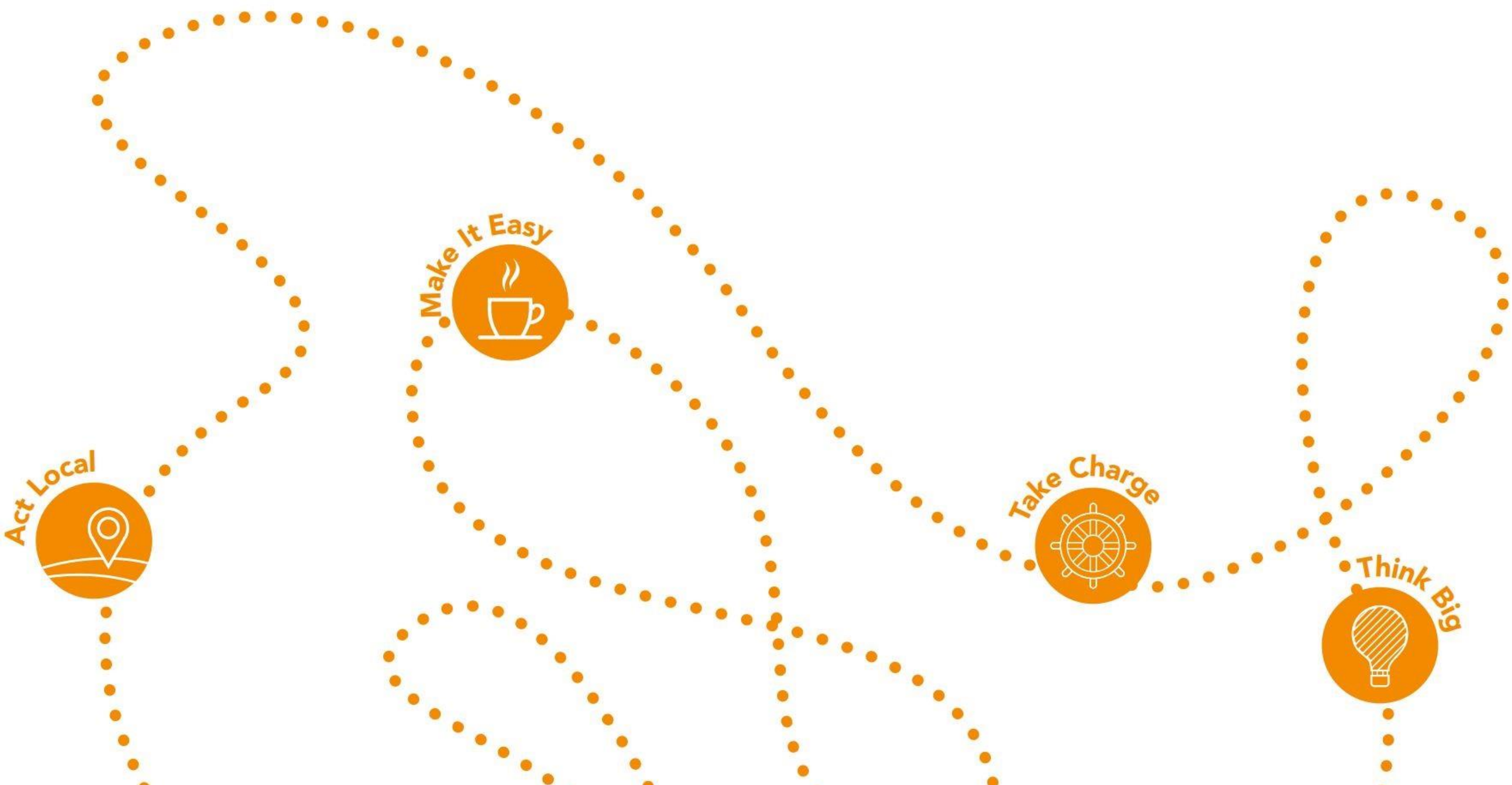
ConnectFirst Credit Union

2019

Management's Discussion & Analysis

For the year ended October 31, 2019



Making Money Make a Difference

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NOTE REGARDING FORWARD LOOKING INFORMATION

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) provides additional commentary and information on the results of operations and financial performance of our credit union for the year ended October 31, 2019. 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 gives us the opportunity to demonstrate our accountability to members for effective stewardship of resources and for meeting strategic objectives. The financial statements reflect what happened, while the MD&A explains why these changes occurred.

By providing a balanced discussion of operational results, financial condition, and future prospects, the MD&A lets members look at Connect First through the eyes of management. The MD&A compares the 2019 and 2018 audited financial statements of the credit union.

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

ABOUT US

As a Credit Union, we're different than a bank - and we like it that way.

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

We're committed to providing outstanding 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 20 consecutive years

Vision

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

Mission

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

Values

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

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

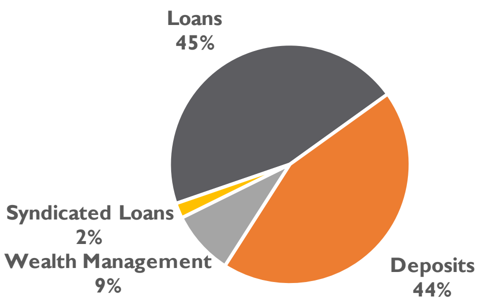
Take Charge:
We succeed when you succeed. We're accountable and take ownership over situations to deliver results.

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

2019 – FINANCIAL HIGHLIGHTS

2019 was a successful year and the credit union achieved solid financial performance and asset growth. The success translated into a 4.0% common share dividend and a 4.5% investment dividend for our 128,000 plus members.

Book of business



$11
billion

766
Employees

Member's equity

$522
million

Performance ratios

0.35%
Return on assets

14.7%
Capital ratio

1.88%
Interest margin

2.9%
Return on equity

Income before taxes

$20
million

Deposits from members

$4.8
billion

Loans to members

$5.0
billion

Dividends paid

$97 million

in dividends paid to our members over the last 10 years

2019 – YEAR IN REVIEW

Throughout 2019, Alberta's economy continued to remain relatively subdued compared to historical norms and other economies in Canada. Despite sluggish economic growth, we continued to support locally based residents and businesses through these challenging times and increased loans to members by 3.0% from the previous year. Seeing a need in Alberta for an affordable solution to high-debt costs, the Credit Union launched a consumer loan campaign to support members and new-members alike in re-financing high-interest debt into a flexible term loan product. Over $17 million in funds were allocated to this campaign which allowed us to support our members' financial well-being and provided an opportunity to increase financial literacy.

2019 was also the first year since 2009 when financial markets signaled stressed economic conditions through the inversion of the yield curve. While global trade developments and the Federal Reserve cutting rates in the United States drove this, it had consequences for markets here in Canada. The yield curve inversion kept short-term deposit rates relatively high, but pushed down longer term lending rates placing additional pressure on financial margin (the difference we earn on loans to members and interest paid on deposits from members). We carefully navigated this challenging interest rate environment and as a result were able to distribute a 4.0% Ownership Share Dividend and 4.5% Investment Share Dividend to our members.

Investing in our members' digital banking experience remained a top priority for the Credit Union. In 2019, we launched Samsung Pay to help members make everyday purchases quicker, more secure and convenient when using a compatible Samsung device. Samsung Pay joins Apple Pay as an additional option for members to make everyday banking that much more efficient. In fiscal 2020 we will be launching Google Pay to round off the available point-of-sale services to members.

Increasing our capacity to help members achieve their financial goals resulted in two new initiatives in the Mountain View Financial region this year. A new state-of-the-art branch was opened this past November in Red Deer to focus on cultivating new relationships for commercial, agricultural and retail members in the city in addition to deepening relationships with our current members in the area. The branch deviates from traditional norms with a multi-functional Automated Banking Machine (ATM) and a technology focused approach to assist members with transitioning to the future of banking. Mountain View Financial was also integrated into Connect First's locally based member contact centre, allowing for member support through extended hours and full integration into the Connect First model.

While 2019 was a busy year dedicated to focusing on increasing the financial flexibility of our members, we also attained 20 years as one of Canada's Best Managed Companies. We are the only credit union in Canada to have achieved this landmark status. In addition, we were named one of Canada's Most Admired Corporate Cultures™ by Waterstone Human Capital. Both of these recognitions demonstrates the unwavering commitment to the employees and our membership.

FINANCIAL PERFORMANCE TO BUDGET

($ Thousands)	2017	2018	2019	2020 Budget
Statement of Financial Position				
Assets	4,505,350	5,695,039	5,787,591	5,903,099
Liabilities	4,126,320	5,209,056	5,265,139	5,354,299
Equity	379,030	484,867	522,452	548,800
Statement of Comprehensive Income				
Financial Margin	89,123	99,234	107,999	108,914
Other income	18,291	21,900	22,844	23,181
Managed Expenses	85,229	92,874	104,873	109,426
Income Before Taxes	18,116	21,992	20,010	22,669
Regulatory Capital & Ratios				
Regulatory Capital	376,683	482,770	516,710	539,303
Capital to Assets	8.4%	8.4%	8.9%	9.1%
Risk Weighted Capital	14.3%	14.5%	14.7%	15.0%
Return on Assets	0.41%	0.43%	0.35%	0.40%
Interest Margin	2.02%	1.95%	1.88%	1.90%

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets

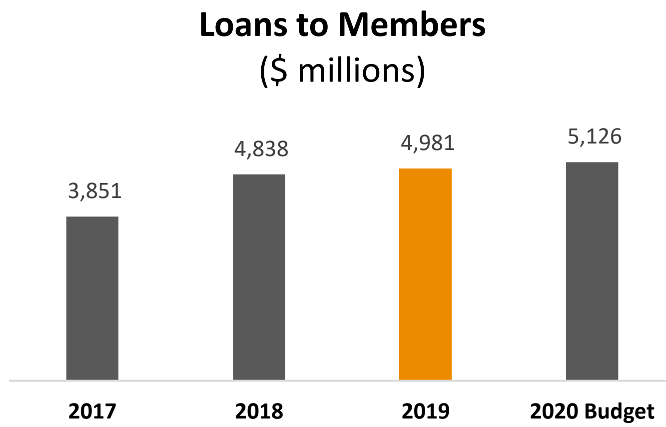
Total assets of the credit union increased $92.6 million (1.63%) over the previous year.

Loans

Total loans to members increased $142.7 million (3.00%) from a year ago.

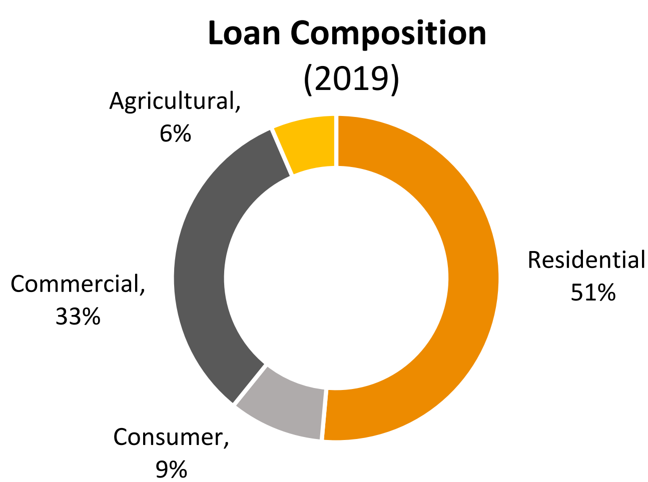
Loans to members is comprised of four categories that reflect the demand for credit within southern Alberta. These categories include:

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



Residential mortgages remain a key focus of the credit union. Surpassing $2.5 billion, traditional residential lending comprises over 50% of the lending portfolio. During 2019, residential mortgages decreased by $24.3 million (0.96%) over the previous year as we focused on increasing organically originated mortgages and letting mortgage pools (loans purchased from other financial institutions) run off. For fiscal 2020, residential mortgages are expected to return to positive growth through a continued focus and development of referral programs with home builders and other partner organizations.

We continued to have strong performance in consumer loans in 2019. During the year, consumer loans increased by $36.3 million (8.22%). Our consumer loan portfolio now comprises 9.0% of our total loan portfolio and is made up primarily of automotive loans and individual member loans such as lines of credits and term loans. Supporting growth was a dedicated consumer loan campaign during the summer months as the credit union identified a need within the membership base for a competitively priced product to reduce the debt strain on members.

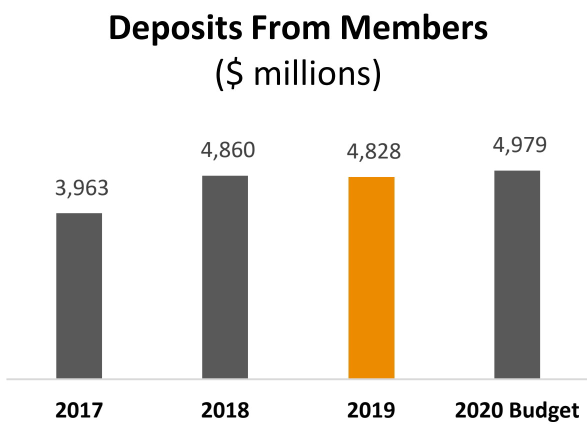


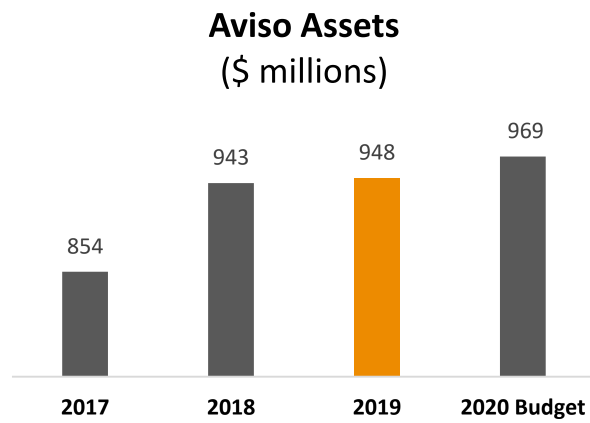
Commercial loan growth during fiscal 2019 was $78.0 million, (5.00%) above one year ago. Commercial loans comprised 33% of the total loan portfolio in 2019, compared to 32% during 2018.

Agricultural loans had significant growth, reaching $346.8 million (19.71% growth) in 2019. Agricultural loans continue to be a strategic focus of ours and comprise 6% of the total loan portfolio.

Deposits

The credit union continues to have a stable deposit base with $2.6 billion (54%) of the deposit portfolio in term deposits. Demand deposits comprise $1.8 billion (37%) of the total deposit portfolio along with $0.4 billion (9%) represented by registered deposits.





Total member deposits were down $31.7 million from one year ago, or 0.70%. The decrease in member deposits was driven by reduced holdings of large institutional term deposits, as we pursued retail member deposit growth. Term deposits, as a result decreased by $62.8 million or 2.40%. Partially offsetting the decrease in term deposits was growth in member demand accounts of $10.9 million (0.60%) and registered deposits by $12.3 million (3.00%). The Credit Union Deposit Guarantee Corporation (CUDGC) guarantees all deposits held with the credit union, including accrued interest.

Off-balance sheet deposits (investments with our wealth management partner Aviso) increased $5.1 million (0.54%).

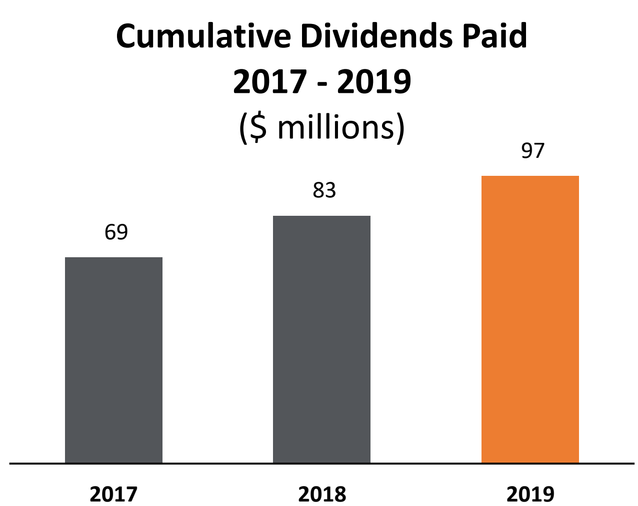
During fiscal 2019, we continued to issue National Housing Act Mortgage-Backed Securities (NHA MBS). Securitizations offer a cost-effective alternative and a source of liquidity in periods of accelerated lending.

Members' Equity

Members' equity increased by $37.6 million (7.75%) in 2019. Member's equity was supported by continued growth in common share purchases and retained earnings growth.

In 2019, we were proud to declare a common share dividend rate of 4.0%, resulting in $7.9 million returned to members. Dividends on investment shares were 4.5% for each investment share series, resulting in a total investment share dividend of $5.4 million.

Over the past ten years, the credit union has paid over $97 million in dividends to our membership.



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Financial Margin

Financial margin represents the difference between the income the credit union earns on loans and the interest paid on member deposits. The low interest rate environment continues to be a tough market to navigate, further compounded this year by the inverted yield curve which kept short term deposit rates high while putting downward pressure on longer term lending rates. As a result of this market dynamic, financial margin as a percentage of average assets declined during 2019 to 1.88% from 1.95% in 2018. On a dollar for dollar basis, financial margin was $108.0 million in 2019 compared to $99.2 million in 2018.

Non-Interest Revenue

Non-interest revenue, which includes banking fees, mutual-fund sales fees, foreign-exchange services and insurance-related services, was $22.8 million in 2019, compared to $21.9 million in 2018.

Managed Expenses

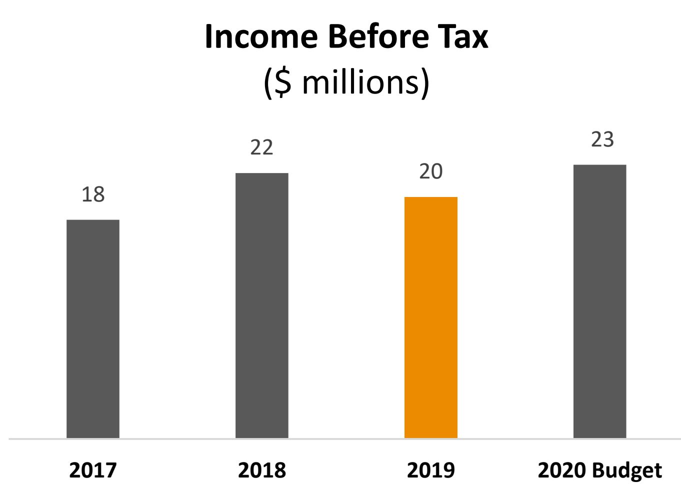
Expense management was a key focus for the organization during the year as we began making the required investments to undergo a banking system conversion. Overall, managed expenses were above the previous year at $104.9 million compared to $92.9 million.

Charges for Loan Impairment

Charges for loan impairment represents the amount the credit union records for loan loss provisions. Total charges for loan impairment was $6.0 million down from $6.3 million in 2018. Our conservative lending practices have minimized the economic impact to our financial position. We continue to work proactively with our members to ensure support is provided during periods of impairment.

Income Before Income Taxes

Income before income taxes was $20.0 million in fiscal 2019, representing an decrease of 9% from fiscal 2018.



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 capital base consists of retained earnings, common shares, and investment shares. Total regulatory capital held by the credit union increased 7.6% during the year, ending at $516.7 million.

The Credit Union Deposit Guarantee Corporation (CUDGC), which regulates Alberta credit unions, mandates regulatory capital targets. The minimum supervisory capital target, expressed as capital as a percentage of risk weighted assets, is 11.5%. The credit union's objectives when managing capital are to maintain the minimum regulatory requirement plus a cushion of 2.0% of risk-weighted assets for a total target of 13.5%, allowing for the impact of operational risk and strategic initiatives. CUDGC guarantees all deposits held with the credit union, including accrued interest. Additionally, the Credit Union Act provides that the Government of Alberta will ensure that the obligation of CUDGC to depositors is met.

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

Through its balanced approach to capital growth, the credit union has a capital to risk-weighted assets ratio of 14.7% (at October 31, 2019). We will continue to strengthen our capital position in 2020, maintaining a solid base for sustainable growth, and ensuring sufficient capital buffer against unexpected negative developments or economic downturn.

ECONOMIC GROWTH

After another lackluster year of economic growth in Alberta through 2019, the upcoming year is expected to bring some relief to the province. Gross Domestic Product (GDP) is forecast to come in below 1.0% for the province in 2019 following what was another challenging year for the energy industry and business investment. Similarly, without widespread growth in the province the unemployment rate remained above historical norms at just under 7.0%. 2020 should bring some economic relief to the province as investments are made to bring more commodity resources to new markets through expanded pipeline infrastructure. These investments will help support job creation throughout western Canada. Furthermore, changes to provincial tax legislation should help support more favourable investment within the province.

Although initial forecasts had shown increases throughout 2019, the Bank of Canada held interest rates flat through what was a turbulent global market that was heavily influenced by challenges in international trade. Despite many other advanced economies adjusting monetary policy, the Bank of Canada refrained from making any changes which would have impacted the prime lending rate. It is anticipated that with the slowing economic activity over the last quarter, the Bank of Canada will likely need to intervene and reduce interest rates as early as Spring 2020 in order to ensure it meets its mandate of keeping inflation low and stable to support economic growth.

BUSINESS MODEL

STRATEGY

In 2019, management and our Board of Directors conducted a thorough review of our strategic direction. Through this process, it became clear that a change in strategy was needed to better compete in our local markets.

Through 2020 and beyond, we will shift our strategic focus to deliver on our new Vision: "to do what's right for every member." While we remain open to future amalgamations, our focus shifts to serving our current markets through a customer experience that fully aligns with our Vision. This experience will empower and enable us to do what's right for our members – standing up for your financial wellness and earning your business through every positive interaction.

Our strategic focus will be on transforming all aspects of our business to fully align with this Vision. It will require investment in our people and culture, as well as new digital and IT platforms, supported by a clear and compelling brand. Over the past five years, our regionally focused model has allowed us to grow from $3.8 billion in assets to over $5.8 billion in 2019. With our recent change to strategy, and as our business environment continues to evolve, we will continue to evolve our business model to meet the needs of our members.

At each step in implementing this strategy, Management has developed clear targets and a rigorous oversight structure to ensure business activity aligns with our long-term vision and is delivering clear value for both our members and communities.

At Connect First, our Mission is to "Make Money Make a Difference," for our employees and for our communities. Our Vision and strategy create a clear path forward for our organization that honours this commitment and represents an investment in the future that will provide sustainable long-term growth for the Credit Union and its members.

COMMUNITY INVESTMENT

Credit unions do more than just banking. From urban to rural, each of our communities face both common and distinct challenges. As a locally owned financial cooperative, we have the unique opportunity to help communities address these challenges through our NeighbourGood community giving program. We're teaching youth about financial literacy. We're choosing to volunteer in our communities. And we support causes unique to the neighbourhoods around our branches. In fact, our commitment to supporting the communities we live and work in contributed to our recognition as one of Canada's Most Admired Corporate Cultures. At Connect First we're Making Money Make a Difference.

LEGISLATIVE AND POLICY DEVELOPMENTS

International Financial Reporting Standards (IFRS)

IFRS 9 *Financial Instruments*

On November 1, 2018, the credit union adopted IFRS 9 which introduced a new classification and measurement approach for financial assets and financial liabilities and a new impairment model for financial assets.

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (“FVOCI”) and fair value through profit and loss ("FVTPL”). There was no material impact on the accounting for the credit union’s financial assets and liabilities.

IFRS 9 replaces the incurred loss model in IAS 39 with a forward-looking expected credit loss (“ECL”) model. Under this new model, an allowance is established and recorded for all financial assets regardless of whether there has been an actual loss event.

The new 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).

The transition to this new impairment model has had the most significant impact to the credit union, requiring $9.1 million in additional credit allowance at transition which was recognized in opening retained earnings on November 1, 2018.

IFRS 16 *Leases*

IFRS 16, issued in January 2016, sets out a new model for lease accounting and replaces the existing guidance in IAS 17 Leases. The new standard introduces a single on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The credit union intends to adopt IFRS 16 in its financial statements for the annual period beginning November 1, 2019. The extent of the impact of adoption of the standard is currently being assessed.

RISK MANAGEMENT

Our credit union has made a strong commitment to managing risk strategically with the objectives of protecting and increasing member value. We use a proactive program of enterprise risk management to enable decision making through the consistent identification of risk inherent in our strategies, activities, assets and operations.

We manage our risk through a combination of strong corporate governance, integrated enterprise risk management programs and by ensuring that our business strategies provide an appropriate return for the risks we take. Risk management processes are embedded within all major functions of our business as a means to identify, assess and proactively manage and monitor our risks. Through these processes, we establish reasonable assurance of achieving our objectives despite uncertainties in the environment in which we operate.

One foundation of our enterprise risk management program is the building of a risk culture, where everyone is an owner of risk, from the Board of Directors to Management to all employees. The ongoing discussion of inherent risks of Connect First will help make decisions to balance both opportunities and risk.

The categories of key risk affecting our credit union are strategic, financial, operational and compliance. 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 polices to effectively manage and monitor risk. Management committees exist for Asset and Liability Management, Credit, Information Technology and Risk Oversight. These committees meet regularly to discuss both inherent and emerging risks and report quarterly to the Board through the Board Risk Committee and Audit and Finance Committee on our risk profile and compliance with risk policies.

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

STRATEGIC RISK

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

FINANCIAL RISK

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

Liquidity Risk

Liquidity risk is the risk that arises from the credit union’s potential inability to meet both expected and unexpected current and future cash flow needs without impacting daily operations or the financial condition of the organization. This includes the risk of having insufficient financial resources to meet the cash and funding requirements and the ability to meet statutory liquidity requirements. The acceptable amount of risk is defined by policies approved by the Board of Directors and monitored by the Audit and Finance Committee and Risk Committee.

We monitor liquidity by managing and forecasting cash flows and evaluating the concentration of assets and liabilities according to approved policies. The Treasury Department manages day-to-day liquidity within these policies and reports monthly to management’s Asset and Liability Management Committee to ensure policy compliance. Management provides quarterly reporting on these matters to the Audit and Finance Committee.

We continue to maintain liquidity levels well above the regulatory minimum. This has allowed us to continue to grow our balance sheet by funding loans and making investments while maintaining a stable core of liquid assets.

Credit Risk

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

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

We report on loan performance on a monthly basis 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. 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.

Our Treasury Department manages day-to-day market risk within approved policies and reports monthly to management's Asset and Liability Management Committee to ensure policy compliance. Management provides quarterly reports on these matters to the Audit and Finance Committee and Risk Committee.

Operational Risk

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

Virtually all aspects of our business and operations use technology and information. The key risks are associated with the operational availability, integrity, confidentiality and security of our information systems and infrastructure. Cybersecurity remains top of mind as our credit union seeks to expand its electronic member service delivery channels. As more members utilize online and mobile channels, the risk of a cybersecurity breach can increase, however, the credit union is continually improving 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.

Management reports to the Audit and Finance Committee and to the Board on a quarterly basis. Internal audit staff attends all Audit and Finance Committee 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.

2019
Financial Report

Making Money Make a Difference

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INDEPENDENT AUDITORS' REPORT

To the Members and the Board of Directors 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, 2019;
- 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, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

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

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

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

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

We also:

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

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

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

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

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

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

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

KPMG LLP

Chartered Professional Accountants
December 10, 2019
Calgary, Canada

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

($ Thousands)	Notes	As at October 31 2019	2018
ASSETS			
Cash and cash equivalents		71,874	66,085
Investments	7	613,127	680,606
Loans to members	8	4,980,596	4,837,881
Foreclosed properties	9	6,738	820
Other assets	10	50,059	51,164
Intangible assets	11	6,349	3,286
Property and equipment	11	58,848	55,197
		5,787,591	**5,695,039**
LIABILITIES			
Members' deposits	12	4,827,908	4,859,638
Accounts payable and accruals		17,392	19,629
Secured borrowings	26	419,115	329,789
Deferred tax liability	18	724	1,116
		5,265,139	**5,210,172**
MEMBERS' EQUITY			
Common shares	15	217,260	177,355
Investment shares	15	121,242	121,941
Ownership dividend allocation	14	7,913	7,944
Investment share dividends declared	15	5,441	6,112
Retained earnings		170,596	171,499
Accumulated other comprehensive income		-	16
		522,452	**484,867**
		5,787,591	**5,695,039**

Commitments (Note 13)

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

On behalf of the Board:

Andrew Eberl
Board Chair

Carey Taubert
Chair, Audit and Finance Committee

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

($ Thousands)	Notes	YEARS ENDED OCTOBER 31 2019	 2018
FINANCIAL INCOME			
Interest on loans to members		182,154	146,860
Investment income	25	12,749	12,973
Unrealized gains/(losses) on interest rate swaps	23	10	(271)
		194,913	159,562
FINANCIAL EXPENSE			
Interest on members' deposits		78,662	56,421
Interest on loans payable		8,252	3,907
		86,914	60,328
Financial margin		**107,999**	**99,234**
Charge for loan impairment	8	5,960	6,268
		102,039	92,966
Other income	16	22,844	21,900
Gross margin		**124,883**	**114,866**
Personnel expenses	20	57,820	50,707
Operating lease expenses		5,833	5,754
Depreciation and amortization		5,270	4,063
Other expenses	17	35,950	32,350
		104,873	**92,874**
Income before income taxes		**20,010**	**21,992**
Income taxes	18		
Current		3,071	6,351
Deferred (recovery)		2,234	(281)
		5,305	**6,070**
Net income and comprehensive income		**14,705**	**15,922**

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

CONSOLIDATED STATEMENT OF MEMBERS' EQUITY

Years ended October 31, 2019 and 2018

($Thousands)	Common shares	Series A-G investment shares	Ownership dividends declared	Investment share dividends declared	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total equity
Balance November 1, 2017	122,306	122,395	5,476	6,103	27,576	93,565	1,609	379,030
Acquisition of Legacy (note 1)	1,343		134		4,997			6,474
Acquisition of Mountain View (note 1)	28,047				39,699			67,746
Transfer of contributed surplus (note 1)					(72,272)	72,272		-
Sale of Qtrade shares							(1,593)	(1,593)
Net income						15,922		15,922
Transactions with members								
Shares issued to members for cash	30,961							30,961
Shares issued by dividend	5,610	6,103	(5,610)	(6,103)				-
2018 dividends declared - investment (note 15)				6,112		(6,112)		-
2018 dividends declared - ownership (note 14)			7,944			(7,944)		-
Income tax recovery, dividends declared						3,796		3,796
Shares redeemed for cash	(10,912)	(6,557)						(17,469)
								-
Balance October 31, 2018	177,355	121,941	7,944	6,112	-	171,499	16	484,867
Transition to IFRS 9 net of tax of $2,447 (note 4)						(6,620)		(6,620)
Transfer to retained earnings						16	(16)	-
Net and comprehensive income						14,705		14,705
Transactions with members								
Shares issued to members for cash	47,558							47,558
Shares issued by dividend	7,944	6,112	(7,944)	(6,112)				-
2019 dividends declared - investment (note 15)				5,441		(5,441)		-
2019 dividends declared - ownership (note 14)			7,913			(7,169)		744
Income tax recovery, dividends declared						3,606		3,606
Shares redeemed for cash	(15,597)	(6,811)						(22,408)
Balance October 31, 2019	217,260	121,242	7,913	5,441	-	170,596	-	522,452

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

CONSOLIDATED STATEMENT OF CASH FLOW

	YEARS ENDED OCTOBER 31	
($ Thousands)	**2019**	**2018**
Cash flows from operating activities		
Net Income	14,705	15,922
Adjustments for:		
Interest on loans to members	(182,154)	(146,860)
Interest/dividends on investments	(12,749)	(11,225)
Interest expense	86,914	60,328
Unrealized gain/(loss) on interest rate swaps	(10)	271
Depreciation and amortization	5,270	4,063
Charge for loan impairment	6,376	6,604
Current/deferred income tax expense	5,305	6,070
Change in other assets	839	(1,241)
Change in accounts payable	1,613	(2,119)
Interest received	193,668	151,257
Interest paid	(78,942)	(53,008)
Income tax (paid) received	(6,081)	(4,435)
Current tax recovery on dividends	3,606	3,796
Increase (decrease) in members' deposits	(39,702)	105,186
(Increase) in loans to members, net of repayments	(164,206)	(287,902)
Proceeds from sale of foreclosed property	1,353	2,363
Net cash (used in) operating activities	**(164,195)**	**(150,930)**
Cash flows from financing activities		
Common shares issued for cash	47,558	30,961
Common share redemptions	(15,597)	(10,913)
Investment share redemptions	(6,811)	(6,557)
Advances of secured borrowing	136,996	198,523
Repayment of secured borrowing	(47,670)	(24,185)
Net cash from financing activities	**114,476**	**187,829**
Cash flows used in investing activities		
Cash acquired on amalgamation	-	4,616
Acquisition of investments	(1,106,113)	(1,626,628)
Proceeds from sale of investments	1,173,605	1,630,447
Proceeds from sale of land and buildings	-	6,500
Acquisition of property and equipment, net	(7,827)	(4,616)
Acquisition of intangibles, net	(4,157)	(788)
Net cash provided by investing activities	**55,508**	**9,531**
Increase in cash and cash equivalents	5,789	46,430
Cash and cash equivalents, beginning of year	66,085	19,655
Cash and cash equivalents, end of year	**71,874**	**66,085**

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, 2019 with comparative figures for the year ended October 31, 2018.

($ Thousands)

Connect First Credit Union Ltd. ("Connect First" or the "Credit Union") operates a network of credit union branches in the City of Calgary and central and southern Alberta. The registered office is located at 200, 2850 Sunridge Blvd., Calgary, Alberta, T1Y 6G2.

These consolidated financial statements include the accounts of the Credit Union and its wholly-owned subsidiaries. The subsidiary 1549081 Alberta Ltd. holds title to certain foreclosed property. 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 and the addition of an equal amount as an asset due from subsidiary, in the amount of $5,622. 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 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 December 10, 2019.

1. BUSINESS COMBINATIONS

(a) Mountain View Credit Union Ltd.

On August 1, 2018, the Credit Union amalgamated with Mountain View Credit Union Ltd. ("Mountain View"). Pursuant to the terms of the amalgamation, all members of Mountain View exchanged their common shares for shares of Connect First on a one for one basis. The business combination was accounted for using the acquisition method, with the Credit Union acquiring 100% of the net assets of Mountain View. The financial statements of the Credit Union for the year ended October 31, 2018 reflected the business combination as of August 1, 2018, using preliminary fair values for property and equipment. During the subsequent measurement period, the estimated fair value of branch premises acquired was finalized, resulting in an increase of $4,659 to property and equipment, $1,116 to deferred tax liability and $3,543 to contributed surplus. In addition, financial assets in the amount of $17,248 and $16,646 at August 1, 2018 and October 31, 2018, respectively, have been retrospectively reclassified from member loans receivable to investments to appropriately reflect the nature of the assets. These adjustments have been reflected in the following table and in the statement of financial position at October 31, 2018 in accordance with IFRS 3 Business Combinations.

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

Cash and cash equivalents	2,967
Investments	113,547
Member loans receivable	647,705
Other assets	1,381
Foreclosed property	526
Held for sale assets	560
Property and equipment	24,155
Intangible assets	162
Total assets acquired	791,003
Accounts payable	2,941
Deferred tax liability	1,116
Secured borrowings	6,252
Member deposits	712,948
Total liabilities assumed	723,257
Net assets acquired	67,746

The par value of equity shares issued to former members of Mountain View was $28,047. 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 in the amount of $39,699, which has been transferred to retained earnings.

(b) Legacy Savings and Credit Union Ltd.

On November 1, 2017, the Credit Union amalgamated with Legacy Savings and Credit Union Ltd. (“Legacy”). Pursuant to the terms of the amalgamation, all members of Legacy exchanged their common shares for shares of Connect First on a one for one basis.

The par value of equity shares issued to former members of Legacy was $1,477. 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 in the amount of $4,997. This amount was subsequently transferred out of contributed surplus into retained earnings.

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 (prior to November 1, 2018, investments classified as available for sale), foreclosed property held for sale at fair value less costs to sell, and all derivative financial instruments, which are classified and measured at fair value through profit and loss.

c) Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is also the Credit Union's functional currency. Except as otherwise indicated, financial information has been rounded to the nearest thousand.

d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the statement of financial position date and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of estimates include the measurement of the allowance for loan impairment, the estimate of fair value of foreclosed property, the estimate of fair value of financial instruments measured at fair value, and the estimated fair values of property and equipment acquired through business combinations. 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. Estimates and judgments related to the allowance for loan impairment and the classification of financial assets have been revised following the adoption of IFRS 9 Financial Instruments, effective November 1, 2018. These are further described in Note 4.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, with the exception of IFRS 9 Financial Instruments ("IFRS 9") and IFRS 15 Revenue from Contracts with Customers ("IFRS 15"), as described in Note 4.

(a) Financial Instruments

Effective November 1, 2018, Connect First has adopted IFRS 9, which replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). The impact of the transition to IFRS 9 and the updated accounting policies are described in Note 4.

The following policies apply to financial instruments prior to November 1, 2018:

Investments

Investments which the Credit Union both intends and has the ability to hold to maturity are classified as held-to-maturity and are carried at amortized cost. Intent and ability to hold to maturity are not considered to be satisfied if an investment is available to be sold in response to changes in interest rates, prepayment rates, or other reasons as part of the overall asset/liability management strategy. All statutory liquidity investments and certain other debt securities are classified as held to maturity.

Investments that the Credit Union may not hold until maturity, including non-statutory deposits and investments in equity securities, are classified as available for sale and carried at fair value. Unrealized gains and losses, after applicable taxes, are reported in other comprehensive income. Investments in equity securities are carried at cost if they do not trade on an active market and the price cannot be reliably measured. Shares held in Credit Union Central of Alberta Limited ("Alberta Central") are not traded on an active market and are reported at cost.

Accounts receivable and lease residual

Accounts receivable and lease residuals are included in other assets and are categorized as loans and receivables that are initially measured at fair value. Accounts receivable consists mainly of funds that are owed to the Credit Union for loan pool transactions and the lease residuals represent the value of the vehicles at the end of their lease that are guaranteed to the Credit Union. Subsequent to initial recognition, accounts receivable and lease residuals are measured at amortized cost.

Loans to members

Loans to members are financial instruments categorized as loans and receivables that are initially measured at fair value net of fees earned plus direct costs incurred in connection with lending activities. Loans to members are subsequently reported at amortized cost, using the effective interest rate method.

The Credit Union derecognizes loans when it transfers the loans and substantially all the risks and rewards of ownership of those assets. The difference between the carrying amount of the asset and the consideration received is recognized in net income for the period. The Credit Union generally retains an obligation to service the transferred loans for a fee. To the extent that the fee is intended only to compensate the Credit Union for the cost of servicing the loan portfolio transferred, no servicing asset or liability is recognized.

Identification and measurement of impairment

The Credit Union regularly assesses whether there is objective evidence that a financial asset is impaired. Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by the borrower, restructuring of a loan or advance by the Credit Union on terms that the Credit Union would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group, or when principal or interest is contractually past due 90 days.

Connect First considers the evidence of impairment at both a specific and collective level. All individually significant loans are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

In assessing collective impairment, the Credit Union groups loans with similar risk characteristics, and uses statistical modelling of historical loss experience, adjusted for management’s judgement as to whether current economic and credit conditions are such that the actual losses incurred are likely to be greater or less than suggested by historical modelling. Estimates are regularly benchmarked against actual outcomes to ensure they remain appropriate.

Impairment losses are measured as the difference between the carrying amount of the loan and the present value of estimated future cash flows discounted at the original effective interest rate. When management cannot determine this amount, it bases its estimate on the present value of the loan’s security, net of expected selling costs. Impairment losses are reported net of recoveries.

Interest continues to be recognized on impaired loans through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease is reversed through net income.

When a loan has been subjected to an individually assessed provision and it is determined that there is no likelihood of recovery, the loan is written off against the related allowance.

Impairment losses on available-for-sale investments are recognized by transferring the cumulative loss that has been recognized in other comprehensive income to net income.

Throughout the year, unauthorized overdrafts in members' accounts, outstanding for at least 90 days and considered to be uncollectible, are written off.

Renegotiated loans

Where possible, the Credit Union seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Members' deposits and loans payable

Members' deposits and loans payable are initially classified as other financial liabilities and measured at fair value including all transaction costs directly attributable to the issuance of the instrument. Members' deposits and loans payable are subsequently measured at amortized cost, using the effective interest rate method.

Derivative contracts

The Credit Union periodically enters into derivative financial instruments to manage its exposure to interest rate risks. Derivatives are initially recognized at fair value at the date the contracts are entered into and are subsequently re-measured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in net income for the period. Negative fair values are included in accounts payable and positive fair values are included in other assets in the statement of financial position.

(b) Cash and cash equivalents

Cash and cash equivalents includes highly liquid financial assets with original maturities of three months or less.

(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

On November 1, 2018, Connect First adopted IFRS 15, which replaced the revenue recognition guidance in IAS 18, Revenue. The new standard provides a single, principles based five step model to be applied to all contracts with members, based on the transfer of control of goods and services to members. As such, Connect First has amended its accounting policies for revenue recognition, as detailed in Note 4.

Revenues outside the scope of IFRS 15 include interest income, investment income and gains/(losses) on interest rate swaps.

Interest income on loans to members

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

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

Investment income

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

Gains (losses) on interest rate swaps

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

(m) Defined contribution pension plan

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

(n) Lease payments

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

(o) Consolidated financial statements

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

4. CHANGES IN ACCOUNTING POLICIES

IFRS 9 *Financial Instruments*

The Credit Union has adopted IFRS 9 with a date of initial application of November 1, 2018. As permitted under IFRS 9, the Credit Union has elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and financial liabilities at the date of transition were recognized in opening retained earnings on November 1, 2018. Accordingly, the comparative financial information presented for 2018 does not reflect the requirements of IFRS 9.

The key changes to the Credit Union's accounting policies resulting from its adoption of IFRS 9 are summarized below:

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.

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.

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. All other financial assets are classified as measured at FVTPL.

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.

For financial assets classified as 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.

Business model assessment

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

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

Contractual cash flow characteristics assessment

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

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

Reclassification of financial assets

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

Derecognition of financial assets and liabilities

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

B. Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an expected credit loss ("ECL") model. The new impairment model applies to amortized cost financial assets, debt investments at FVOCI, off-balance sheet loan commitments, and financial guarantee contracts.

The new 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
- Housing price index
- Banker’s acceptance rate

Credit-impaired and restructured financial assets

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

Presentation of impairment

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

Write-off

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

C. Transition impact from adopting IFRS 9

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- the determination of the business model in which a financial asset is held;
- the designation and revocation of previous designations of certain financial assets and financial liabilities at FVTPL; and
- the designation of certain equity instruments not held for trading at FVOCI.

Classification of financial instruments on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Credit Union's financial assets and liabilities as at November 1, 2018:

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets				
Cash and cash equivalents	Loans and receivables	Amortized cost	66,085	66,085
Investments - term deposits and other debt securities	Held-to-maturity	Amortized cost	52,075	51,800
Alberta Central term deposits:				
- Non-statutory term deposits	Available for sale	FVOCI	182,786	182,786
- Statutory term deposits	Held to maturity	Amortized cost	391,826	391,826
Alberta Central common shares	Available for sale	FVOCI	53,919	53,919
Other assets:				
- Accounts receivable and lease residual	Loans and receivables	Amortized cost	30,739	30,739
- Other	Loans and receivables	Amortized cost	68	68
- Fair value of swaps	FVTPL	FVTPL	230	230
Loans to members	Loans and receivables	Amortized cost	4,837,881	4,829,089
Financial liabilities				
Accounts payable and accruals	Other financial liabilities	Amortized cost	19,629	19,629
Member deposits	Other financial liabilities	Amortized cost	4,859,638	4,859,638
Secured borrowings	Other financial liabilities	Amortized cost	329,789	329,789

Reconciliation of closing allowance under IAS 39 to the opening ECL allowance under IFRS 9

	IAS 39 Impairment Allowance October 31, 2018	Transition Adjustment	IFRS 9 Expected Credit Loss November 1, 2018	Stage 1	Stage 2	Stage 3
Loans to members	11,663	8,792	20,455	5,286	6,452	8,717
Investments	-	275	275	252	8	15
	11,663	9,067	20,730	5,538	6,460	8,732

IFRS 15 *Revenue from Contracts with Customers*

The Credit Union has adopted IFRS 15 with a date of initial application of November 1, 2018. In accordance with IFRS 15, the Credit Union has applied the standard using the cumulative retrospective method, with the cumulative effect of initially applying the standard recognized as an adjustment to opening retained earnings as at November 1, 2018. Accordingly, the comparative financial information presented for 2018 does not reflect the requirements of IFRS 15. Connect First has assessed the impact of IFRS 15 and has determined that the standard has no significant effect. Therefore, no adjustment to retained earnings has been made.

Under IFRS 15, revenue (other than interest income, investment income, and foreign exchange gains and losses) is recognized when Connect First satisfies a performance obligation by transferring the promised good or service to the member and the member obtains control of the good or service. The recognition of revenue can either be over time or at a point in time depending on when the performance obligation is satisfied.

Revenues under the scope of IFRS 15 are described below:

Service charges

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

Insurance commissions

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

Credit card fees

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

Wealth management

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

Other

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

5. FUTURE ACCOUNTING CHANGES

IFRS 16 *Leases*

IFRS 16, issued in January 2016, sets out a new model for lease accounting and replaces the existing guidance in IAS 17 *Leases.* The new standard introduces a single on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Credit Union intends to adopt IFRS 16 in its financial statements for the annual period beginning November 1, 2019. The Credit Union will recognize new assets and liabilities for its operating leases of premises, as described in Note 13 (a). The extent of the impact of adoption of the standard has not yet been determined.

6. CAPITAL MANAGEMENT

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

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, 2019, the Credit Union's regulatory capital is 14.74% (2018 – 14.53%) of risk-weighted assets.

7. INVESTMENTS

	2019	2018
	(IFRS 9)	(IAS 39)
Investments - term deposits and other debt securities	33,992	52,075
Alberta Central term deposits		
- Non-statutory term deposits	114,217	182,786
- Statutory term deposits	406,494	391,826
Alberta Central common shares	58,424	53,919
	613,127	680,606

As at October 31, 2019 under IFRS 9, Investments – term deposits and other debt securities and Statutory term deposits are classified as amortized cost. The Non-statutory term deposits and Alberta Central common shares are classified at FVOCI.

As at October 31, 2018 under IAS 39, Investments – term deposits and other debt securities and Statutory term deposits were classified as held to maturity and measured at amortized cost. The Non-statutory term deposits and Alberta Central common shares were classified as available for sale investments and carried at fair value.

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 24 (c).

8. LOANS TO MEMBERS

Stage 1 represents performing loans with a 12-month expected credit loss, Stage 2 represents performing loans with a lifetime expected credit loss, and Stage 3 represents impaired loans with a lifetime expected credit loss.

Loans to members comprise as follows:

	2019 (IFRS 9)	2018 (IAS 39)
Performing loans	4,938,364	4,775,960
Non performing loans	45,210	60,433
Accrued interest	14,314	13,151
Allowance for impairment	(17,292)	(11,663)
Total	4,980,596	4,837,881

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

Allowance for expected credit losses consists of the following:

Residential mortgages	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at November 1, 2018	873	545	57	1,475
Remeasurements of loss allowance:				
Net remeasurement due to stage transfers	(2)	170	160	328
Remeasurement of loss allowance other than stage transfers	(2)	2	209	209
Derecognitions and maturities	(107)	(39)	(17)	(163)
Loan originations	163	86	70	319
Total remeasurement of loss allowance	52	219	422	693
Write offs	-	-	(104)	(104)
As at October 31, 2019	925	764	375	2,064

Consumer loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at November 1, 2018	3,243	1,451	1,371	6,065
Remeasurements of loss allowance:				
Net remeasurement due to stage transfers	(46)	371	588	913
Remeasurement of loss allowance other than stage transfers	492	298	1,662	2,452
Derecognitions and maturities	(419)	(164)	(564)	(1,147)
Loan originations	1,135	196	130	1,461
Total remeasurement of loss allowance	1,162	701	1,816	3,679
Write offs	(742)	(496)	(2,166)	(3,404)
As at October 31, 2019	3,663	1,656	1,021	6,340

Commercial and agriculture loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at November 1, 2018	1,170	4,456	7,289	12,915
Remeasurements of loss allowance:				
Net remeasurement due to stage transfers	71	(1,320)	950	(299)
Remeasurement of loss allowance other than stage transfers	91	(498)	3,580	3,173
Derecognitions and maturities	(127)	(1,408)	(1,630)	(3,165)
Loan originations	391	1	217	609
Total remeasurement of loss allowance	426	(3,225)	3,117	318
Transfer to foreclosed property	-	-	(2,600)	(2,600)
Write offs	(40)	(12)	(1,693)	(1,745)
As at October 31, 2019	1,556	1,219	6,113	8,888

Total at November 1, 2018	5,286	6,452	8,717	20,455
Total at October 31, 2019	6,144	3,639	7,509	17,292

The total allowance for expected credit losses is reconciled as follows:

Opening allowance for impairment		11,663
IFRS transition adjustment		8,792
Restated November 1, 2018 allowance for expected credit losses		20,455
Charge for loan impairment:		
Net remeasurement due to stage transfers	942	
Remeasurement of loss allowance other than stage transfers	5,834	
Derecognitions and maturities	(4,475)	
Loan originations	2,389	4,690
Transfer to foreclosed property		(2,600)
Write-offs		(5,253)
Allowance for expected credit losses, October 31, 2019		17,292

The charge for loan impairment on the statement of comprehensive income is reconciled as follows:

Charge for loan impairment as above	4,690
Charge for loan impairment on foreclosed property at October 31, 2019 (note 9)	1,468
Charge for impairment on investments	34
Recoveries	(232)
Total charge for loan impairment	5,960

The below table presents the gross loan portfolio and allowance for credit losses under IAS 39. Under IFRS 9, commercial mortgages, commercial loans, agricultural loans and agricultural mortgages are included in the "Commercial and Agriculture" category, and consumer loans are included in the "Consumer loans" category.

2018	Gross Portfolio	Specific Allowance	Collective Allowance	Net Loans	Non Performing Loans
Residential Mortgages	2,536,881	20	619	2,536,242	7,838
Consumer Loans	442,167	640	1,546	439,981	760
Commercial Mortgages	1,303,483	4,850	2,354	1,296,279	46,499
Commercial Loans	264,158	1,091	543	262,524	4,837
Agricultural Loans	48,885	-	-	48,885	-
Agricultural Mortgages	240,819	-	-	240,819	499
Total	4,836,393	6,601	5,062	4,824,730	60,433

The following table shows the key economic variables that were used to determine expected credit losses at October 31, 2019:

	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 %	1.52	1.92	2.81	4.03	0.54	0.92
3 month Government of Canada Bond Rate %	1.25	1.65	2.55	3.78	0.25	0.63
Alberta housing price index % change	1.66	1.65	4.50	2.37	- 2.55	0.15
Alberta unemployment rate %	6.40	6.00	4.11	3.75	8.61	8.24

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

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

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

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

2018	On Demand	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 Years & Over	Total
Residential Mortgages							
- Insured	1,717	221,733	232,009	156,304	147,063	120,921	879,746
- Conventional	328,088	375,583	334,966	255,839	201,491	153,329	1,649,297
Consumer Loans	62,076	98,367	77,491	60,718	44,566	98,189	441,407
Commercial Mortgages	93,570	347,910	241,454	195,452	179,022	199,576	1,256,984
Commercial Loans	195,115	22,423	13,070	9,580	6,951	12,182	259,321
Agricultural Loans	45,260	894	759	985	461	526	48,885
Agricultural Mortgages	54,757	54,367	41,479	31,635	24,571	33,511	240,320
Total	780,583	1,121,277	941,228	710,513	604,125	618,234	4,775,960

9. FORECLOSED PROPERTY

During the year ended October 31, 2019, a commercial loan secured by real estate was moved into foreclosure and as of October 31, 2019 is being managed by the Credit Union. Upon foreclosure, the recorded value of the loan of $7.1 million (net of expected credit loss provision of $2.6 million) was transferred to foreclosed properties on the statement of financial position. At October 31, 2019, the foreclosed property is classified as assets held for sale, and is measured at its fair value less costs to sell of $5.7 million, resulting in an additional charge for loan impairment recorded of $1.4 million subsequent to foreclosure. The remaining foreclosed property balance of approximately $1 million relates to various residential properties that have been foreclosed on in the process or realizing on the Credit Union’s security.

10. OTHER ASSETS

	2019	2018
Accounts receivable	10,159	15,544
Lease residual	10,400	15,195
Prepaid expenses and deposits	20,358	20,127
Fair value of swaps (Note 23)	186	230
Income tax receivable	8,933	-
Other	23	68
	50,059	51,164

11. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

	Land	Buildings	Furniture & equipment	Computer equipment	Leasehold improvements	Total	Intangible assets
COST							
Balance at November 1, 2018	7,606	36,482	13,911	4,138	14,169	76,306	14,398
Acquisitions	-	738	3,825	936	2,365	7,864	4,158
Disposals	-	-			(66)	(66)	-
Balance at October 31, 2019	7,606	37,220	17,736	5,074	16,468	84,104	18,556

	Land	Buildings	Furniture & equipment	Computer equipment	Leasehold improvements	Total	Intangible assets
DEPRECIATION AND AMORTIZATION							
Balance at November 1, 2018	-	(3,546)	(7,418)	(2,513)	(7,632)	(21,109)	(11,112)
Depreciation and amortization for the year	-	(1,676)	(1,430)	(516)	(668)	(4,290)	(1,095)
Disposals	-				143	143	-
Balance at October 31, 2019	-	(5,222)	(8,848)	(3,029)	(8,157)	(25,256)	(12,207)
NET BOOK VALUE							
October 31, 2018	7,606	32,936	6,493	1,625	6,537	55,197	3,286
October 31, 2019	7,606	31,998	8,888	2,045	8,311	58,848	6,349

*Intangible assets acquisitions for 2019 include $1,144 of internal costs and $3,014 of external costs.

12. MEMBERS' DEPOSITS

	2019	2018
Demand Deposits	1,810,713	1,799,861
Registered Savings Plans	416,796	405,077
Term Deposits	2,562,471	2,625,303
Registered Education Savings Plans	5,674	5,115
	4,795,654	4,835,356
Accrued Interest	32,254	24,282
Total	4,827,908	4,859,638

Maturities are as follows:

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

2018	On Demand	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 Years & Over	Total
Demand Deposits	1,799,861	-	-	-	-	-	1,799,861
Registered Savings Plans	103,326	127,556	83,695	41,110	23,253	26,137	405,077
Term Deposits	447,793	1,658,090	292,033	114,461	50,313	62,613	2,625,303
Registered Education Savings Plans	-	5,115	-	-	-	-	5,115
	2,350,980	1,790,761	375,728	155,571	73,566	88,750	4,835,356

13. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Commitments

Non-cancellable operating lease rentals are payable as follows:

	2019	2018
Less than one year	4,884	3,468
Between one and five years	15,178	12,901
More than five years	5,589	2,382

The Credit Union leases a number of premises under operating leases. The leases typically range from one to ten years, with a five-year option to renew beyond the current term.

Future commitments with respect to banking platforms and technology are $10,500.

(b) 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.

	2019
Letters of credit	11,227
Commitments to extend credit with a term to maturity of one year or less	730,711

(c) 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.

14. OWNERSHIP DIVIDENDS

The Board of Directors has declared an ownership dividend to be paid in fiscal 2020 in respect of fiscal 2019 to members by way of an issuance of common shares in the amount of $7,913 (2018 - $7,944). The ownership dividend allocated to members is based on member common share holdings.

15. SHARE CAPITAL

($ thousands, except per share amounts)

(a) Common Shares
Common shares have the following characteristics:

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

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

In October 2019, the Board of Directors approved a 4.5% dividend to holders of record of Series A, B, C, D, E, F and G Investment Shares for the year ended October 31, 2019 in the aggregate amount of $5,441 (2018 – $6,112). The payment will be made in November 2019 through the issuance of additional Series A, B, C, D, E, F and G Investment Shares, respectively.

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

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

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

16. OTHER INCOME

	2019	2018
Service charges and other fees	8,265	6,897
Foreign exchange gain/loss	1,590	1,216
Loan prepayment and other fees	2,074	2,638
Insurance	1,903	1,376
Credit card fees	705	1,865
Wealth management	6,656	5,685
Other	1,651	2,223
	22,844	21,900

17. OTHER EXPENSES

	2019	2018
Advertising	2,682	2,871
Technology	9,954	8,660
Member security and deposit insurance premium	5,327	4,598
Professional fees	1,389	1,324
Stationary, telephone, postage, courier	2,044	1,772
Financial planning	329	540
ATM/POS operations	1,823	1,483
Board expenses	733	710
Lending costs	1,162	989
Charitable donations/community investment	592	584
Occupancy	3,872	2,959
Amalgamation expenses (Note 1)	-	506
Other	6,043	5,354
	35,950	32,350

18. PROVISION FOR INCOME TAXES

The components of tax expense for the years ended October 31, 2019 and 2018 are as follows:

	2019	2018
Current tax expense:		
Current period	3,071	6,351
Deferred tax expense:		
Origination and reversal of temporary differences	2,234	(281)
Total income tax expense	**5,305**	**6,070**

Reconciliation of effective tax rate

	2019	2018
Income before tax	20,010	21,992
Income tax using the Credit Union's combined federal and provincial statutory Canadian tax rate of 27.00% (2018 - 27.00%)	5,403	5,938
Effect of tax rate changes and other	(139)	93
Non-deductible expenses	41	39
Total income tax expense	**5,305**	**6,070**

Recognized deferred tax assets and liabilities

	Property and Equipment	**Provisions**	**Other Assets**	**Totals**
As at November 1, 2018	(3,127)	2,001	10	(1,116)
Credit/(Charged) to the statement of income	(1,308)	(905)	(21)	(2,234)
Acquisition and other	178	2,448	-	2,626
As at October 31, 2019	**(4,257)**	**3,544**	**(11)**	**(724)**

19. 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:	**2019**	2018
Key management personnel and entities controlled by key management personnel	23,460	24,844

Outstanding deposits from:	**2019**	2018
Key management personnel and entities controlled by key management personnel	6,590	6,129

All loans to key management personnel are current as of October 31, 2019.

Compensation of key management personnel ($)

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

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

* Included in the annual remuneration is a one time contractual amount of $593,754 paid to the departed Chief Operating Officer related to the business combination with Mountain View (Note 1).

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

2018	Annual Remuneration	Performance Incentive	Total Benefits	2018 Total
Chief Executive Officer	390,000	172,154	164,938	727,092
Chief Financial Officer	210,041	71,617	71,021	352,679
Chief Strategy and Innovation Officer	218,077	75,686	74,994	368,757
Chief Technology Officer	195,962	65,251	69,626	330,839
President, First Calgary Financial	210,041	71,617	72,366	354,024
President, Chinook Financial *	191,154	54,088	34,951	280,193

*The President, Chinook Financial was previously the Chief Credit and Risk Officer until August 1, 2018.

Subsequent to the business combination with Mountain View (Note 1), the following executives were added and reflect compensation from August 1 to October 31, 2018:

Chief People and Culture Officer	34,869	-	4,764	39,633
Chief Credit and Risk Officer	36,162	-	4,490	40,652
Chief Operating Officer	64,615	-	22,149	86,764
President, Mountain View Financial	41,654	-	5,423	47,077

The performance incentives shown above represent 2017 bonus amounts that were subsequently paid in 2018.

Paid to directors ($):

	2019	2018
Directors' fees and committee remuneration	478,302	480,199
Directors' expenses	59,388	39,221

Compensation to directors ranged from $24,800 (2018 - $9,190) to $62,775 (2018 - $72,410) with an average of $31,887 (2018- $25,274). 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.

20. PERSONNEL EXPENSES

	2019	2018
Salaries and wages	44,753	37,474
Short term benefits	9,673	10,039
Long term benefits	2,647	2,329
Termination benefits	747	865
	57,820	50,707

21. 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.

2019

($ Thousands)	Average Rate	Variable & Within 3 Months	3 Months to 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	Over 4 Years	Non-Interest Sensitive	Total
October 31, 2019									
ASSETS									
Cash	0.23%	67,106	-	-	-	-	-	4,768	71,874
Investments	1.79%	421,621	108,818	976	5,000	-	75,082	1,630	613,127
Loans to Members	3.83%	1,038,574	996,033	887,553	805,733	687,741	527,179	37,783	4,980,596
Other	0.00%	-	-	-	-	-	-	121,994	121,994
	3.49%	**1,527,301**	**1,104,851**	**888,529**	**810,733**	**687,741**	**602,261**	**166,175**	**5,787,591**
LIABILITIES and EQUITY									
Deposits	1.71%	2,393,621	1,422,884	346,137	162,927	91,146	115,165	296,028	4,827,908
Other	2.25%	4,022	36,363	71,962	117,779	115,794	73,194	540,569	959,683
	1.80%	**2,397,643**	**1,459,247**	**418,099**	**280,706**	**206,940**	**188,359**	**836,597**	**5,787,591**
BALANCE SHEET MISMATCH		(870,342)	(354,396)	470,430	530,027	480,801	413,902	(670,422)	-
Derivatives		(10,000)	10,000		-	-	-	-	-
NET MISMATCH		(880,342)	(344,396)	470,430	530,027	480,801	413,902	(670,422)	-

2018

($ 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, 2018									
ASSETS									
Cash	0.17%	29,563	-	-	-	-	-	36,522	66,085
Investments	1.76%	661,952	7,675	1,100	976	5,000	2,033	1,870	680,606
Loans to Members	3.75%	1,104,603	791,252	944,557	713,842	607,454	621,564	54,609	4,837,881
Other	0.00%	-	-	-	-	-	-	110,467	110,467
	3.40%	**1,796,118**	**798,927**	**945,657**	**714,818**	**612,454**	**623,597**	**203,468**	**5,695,039**
LIABILITIES and EQUITY									
Deposits	1.60%	2,600,059	1,276,676	375,728	155,571	73,567	88,750	289,287	4,859,638
Other	2.30%	-	-	-	-	-	-	835,401	835,401
	1.70%	**2,600,059**	**1,276,676**	**375,728**	**155,571**	**73,567**	**88,750**	**1,124,688**	**5,695,039**
BALANCE SHEET MISMATCH		(803,941)	(477,749)	569,929	559,248	538,887	534,847	(921,220)	-
Derivatives		(40,000)	30,000	10,000	-	-	-	-	-
NET MISMATCH		(843,941)	(447,749)	579,929	559,248	538,887	534,847	(921,220)	-

22. 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, 2019, the following facilities were in place:

(a) A revolving line of credit authorized to a maximum amount of $113,808 including a US dollar component equivalent to CAD $13,775 that is repayable on demand and bears interest at prime less one-half of one percent per annum.

(b) A revolving term loan with an authorized limit of $341,423 that is repayable in equal monthly installments over the term of the loan at the Prime Rate in effect less 1%. The Credit Union may fix the interest rate for the term, or the remainder of the term if it is less than 30 days, at the rate of CDOR plus 0.75% for terms of 30 days to 1 year and at the SWAP rate plus 0.75% for 1 year to 2 years.

As at October 31, 2019, the credit facilities are undrawn.

The total guaranteed commitment level for the above facilities at October 31, 2019 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.

23. 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, 2019, there were no transfers between levels of the hierarchy for any financial assets and liabilities.

2019

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

2018

	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Assets					
Investments - held to maturity	-	427,255		427,255	443,901
Investments - available for sale	-	236,705		236,705	236,705
Loans	-	4,758,116		4,758,116	4,837,881
Total	-	5,422,076	-	5,422,076	5,518,487
Liabilities					
Deposits	-	4,824,930	-	4,824,930	4,859,638
Secured borrowings	-	328,416	-	328,416	329,789
Total	-	5,153,346	-	5,153,346	5,189,427

Derivative Financial Instruments

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

2019

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

2018

	Notional Amount	Positive Fair Value
Interest Rate Swaps	45,000	230

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 10). During the year ended October 31, 2019, outstanding interest rate swaps resulted in realized gains of $64 (2018 - $287) and unrealized gains of $10 (2018 – loss of $271). Realized gains are included in interest on loans to members in the statement of comprehensive income. The maturity dates of the interest rate swaps vary from January 2020 to August 2020 (2018 – October 2019 to August 2020).

24. 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 8. Credit risk is also present in interest rate swaps, cash and investments held for liquidity purposes. The Credit Union monitors counterparty published credit ratings to mitigate risks with respect to these assets.

The impaired retail loans disclosed below are included in Stage 3 of the expected credit loss model, as disclosed in Note 8. 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 8.

Credit Quality

2019	Stage 1	Stage 2	Stage 3	Total
Commercial mortgages and loans				
1 to 5 - satisfactory risk	1,923,997	2,523	2,191	1,928,712
6 to 7 - unimpaired	4,296	36,741	9,541	50,578
8 to 9 - impaired	-	-	23,385	23,385
Allowance for credit losses	(1,556)	(1,219)	(6,113)	(8,888)
Carrying amount	**1,926,737**	**38,045**	**29,004**	**1,993,786**

	Consumer loans	Residential mortgages	Total
Retail mortgages and loans			
Satisfactory risk	477,994	2,507,127	2,985,121
Impaired retail loans	1,669	8,424	10,094
Allowance for impaired loans	(6,340)	(2,064)	(8,404)
Carrying amount	**473,323**	**2,513,487**	**2,986,810**

2018	Consumer loans	Residential mortgages	Commercial and agricultural mortgages and loans	Total
Grades				
1 to 5 - satisfactory risk			1,725,390	1,725,390
6-7 unimpaired			97,209	97,209
8-9 impaired			44,023	44,023
Commercial and agricultural mortgages and loans			1,866,622	**1,866,622**
Retail mortgages and loans	442,446	2,531,878		2,974,324
Impaired retail loans	760	7,838		8,598
Allowance for impaired loans	(2,287)	(538)	(8,838)	(11,663)
	440,919	**2,539,178**	**1,857,784**	**4,837,881**

Credit grades are formally applied to commercial mortgages and loans and comply with provincial regulations. Residential mortgages and consumer loans are assessed for impairment on an ongoing basis.

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

	2019	2018
Commercial:		
Real estate, rental & leasing	967,535	902,899
Construction	105,005	95,337
Accommodation & food services	155,014	178,069
Health care & social assistance	94,675	88,403
Retail trade	75,469	70,063
Finance & insurance	10,861	15,619
Other	237,078	217,251
	1,645,637	1,567,641
Retail:		
Mortgages	2,512,561	2,536,881
Dealer loans & leases	296,870	262,147
Unsecured lending	44,842	37,437
Secured lending	136,862	142,583
	2,991,135	2,979,048
Agriculture:		
Mortgages	329,956	240,819
Loans	16,846	48,885
	346,802	289,704
	4,983,574	**4,836,393**

Credit Risk Management

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

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

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

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

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.

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

c) Liquidity Risk

Liquidity risk is the risk of having insufficient financial resources to meet the Credit Union's cash and funding requirements, statutory liquidity requirements, or both.

The desired liquidity level above the statutory requirement is determined by taking into account the balance between the cost of liquidity and the yield achieved. The Credit Union will at all times maintain statutory liquidity levels as required by regulations. Immediate corrective action will be taken if the ratio approaches the regulatory minimum. The Act requires that statutory liquidity deposits be held with Alberta Central. Statutory liquidity includes eligible deposits and shares of Central. The statutory liquidity ratio is 9.0% of average deposits and borrowings for the second prior month. Based on average deposits and borrowings for August 2019 the Credit Union's liquidity as at October 31, 2019 exceeds minimum requirements by $1,002 (2018 - $78).

25. INVESTMENT INCOME

	2019	2018
Interest on statutory investments	7,620	5,072
Dividends on statutory investments	2,131	3,140
Interest on other investments	2,998	2,442
Gain on available for sale - other investments	-	2,319
	12,749	12,973

26. 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, 2019 is $419,115 (2018 - $329,789). 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, 2019, of the associated residential mortgages as at October 31, 2019 is $417,756 (2018 - $326,806). 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, 2019	As at October 31, 2018
CMB	December 1, 2019 to September 1, 2022	1.5733% to 2.6291%	48,037	60,031
NHA MBS	June 1, 2020 to August 1, 2024	1.5805% to 3.3447%	371,078	269,758
Total			419,115	329,789