2020, and having launched our refreshed connectFirst brand in 2021, 2022 saw us expand rapidly across the

DIFFERENTIATE
Grow today by building a differentiated member experience

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

TRANSFORM
Innovate in preparation for tomorrow's disruptive business models

Alberta market, using our vision *To Do What's Right for Every Member* as inspiration to introduce new, and reintroduce current members to our remarkable experience.

On the heels of rapid expansion, we're shifting our focus to the future in 2023. Our business model relies on our ability to connect with our members, understand their needs, and build solutions that create a more prosperous Alberta. To do this with increasing efficiency and effectiveness, we're strengthening our people, culture, and infrastructure to continue delivering what our members want today, while building up the skills, technology, products, and capabilities that our members will need tomorrow.

We know we need to work differently as a credit union to compete in the years ahead – ensuring we are truly meeting our members' needs, supporting a strong internal culture, and driving balanced growth. This starts and ends with 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. Through this focus, we will continue to *make money make a difference* for our members and communities in the years to come.

COMMUNITY INVESTMENT & SPONSORSHIPS

connectFirst believes that investment in and engagement with the communities that we operate within is the foundation of its cooperative roots and integral to organizational success. We make money make a difference at the member, community, and systems level and in 2022, we focused on bolstering our community commitments, showing up intentionally and deepening relationships with our community partners. A few key highlights of our community investments work are:

- A total amount of $206,000 has been gifted to 5 community partners:
    - $65,000 to Momentum in support of their "Be Local YYC" and "Aspire Calgary" spheres of work. Both contribute to strengthening local economies with Momentum providing financial empowerment and coaching work that reached 10,000 individuals in 2022, and their community-based business network members growing under Be Local YYC;
    - $25,000 to Mount Royal University as we enter the second year of our connectFirst Social Entrepreneur program running;
    - $85,000 to Southern Alberta Co-operative Housing Association (SACHA) to support with providing safe stable housing in our operating communities;
    - $6,000 to YMCA to support their YMAP program which delivered financial literacy and skill building sessions to 300 new Canadian youth;
    - $25,000 to Weasel Tail Enterprises which offers Indigenous activities and experiences.

Beyond supporting community partners monetarily, connectFirst staff showed up, shared their expertise and know-how and were able to contribute over 1,500 volunteer hours.

Our 42 branches supported over 150 community organizations and groups with contributions of over $127,000 ensuring that unique community needs were met and that members who depend on a thriving community know that we are here as neighbours and as partners.

We also bank on brighter futures with our community programs which included providing students with STEM Scholarships and through our Learn and Earn matched savings program to help grade 12 students build strong financial literacy skills and money management knowledge.

Lastly, we made our presence known in the community through our Corporate Brand Sponsorships by building memorable experiences by investing over $578,000 in several events, including Sled Island and the Calgary International Film Festival. With our Corporate Business Sponsorships, we built relationships and supported initiatives that directly impact our lines of business by investing $98,000 to support the Strathmore Stampede and Chamber of Commerce Small Business Week in Red Deer, Medicine Hat and Calgary.

ACCOUNTING POLICY DEVELOPMENTS

Standards issued but not yet effective

Note 4 to the Consolidated Financial Statements disclose future accounting changes applicable to connectFirst. While management is still evaluating the impact on adoption of the new accounting standards, it is not expected to have a material impact on the Consolidated Financial Statements of the Credit Union.

There are no new standards, interpretations and amendments to accounting standards that have been issued and effective as at October 31, 2021 that have not been applied in preparing the consolidated financial statements of the Credit Union.

RISK MANAGEMENT

Our Credit Union maintains its strong commitment to managing risk strategically with the 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 of economic volatility.

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 building and promoting risk awareness, 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 connectFirst allows us to navigate through market disruptions such as a challenging global economy and far-reaching geopolitical uncertainty in a continued effort to balance both opportunities and risk.

Risk Governance

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

<table>
<tr><td rowspan="2">Risk governance & oversight</td><td colspan="2">Board of Directors</td></tr>
<tr><td>Risk Committee</td><td>Audit & Finance Committee</td></tr>
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<tr><td rowspan="2">Risk strategic director & control</td><td colspan="4">Chief Executive Officer & Executive Leadership Team</td></tr>
<tr><td>Risk Oversight Committee</td><td>Asset/Liability Committee</td><td>Executive and Management Credit Committees</td><td>Information Technology Oversight Committee</td></tr>
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<tr><td rowspan="2">Risk management and reporting</td><td colspan="3">Three lines of Defense</td></tr>
<tr><td>First line: Risk ownership & management
• Consumer & Wealth
• Commercial, Business & Agriculture
• Amplified Experience
• Information Technology</td><td>Second line: Risk oversight and governance
• Risk & Operational Support Services (ROSS)
• Finance
• Human Resources & Brand</td><td>Third line: Independent assurance
• Audit Services (internal)
• External auditors</td></tr>
</table>

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

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

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

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

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

Key Risks

The categories of key risk affecting our Credit Union are strategic, financial, 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.

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

Strategic Risk

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

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

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 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.

Credit Risk

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

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.

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. Scenario and stress testing also make up an important part of the Credit Union's ability to manage uncertainty as current economic conditions remain volatile.

Operational Risk

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

Virtually all aspects of our business and operations use technology and information. The key risks are associated with the operational availability, integrity, confidentiality, and security of our information systems and infrastructure. Cybersecurity remains top of mind as we navigate through our increasing digital footprint with more of our members turning to online banking and remote service delivery channels. Volumes of e-transfer, EFT's, and non-cash payments continue to escalate, and we have worked hard to transition our systems to benefit our 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. These risks are actively managed through enterprise-wide technology risk assessment and information security management programs using industry best practices.

The Credit Union's operations are inherently exposed to third-party risk through our credit union partnerships and through entering relationships to deliver on our member and strategic objectives. While these relationships offer upside benefits such as cost reduction and innovation, they also introduce downside risks such as disruption, failure to provide goods & services or protect data or systems in accordance with our agreements. connectFirst manages third party risk throughout the life cycle of the relationship through a third-party risk management program. The third-party risk management program includes: third-party risk assessments, robust contracting controls, third-party monitoring programs, establishment and monitoring of controls and dedicated resources. With regards to operational risk, management reports to the Risk Committee, the Audit and Finance Committee and to the Board on a quarterly basis. Internal audit staff attends all Risk, and Audit and Finance Committee meetings to report on their activities and findings related to operational risk and management's representations and responses to the enterprise-wide risk management program and overall control environment.

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.

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

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

2022 Financial Report

connectFirst
credit union

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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, 2022;
- 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, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB).

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) as issued by the International Accounting Standards Board (IASB), 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 17, 2023
Calgary, Canada

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at October 31	
($ Thousands)	Notes	**2022**	**2021**
ASSETS			
Cash and cash equivalents		50,950	53,171
Investments	6	679,423	632,524
Loans to members	7	6,335,654	5,473,345
Foreclosed properties	8	1,740	3,457
Other assets	9	60,862	36,693
Intangible assets	10	13,595	13,198
Property and equipment	10	52,380	53,234
Right of use assets	26	20,654	19,156
Deferred tax assets	17	1,324	1,711
		7,216,582	**6,286,489**
LIABILITIES			
Members' deposits	11	6,025,747	5,348,931
Accounts payable and accruals		38,380	31,936
Lease liabilities	26	29,090	28,272
Secured borrowings	25	479,887	292,105
		6,573,104	**5,701,244**
MEMBERS' EQUITY			
Common shares	14	288,158	246,524
Investment shares	14	153,305	157,688
Ownership dividend allocation	13	13,382	7,137
Investment share dividends declared	14	8,345	4,497
Contributed surplus	1	7,445	-
Retained earnings		172,843	169,399
		643,478	**585,245**
		7,216,582	**6,286,489**

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
Audit and Finance Committee Chair

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

($ Thousands)	Notes	YEARS ENDED OCTOBER 31 2022	2021
FINANCIAL INCOME			
Interest on loans to members		209,162	175,616
Investment income	24	10,103	3,661
Unrealized gains on interest rate swaps	22	3,347	540
		222,612	179,817
FINANCIAL EXPENSE			
Interest on members' deposits		56,174	43,076
Interest on loans payable		8,930	8,832
Interest on lease liabilities		1,272	1,262
		66,376	53,170
Financial margin		**156,236**	**126,647**
Charge for loan impairment	7	16,562	5,664
		139,674	120,983
Other income	15	24,872	23,522
Gross margin		**164,546**	**144,505**
Personnel expenses	19	74,869	66,857
Operating lease expenses		2,641	2,472
Depreciation and amortization	10 & 26	8,701	8,228
Other expenses	16	52,032	41,781
		138,243	**119,338**
Income before income taxes		**26,303**	**25,167**
Income taxes	17		
Current		4,997	2,629
Deferred		1,143	3,135
		6,140	**5,764**
Net income and comprehensive income		**20,163**	**19,403**

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

CONSOLIDATED STATEMENT OF MEMBERS' EQUITY

Years ended October 31, 2022 and 2021

($Thousands)	Common shares	Series A-H investment shares	Ownership dividends declared	Investment share dividends declared	Contributed Surplus	Retained earnings	Total equity
Balance November 1, 2020	238,477	120,123	4,999	4,192	-	158,958	526,749
Net and comprehensive income						19,403	19,403
Transactions with members							
Shares issued to members for cash	30,992	40,000					70,992
Shares issued by dividend	4,999	4,192	(4,999)	(4,192)			-
2021 dividends declared - investment (note 14)				4,497		(4,497)	-
2021 dividends declared - ownership (note 13)			7,137			(7,137)	-
Deferred income tax recovery, dividends declared						2,672	2,672
Shares redeemed for cash	(27,944)	(6,627)					(34,571)
Balance October 31, 2021	246,524	157,688	7,137	4,497	-	169,399	585,245
Acquisition of Spark (note 1)	5,096				7,445		12,541
Net and comprehensive income						20,163	20,163
Transactions with members							
Shares issued to members for cash	54,246						54,246
Shares issued by dividend	7,137	4,497	(7,137)	(4,497)		13	13
2022 dividends declared - investment (note 14)				8,345		(8,345)	-
2022 dividends declared - ownership (note 13)			13,382			(13,382)	-
Current income tax recovery, dividends declared						4,995	4,995
Shares redeemed for cash	(24,845)	(8,880)					(33,725)
Balance October 31, 2022	288,158	153,305	13,382	8,345	7,445	172,843	643,478

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 2022	2021
Cash flows from operating activities		
Net Income	20,163	19,403
Adjustments for:		
Interest on loans to members	(209,162)	(175,616)
Interest/dividends on investments	(10,103)	(3,661)
Interest expense	66,376	53,170
Unrealized gain on interest rate swaps	(3,347)	(540)
Depreciation and amortization	8,701	8,228
Charge for loan impairment	17,409	6,303
Current/deferred income tax expense	6,140	5,764
Change in other assets	(13,812)	5,376
Change in accounts payable	3,010	24,963
Interest received	215,189	179,086
Interest paid	(51,487)	(67,777)
Income tax paid	(6,809)	(10,596)
Increase in members' deposits	462,911	372,055
Increase in loans to members, net of repayments	(714,118)	(463,583)
Proceeds from sale of foreclosed property	6,627	285
Net cash used in operating activities	**(202,312)**	**(47,140)**
Cash flows from financing activities		
Common shares issued for cash	54,246	30,992
Common share redemptions	(24,845)	(27,944)
Investment shares issued for cash	-	40,000
Investment share redemptions	(8,880)	(6,627)
Advances of secured borrowing	389,788	130,467
Repayment of secured borrowing	(202,006)	(226,185)
Payment of lease liabilities	(2,850)	(2,421)
Net cash from (used in) financing activities	**205,453**	**(61,718)**
Cash flows from investing activities		
Cash acquired on amalgamation	218	-
Acquisition of investments	(1,477,949)	(935,882)
Proceeds from sale of investments	1,478,218	1,028,811
Acquisition of property and equipment, net	(3,025)	(2,151)
Acquisition of intangibles, net	(2,824)	(1,534)
Net cash (used in) from investing activities	**(5,362)**	**89,244**
Decrease in cash and cash equivalents	(2,221)	(19,614)
Cash and cash equivalents, beginning of year	53,171	72,785
Cash and cash equivalents, end of year	**50,950**	**53,171**

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, 2022 with comparative figures for the year ended October 31, 2021.

($ Thousands)

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

These consolidated financial statements include the accounts of the Credit Union and its wholly-owned subsidiaries, 1549081 Alberta Ltd., First Calgary Savings Insurance Ltd., and Connect First Wealth Ltd. During the fiscal years ended October 31, 2022 and 2021, the subsidiary 1549081 Alberta Ltd. held title to certain foreclosed property. During the fiscal years ended October 31, 2022 and 2021, First Calgary Savings Insurance Ltd. and Connect First Wealth Ltd. had no activity. Therefore, the only difference between the consolidated and separate financial statements of the Credit Union would be the elimination of the foreclosed property on the statement of financial position. There would be no other significant differences from the consolidated financial statements.

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

The consolidated financial statements have been approved for issue by the Board of Directors on January 17, 2023.

1. BUSINESS COMBINATION

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

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

Spark operates two branches, one in the city of Calgary and one in Fort Saskatchewan. The amalgamation will allow Connect First to serve a larger membership base and be a further visible representation of the Credit Union’s strategy and direction. Spark members will gain from a larger range of products and services, innovative technology offerings, and receive extended support through Connect First’s Member Connection Centre.

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

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

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

2. BASIS OF PRESENTATION

a) Statement of compliance

The Credit Union's consolidated annual financial statements 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 3 below, comply with the requirements of IFRS and have been applied consistently to all periods presented in the consolidated financial statements, except as otherwise noted.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain investments that are classified and measured as fair value through other comprehensive income, 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, deferred tax assets and liabilities, the estimate of fair value of foreclosed property, valuation of leased assets and liabilities, the useful lives of property and equipment, and intangibles, and the estimate of fair value of financial instruments measured at fair value, and the fair value of assets and liabilities acquired in a business combination. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Financial Instruments

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.

<u>Contractual cash flow characteristics assessment</u>

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.

<u>Reclassification of financial assets</u>

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.

<u>Derecognition of financial assets and liabilities</u>

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.

<u>Modification of financial assets</u>

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).

Assessment of significant increase in credit risk

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

For certain instruments with low credit risk at the reporting date, it is presumed that credit risk has not increased significantly relative to initial recognition. Credit risk is 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 (Alberta specific)
- Housing price index (Alberta specific)
- 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 and rental income received from tenants of the Olds administration building. All other income is recognized when received.

Revenues in the scope of IFRS 9 include interest income, investment income, foreign exchange gains and losses, and gains/(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) Leases

The Credit Union recognizes a ROU asset and a lease liability at the lease commencement date, with the exception of short-term leases (less than 12 months) and low-value leases (less than $5 thousand USD). For short- term leases and low-value leases, lease payments are recognized on a straight-line basis over the term of the lease. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability and expenditures that are directly attributable to the acquisition of the asset. The ROU asset is subsequently amortized using the straight-line method from the commencement date of the earlier of the end of the useful life of the ROU asset or the end of the lease term. The estimated useful lives of ROU assets are determined on the same basis as those of property and equipment. The ROU asset is periodically reviewed for impairments, if any, and adjusted for certain remeasurements of the lease liability.

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

(o) Consolidated financial statements

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

(p) Business combination

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

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

4. FUTURE ACCOUNTING CHANGES

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

IAS 1 *Presentation of Financial Statements*
IAS 1, originally issued in January 2011, outlines the overall requirements for financial statements, including content, structure, and concepts. In January 2020 the standard was amended to assist organizations in determining whether liabilities should be classified as current or non-current. The Credit Union intends to adopt the changes to IAS 1 in its financial statements for the annual period beginning November 1, 2023. The extent of the impact of adoption of the standard has not yet been determined.

IAS 1 *Disclosure of Accounting Policies*
In February 2021, the IASB issued amendments to IAS 1 *Disclosure of Accounting Policies*. The amendment requires businesses to disclose their material accounting policies rather than their significant accounting policies. Guidance is provided to assist in the determination of materiality. Connect First intends to adopt the changes in its financial statements for the annual reporting period beginning November 1, 2023. The extent of the impact of adoption of the standard has not yet been determined.

IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
In February 2021, amendments were made to IAS 8 in respect to the definition of accounting estimates. According to the IASB, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The standard clarifies that a change in accounting estimates due to new information is not the correction of an error. The amendments are effective November 1, 2023. The extent of the impact of adoption of the standard has not yet been determined.

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, 2022, the Credit Union's regulatory capital is 13.63% (2021 – 14.15%) of risk-weighted assets.

6. INVESTMENTS

	2022	2021
Investments - term deposits and other debt securities	61,210	58,026
Alberta Central term deposits		
- Non-statutory term deposits	28,688	61,001
- Statutory term deposits	524,488	453,955
Alberta Central common shares	65,037	59,542
	679,423	632,524

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

Loans to members comprise the following:

	2022		2021	
Performing loans	6,285,434	99.21%	5,428,201	99.18%
Non-performing loans	60,152	0.95%	57,990	1.06%
Accrued interest	19,834	0.31%	17,329	0.32%
Allowance for impairment	(29,766)	-0.47%	(30,175)	-0.55%
Total	6,335,654	100%	5,473,345	100%

The following table shows the gross carrying amount of loans measured at amortized cost as of October 31, 2022 and 2021. Stage 1 represents performing loans with a 12-month expected credit loss, Stage 2 represents performing loans with a lifetime expected credit loss, and Stage 3 represents impaired loans with a lifetime expected credit loss.

	Stage 1	Stage 2	Stage 3	Total	Accrued Interest	Allowance for Credit Losses	Total Net of Allowance
As at October 31, 2022							
Consumer	610,584	33,812	2,165	646,561	1,582	8,165	639,978
Residential mortgage	2,741,093	84,991	1,854	2,827,938	3,514	1,753	2,829,699
Commercial and agriculture	2,798,144	16,811	56,132	2,871,087	14,738	19,848	2,865,977
Total member loans	6,149,821	135,614	60,151	6,345,586	19,834	29,766	6,335,654

	Stage 1	Stage 2	Stage 3	Total	Accrued Interest	Allowance for Credit Losses	Total Net of Allowance
As at October 31, 2021							
Consumer	434,149	17,270	1,568	452,987	911	5,217	448,681
Residential mortgage	2,382,414	92,917	3,750	2,479,081	2,728	1,777	2,480,032
Commercial and agriculture	2,484,519	17,327	52,672	2,554,519	13,691	23,181	2,545,028
Total member loans	5,301,082	127,514	57,990	5,486,587	17,329	30,175	5,473,741

Allowance for expected credit losses consists of the following:

Residential mortgages	Stage 1	Stage 2	Stage 3	Total
As at November 1, 2020	915	829	215	1,959
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	(5)	(60)	57	(8)
Remeasurement of loss allowance other than stage transfers	(41)	(63)	74	(30)
Derecognitions and maturities	(124)	(105)	(81)	(310)
Loan originations	246	65	-	311
Total remeasurement of loss allowance	76	(163)	50	(37)
Write offs	(33)	-	(112)	(145)
As at October 31, 2021	958	666	153	1,777
As at November 1, 2021	958	666	153	1,777
ECL acquired on business combination	16	14	40	70
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	410	(365)	(45)	-
Remeasurement of loss allowance other than stage transfers	(552)	281	177	(94)
Derecognitions and maturities	(158)	(94)	(66)	(318)
Loan originations	274	78	-	352
Total remeasurement of loss allowance	(26)	(100)	66	(60)
Write offs	-	(7)	(27)	(34)
As at October 31, 2022	948	573	232	1,753

Consumer loans	Stage 1	Stage 2	Stage 3	Total
As at November 1, 2020	4,304	1,733	959	6,996
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	(150)	69	385	304
Remeasurement of loss allowance other than stage transfers	(1,156)	24	514	(618)
Derecognitions and maturities	(681)	(185)	(333)	(1,199)
Loan originations	1,080	176	101	1,357
Total remeasurement of loss allowance	(907)	84	667	(156)
Write offs	(428)	(344)	(851)	(1,623)
As at October 31, 2021	2,969	1,473	775	5,217
As at November 1, 2021	2,969	1,473	775	5,217
ECL acquired on business combination	48	93	124	265
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	609	(465)	(144)	-
Remeasurement of loss allowance other than stage transfers	(27)	1,617	1,143	2,733
Derecognitions and maturities	(425)	(169)	(129)	(723)
Loan originations	1,820	837	334	2,991
Total remeasurement of loss allowance	1,977	1,820	1,204	5,001
Write offs	(1,171)	(229)	(918)	(2,318)
As at October 31, 2022	3,823	3,157	1,185	8,165

Commercial and agriculture loans	Stage 1	Stage 2	Stage 3	Total
As at November 1, 2020	3,527	998	16,311	20,836
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	(46)	55	(196)	(187)
Remeasurement of loss allowance other than stage transfers	(1,334)	(63)	6,860	5,463
Derecognitions and maturities	(587)	(223)	(3,554)	(4,364)
Loan originations	1,142	37	2,481	3,660
Total remeasurement of loss allowance	(825)	(194)	5,591	4,572
Write offs	(5)	(10)	(2,212)	(2,227)
As at October 31, 2021	2,697	794	19,690	23,181
As at November 1, 2021	2,697	794	19,690	23,181
ECL acquired on business combination	3	4	-	7
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	655	(433)	(222)	-
Remeasurement of loss allowance other than stage transfers	(295)	695	9,838	10,238
Derecognitions and maturities	(332)	(35)	(164)	(531)
Loan originations	1,253	30	1,529	2,812
Total remeasurement of loss allowance	1,281	257	10,981	12,519
Write offs	(20)	(91)	(15,748)	(15,859)
As at October 31, 2022	3,961	964	14,923	19,848

Totals at October 31, 2021	6,624	2,933	20,618	30,175
Totals at October 31, 2022	8,732	4,694	16,340	29,766

The total allowance for expected credit losses is reconciled as follows:	2022	2021
Opening allowance for impairment	30,175	29,791
ECL acquired on business combination	342	-
Charge for loan impairment:		
Net remeasurement due to stage transfers	-	109
Remeasurement of loss allowance other than stage transfers	12,877	4,815
Derecognitions and maturities	(1,572)	(5,873)
Loan originations	6,155	5,328
Write-offs	(18,211)	(3,995)
Allowance for expected credit losses, October 31	29,766	30,175
The charge for loan impairment on the statement of comprehensive income is reconciled as follows:		
Charge for loan impairment as above	17,460	4,379
Charge for loan impairment on foreclosed property at October 31 (note 8)	-	1,505
Charge for impairment on investments	(354)	209
Recoveries	(544)	(429)
Total charge for loan impairment	16,562	5,664

As previously disclosed in Note 3, 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. 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:

<u>Significant Increase in Credit Risk ("SICR")</u>
The judgments related to whether or not there is a SICR result in loans moving between stages and, therefore, being subject to different measurement. With respect to delinquencies, the judgements used related to SICR remain consistent with those at October 31, 2021.

<u>Forward Looking Information ("FLI")</u>
As of October 31, 2022, the following FLI has been used in the measurement of the ECL, as compared to that used at October 31, 2021. The FLIs used by the Credit Union is based on publicly available external data and our view of future economic conditions. We exercise experienced credit judgment to incorporate multiple economic forecasts, which are probability-weighted in the determination of the final ECL. Credit Union's ECL methodology also requires the use of experienced credit judgment to incorporate the estimated impact of factors that are not captured in the modelled ECL results.

Connect First determines ECL using three probability-weighted forward-looking scenarios. These scenarios include a "base" case scenario that represents the most likely outcome and two additional scenarios representing the optimistic and pessimistic outcomes. These additional scenarios are designed to capture material non-linearity of potential credit losses in portfolios.

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

October 31, 2021	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 %	0.51	1.43	1.10	2.25	0.32	0.60
3 month Government of Canada Bond Rate %	0.35	1.20	1.00	2.10	0.12	0.33
Alberta housing price index % change	1.07	1.14	2.96	2.09	(2.01)	0.15
Alberta unemployment rate %	7.01	6.39	6.48	5.61	8.15	7.40

The reported expected credit losses for financial assets in Stage 1 and Stage 2 with 100% weighting under the optimistic macroeconomic conditions, with other assumptions held constant would decrease by approximately $0.9 million (2021 - $0.3 million).

The reported expected credit losses for financial assets in Stage 1 and Stage 2 with 100% weighting under the pessimistic macroeconomic conditions, with other assumptions held constant would increase by approximately $2.5 million (2021 - $0.6 million).

At October 31, 2022, management concluded that the weighting to be used would be 80% base, 10% best case, and 10% worst case (2021 – 80% base case, 10% best case, 10% worst case).

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 %	4.19	4.21	4.17	4.06	2.98
3 month Government of Canada Bond Rate %	3.70	3.70	3.70	3.60	2.54
Alberta housing price index % change	(0.10)	0.06	0.04	0.29	1.00
Alberta unemployment rate %	5.40	5.70	5.60	5.60	5.27

Alternative scenario pessimistic

	Next 3 months	Next 6 months	Next 9 months	Next 12 months	Remaining forecast period
Driver					
3 month BA rate %	1.77	1.60	1.32	1.31	1.66
3 month Government of Canada Bond Rate %	1.20	1.00	0.75	0.75	1.12
Alberta housing price index % change	(2.17)	(0.49)	0.53	0.12	0.15
Alberta unemployment rate %	8.17	8.40	7.77	7.63	7.23

Alternative scenario optimistic

	Next 3 months	Next 6 months	Next 9 months	Next 12 months	Remaining forecast period
Driver					
3 month BA rate %	4.54	4.86	5.21	5.50	4.94
3 month Government of Canada Bond Rate %	4.10	4.40	4.80	5.10	4.57
Alberta housing price index % change	1.90	1.06	1.04	0.29	1.00
Alberta unemployment rate %	4.90	4.83	4.84	4.81	4.65

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

2022	On Demand	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 Years & Over	Total
Residential Mortgages							
- Insured	-	101,696	90,250	148,926	212,139	163,596	716,607
- Conventional	247,899	305,955	293,812	372,512	479,958	409,341	2,109,477
Consumer Loans	84,683	122,208	112,160	92,496	79,805	153,043	644,395
Commercial Mortgages	1,929	460,645	302,220	378,890	336,046	286,124	1,765,854
Commercial Loans	395,186	81,028	14,861	24,232	10,275	46,361	571,943
Agricultural Loans	58,029	5,940	3,168	2,322	3,938	2,954	76,351
Agricultural Mortgages	-	77,180	54,572	77,766	77,306	113,983	400,807
Total	787,726	1,154,652	871,043	1,097,144	1,199,467	1,175,402	6,285,434

2021	On Demand	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 Years & Over	Total
Residential Mortgages							
- Insured	-	121,891	90,046	65,933	120,016	156,254	554,140
- Conventional	238,308	392,632	308,109	253,930	335,768	392,444	1,921,191
Consumer Loans	65,054	96,041	79,645	64,230	48,198	98,254	451,422
Commercial Mortgages	22,392	452,095	372,659	302,847	212,498	261,225	1,623,716
Commercial Loans	309,267	35,187	27,308	11,501	19,516	41,968	444,747
Agricultural Loans	53,786	6,760	3,174	2,551	1,623	3,423	71,317
Agricultural Mortgages	-	83,975	70,264	49,836	70,975	86,618	361,668
Total	688,807	1,188,581	951,205	750,828	808,594	1,040,186	5,428,201

8. FORECLOSED PROPERTY

During the year ended October 31, 2022, the Credit Union has sold the large commercial property that was originally moved into foreclosure in fiscal 2019. The property was sold for the previously determined fair value less costs to sell and no further loss was recorded. The remaining foreclosed property balance relates to five residential loans and one commercial loan that have been foreclosed on in the process of realizing on the Credit Union's security.

9. OTHER ASSETS

	2022	2021
Accounts receivable	4,866	4,009
Lease residual	3,863	5,275
Prepaid expenses and deposits	41,378	26,860
Fair value of swaps (Note 22)	3,901	540
Income tax receivable	6,845	-
Other	9	9
	60,862	36,693

10. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

	Land	Buildings	Furniture & equipment	Computer equipment	Leasehold improvements	Total	Intangible assets	
COST								
Balance at November 1, 2021	7,591	36,059	17,024	6,581	16,661	83,916	19,987	
Acquisitions	-	40	1,488	396	1,912	3,836	2,893	*
Disposals	-	(349)	(302)	(19)	(52)	(722)	(9)	
Balance at October 31, 2022	7,591	35,750	18,210	6,958	18,521	87,030	22,871	

	Land	Buildings	Furniture & equipment	Computer equipment	Leasehold improvements	Total	Intangible assets
DEPRECIATION AND AMORTIZATION							
Balance at November 1, 2021	-	(7,719)	(9,128)	(4,275)	(9,560)	(30,682)	(6,789)
Depreciation and amortization for the year	-	(1,349)	(1,194)	(762)	(741)	(4,046)	(2,487)
Disposals	-	-	78	-	-	78	-
Balance at October 31, 2022	-	(9,068)	(10,244)	(5,037)	(10,301)	(34,650)	(9,276)
NET BOOK VALUE							
October 31, 2021	7,591	28,340	7,896	2,306	7,101	53,234	13,198
October 31, 2022	7,591	26,682	7,966	1,921	8,220	52,380	13,595

*Intangible assets acquisitions include $461 (2021 - $754) of internal costs and $2,432 (2021 - $1,351) of external costs.

11. MEMBERS' DEPOSITS

	2022	2021
Demand Deposits	2,573,403	2,586,331
Registered Savings Plans	412,159	392,118
Term Deposits	3,001,263	2,350,718
Registered Education Savings Plans	10,665	6,396
	5,997,490	5,335,563
Accrued Interest	28,257	13,368
Total	6,025,747	5,348,931

Maturities are as follows:

2022	On Demand	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 Years & Over	Total
Demand Deposits	2,573,403	-	-	-	-	-	2,573,403
Registered Savings Plans	15,409	225,981	99,269	30,435	11,464	29,601	412,159
Term Deposits	34,551	2,222,959	506,458	137,609	33,721	65,965	3,001,263
Registered Education Savings Plans	-	10,665	-	-	-	-	10,665
	2,623,363	2,459,605	605,727	168,044	45,185	95,566	5,997,490

2021	On Demand	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 Years & Over	Total
Demand Deposits	2,586,331	-	-	-	-	-	2,586,331
Registered Savings Plans	18,135	236,869	71,245	43,165	8,791	13,913	392,118
Term Deposits	19,386	1,921,623	241,794	100,416	40,793	26,706	2,350,718
Registered Education Savings Plans	-	6,396	-	-	-	-	6,396
	2,623,852	2,164,888	313,039	143,581	49,584	40,619	5,335,563

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.

	2022	2021
Letters of credit	17,067	15,301
Commitments to extend credit with a term to maturity of one year or less	851,734	608,772

(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 2023 in respect of fiscal 2022 to members by way of an issuance of common shares in the amount of $13,382 (2021 - $7,137). 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 & H Investment Shares

In October 2022, the Board of Directors approved a 5.45% dividend to holders of record of Series A, B, C, D, E, F, G and H Investment Shares for the year ended October 31, 2022 in the aggregate amount of $8,345 (2021 – $4,497). The payment will be made in November 2022 through the issuance of additional Series A, B, C, D, E, F, G and H Investment Shares, respectively.

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

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

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

15. OTHER INCOME

	2022	2021
Service charges and other fees	6,405	5,913
Foreign exchange gain/loss	1,399	847
Loan prepayment and other fees	3,563	5,130
Insurance	2,023	1,529
Credit card fees	630	469
Wealth management	9,226	8,461
Other	1,626	1,173
	24,872	23,522

16. OTHER EXPENSES

	2022	2021
Advertising	5,145	6,006
Technology	14,335	12,371
Member security and deposit insurance premium	4,230	3,861
Professional fees	6,005	2,490
Stationary, telephone, postage, courier	1,761	1,963
Financial planning	167	132
ATM/POS operations	1,648	1,625
Board expenses	760	657
Lending costs	2,435	1,601
Charitable donations/community investment	451	371
Occupancy	6,759	3,862
Other	8,336	6,842
	52,032	41,781

17. PROVISION FOR INCOME TAXES

The components of tax expense for the years ended October 31, 2022 and 2021 are as follows:

	2022	2021
Current tax expense:		
Current period	4,997	2,629
Deferred tax expense:		
Origination and reversal of temporary differences	1,143	3,135
Total income tax expense	**6,140**	**5,764**

Reconciliation of effective tax rate

	2022	2021
Income before tax	26,303	25,197
Income tax using the Credit Union's combined federal and provincial statutory Canadian tax rate of 23.00% (2021 - 23.00%)	6,050	5,788
Effect of tax rate changes and other	45	(54)
Non-deductible expenses	45	30
Total income tax expense	**6,140**	**5,764**

Recognized deferred tax assets and liabilities

	Property and Equipment	**Provisions**	**ROU Assets**	**Lease Liabilities**	**Non-Capital Losses**	**Other Assets**	**Totals**
As at November 1, 2021	(5,010)	3,410	(4,406)	6,502	1,339	(124)	1,711
Credit/(Charged) to the statement of income	(107)	706	(289)	131	(816)	(770)	(1,145)
Credit/(Charged) to other	(20)	42	(55)	57	734	-	758
As at October 31, 2022	**(5,137)**	**4,158**	**(4,750)**	**6,690**	**1,257**	**(894)**	**1,324**

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:	**2022**	2021
Key management personnel and entities controlled by key management personnel	26,480	24,935

Outstanding deposits from:	**2022**	2021
Key management personnel and entities controlled by key management personnel	29,081	25,478

All loans to key management personnel are current as of October 31, 2022.

Compensation of key management personnel ($)

The makeup of key management personnel changed in 2022 to incorporate positions that leadership felt had the ability to influence operations and were crucial to the effective management of the organization.

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

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

*Executive restructuring occurred in 2022. Terminated executive members were paid $1,815,588 in severance in the year, which has been included in the Annual Remuneration column.

**The new EVP Business, Commercial and Agriculture joined in August 2022.

The performance incentives shown above represent 2021 bonus amounts that were subsequently paid in 2022.

2021	Annual Remuneration	Performance Incentive	Total Benefits	2021 Total
Chief Executive Officer	435,000	-	188,749	623,749
Chief Operating Officer	285,000	-	81,854	366,854
Chief Financial Officer	233,000	-	71,989	304,989
Chief Technology Officer	225,000	-	75,149	300,149
Chief Strategy & Innovation Officer	220,000	-	75,104	295,104
Chief Credit & Risk Officer	196,154	-	64,557	260,711
Chief People & Culture Officer	194,615	-	66,106	260,721

Paid to directors ($):

	2022	2021
Directors' fees and committee remuneration	532,475	465,954
Directors' expenses	74,585	34,601

Compensation to directors ranged from $15,162 (2021 - $2,000) to $92,350 (2021 - $74,100) with an average of $35,498 (2021- $29,122). 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

	2022	2021
Salaries and wages	54,188	47,280
Short term benefits	14,393	12,686
Long term benefits	2,883	3,741
Termination benefits	3,405	3,150
	74,869	66,857

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.

2022

($ Thousands)	Average Rate	Variable & Within 3 Months	3 Months to 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	Over 4 Years	Non-Interest Sensitive	Total
October 31, 2022									
ASSETS									
Cash	0.45%	-	-	-	-	-	-	50,950	50,950
Investments	3.05%	364,815	159,173	33,568.00	30,422	26,363	65,037	45	679,423
Loans to Members	3.99%	1,114,738	863,520	871,043	1,097,144	1,207,819	1,181,390	-	6,335,654
Other	0.00%	-	-	-	-	-	-	150,555	150,555
	3.80%	**1,479,553**	**1,022,693**	**904,611**	**1,127,566**	**1,234,182**	**1,246,427**	**201,550**	**7,216,582**
LIABILITIES and EQUITY									
Deposits	1.73%	2,904,139	1,928,404	605,727	168,044	45,185	97,238	277,010	6,025,747
Other	0.00%	1,269	44,464	44,775	90,715	171,329	127,335	710,948	1,190,835
	1.45%	**2,905,408**	**1,972,868**	**650,502**	**258,759**	**216,514**	**224,573**	**987,958**	**7,216,582**
BALANCE SHEET MISMATCH		(1,425,855)	(950,175)	254,109	868,807	1,017,668	1,021,854	(786,408)	-
Derivatives		50,000					(50,000)		
NET MISMATCH		(1,375,855)	(950,175)	254,109	868,807	1,017,668	971,854	(786,408)	-

2021

($ 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, 2021									
ASSETS									
Cash	0.25%	53,171	-	-	-	-	-	-	53,171
Investments	0.26%	466,682	18,576	-	-	27,542	119,681	43	632,524
Loans to Members	3.34%	1,041,238	818,953	951,205	750,828	808,594	1,040,186	62,341	5,473,345
Other	0.00%	-	-	-	-	-	-	127,449	127,449
	2.94%	**1,561,091**	**837,529**	**951,205**	**750,828**	**836,136**	**1,159,867**	**189,833**	**6,286,489**
LIABILITIES and EQUITY									
Deposits	0.62%	3,219,862	1,582,245	313,039	143,581	49,584	40,620	-	5,348,931
Other	2.91%	1,975	54,821	91,328	54,528	54,089	37,480	643,337	937,558
	0.96%	**3,221,837**	**1,637,066**	**404,367**	**198,109**	**103,673**	**78,100**	**643,337**	**6,286,489**
BALANCE SHEET MISMATCH		(1,660,746)	(799,537)	546,838	552,719	732,463	1,081,767	(453,504)	-
Derivatives		25,000					(25,000)		
NET MISMATCH		(1,635,746)	(799,537)	546,838	552,719	732,463	1,056,767	(453,504)	-

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, 2022, the following facilities were in place:

(a) A revolving line of credit authorized to a maximum amount of $130,022 (2021 - $118,807) including a US dollar component equivalent of up to CAD $13,775 (2021 - $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 $390,065 (2021 - $356,422) 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, 2022 and 2021, the credit facilities were undrawn.

The total guaranteed commitment level for the above facilities at October 31, 2022 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, 2022, there were no transfers between levels of the hierarchy for any financial assets and liabilities.

2022

	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Assets					
Investments - amortized cost		576,885		576,885	585,698
Investments - FVOCI		93,725		93,725	93,725
Loans		6,017,221		6,017,221	6,335,654
Derivatives		3,901		3,901	3,901
Total	-	6,691,732	-	6,691,732	7,018,978
Liabilities					
Deposits		5,979,665		5,979,665	6,025,747
Secured borrowings		448,614		448,614	479,887
Total	-	6,428,279	-	6,428,279	6,505,634

2021

	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Assets					
Investments - amortized cost		514,426		514,426	511,981
Investments - FVOCI		120,543		120,543	120,543
Loans		5,531,163		5,531,163	5,473,345
Total	-	6,166,132	-	6,166,132	6,105,869
Liabilities					
Deposits		5,355,605		5,355,605	5,348,931
Secured borrowings		292,884		292,884	292,105
Total	-	5,648,489	-	5,648,489	5,641,036

Derivative Financial Instruments

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

2022

	Notional Amount	Positive Fair Value
Interest Rate Swaps	50,000	3,901

2021

	Notional Amount	Positive Fair Value
Interest Rate Swaps	25,000	540

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, 2022, outstanding interest rate swaps resulted in realized gains of $46 (2021 – loss $74) and unrealized gains of $3,347 (2021 – $540). Realized gains/losses are included in interest on loans to members in the statement of comprehensive income.

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 plus accrued interest 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

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

	Consumer loans	Residential mortgages	Total
Retail mortgages and loans			
Satisfactory risk	645,946	2,829,564	3,475,510
Impaired retail loans	2,196	1,888	4,085
Allowance for impaired loans	(8,165)	(1,753)	(9,918)
Carrying amount	**639,977**	**2,829,699**	**3,469,677**

2021	Stage 1	Stage 2	Stage 3	Total
Commercial mortgages and loans				
1 to 5 - satisfactory risk	2,485,031	6,464	1,874	2,493,369
6 to 7 - unimpaired	9,619	10,874	4,319	24,812
8 to 9 - impaired	81	0	49,551	49,632
Allowance for credit losses	(2,697)	(795)	(19,689)	(23,181)
Carrying amount	**2,492,034**	**16,543**	**36,055**	**2,544,632**

	Consumer loans	Residential mortgages	Total
Retail mortgages and loans			
Satisfactory risk	452,320	2,477,998	2,930,318
Impaired retail loans	1,578	3,811	5,389
Allowance for impaired loans	(5,217)	(1,777)	(6,994)
Carrying amount	**448,681**	**2,480,032**	**2,928,713**

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

		2022	2021
Commercial:			
	Real estate, rental & leasing	1,232,953	1,120,519
	Construction	273,531	291,303
	Accommodation & food services	219,157	183,218
	Health care & social assistance	49,608	62,881
	Retail trade	112,533	88,559
	Finance & insurance	17,073	31,615
	Other	486,688	341,730
		2,391,543	2,119,825
Retail:			
	Mortgages	2,827,938	2,479,081
	Dealer loans & leases	472,916	288,014
	Unsecured lending	72,941	77,941
	Secured lending	100,703	87,032
		3,474,498	2,932,068
Agriculture:			
	Mortgages	400,461	360,652
	Loans	79,084	73,646
		479,545	434,298
		6,345,586	**5,486,191**

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. A residential mortgage is classified as conventional if the amount borrowed does not exceed 80% of the assessed value of the property held as collateral. Mortgages that exceed the 80% loan-to-value are insured. Consumer loans have a marginally higher credit risk, which is mitigated through a variety of methods including collateral requirements. The Credit Risk Committee monitors credit risk and approves policies for the Credit Union.

The collateral and other enhancements held by Connect First as security for loans include: i) insurance (for insured residential mortgages), ii) mortgages over residential lots and properties, iii) recourse to business assets such as real estate, equipment, inventory and accounts receivable, and iv) recourse to liquid assets and securities.

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

b) Market Risk

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

Risk management

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

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

Interest rate risk in the one-year time frame is managed to keep the negative impact for every 100 basis 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.

	2022	2021
Before tax impact on financial margin of:		
100 basis point increase in rates	(766)	6,462
100 basis point decrease in rates	(5,944)	(5,677)

c) Liquidity Risk

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

The desired liquidity level above the statutory requirement is determined by taking into account the balance between the cost of liquidity and the yield achieved. The Credit Union will at all times maintain above statutory liquidity levels as required by regulations. Immediate corrective action will be taken if the ratio approaches the regulatory minimum. The Act requires that statutory liquidity deposits be held with Alberta Central. Statutory liquidity includes eligible deposits and shares of Central. The statutory liquidity ratio is 9.0% of average deposits and borrowings for the second prior month. Based on average deposits and borrowings for August 2022 the Credit Union's liquidity as at October 31, 2022 exceeds minimum requirements by $175 (2021 - $2,147).

d) Capital Management

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

24. INVESTMENT INCOME

	2022	2021
Interest on statutory investments	6,197	714
Dividends on statutory investments	898	1,278
Interest on other investments	2,720	1,669
Interest on bond forward	288	-
	10,103	3,661

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, 2022 is $479,887 (2021 - $292,105). 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, 2022, of the associated residential mortgages as at October 31, 2022 is $517,457 (2021 - $422,168). 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, 2022	As at October 31, 2021
CMB	May 1, 2023 to July 1, 2023	1.0268% to 1.0464%	2,875	26,296
NHA MBS	December 1, 2022 to September 1, 2027	1.0268% to 4.7680%	477,012	265,809
Total			479,887	292,105

26. LEASES

The nature of the leases that the Credit Union has recognized relate primarily to real estate leases for branches and office space, as well as 3 corporate vehicles.

Right of use (ROU) asset	Property	Vehicles	Total
Cost			
Balance at November 1, 2021	23,552	-	23,552
Acquisitions	3,602	64	3,666
Disposals	-	-	-
Balance at October 31, 2022	27,154	64	27,218
Accumulated Depreciation			
Balance at November 1, 2021	(4,396)	-	(4,396)
Depreciation and amortization for the year	(2,155)	(13)	(2,168)
Disposals	-	-	-
Balance at October 31, 2022	(6,551)	(13)	(6,564)
Net Book Value			
October 31, 2021	19,156	-	19,156
October 31, 2022	**20,603**	**51**	**20,654**

Lease Liabilities	**As at October 31 2022**	As at October 31 2021
Maturity analysis - contractual undiscounted cash flows		
Less than one year	3,624	3,876
One to five years	13,750	13,255
More than five years	16,602	14,355
Total undiscounted future lease payments at October 31	33,976	31,486
Less present value discount	4,886	3,214
Lease liabilities included in the statement of financial position	29,090	28,272

Amounts recognized in profit or loss

	2022	2021
Interest on lease liabilities	(1,272)	(1,262)
Variable lease payments not included in the measurement of lease liabilities	(2,528)	(2,363)
Expenses relating to short term leases	(113)	(113)
Expenses relating to leases of low-value assets	(30)	(29)

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.