Member Financial Package.

MD&A and F2021 Financial Statements

connectFirst
credit union

2021 Managements Discussion & Analysis

connectFirst
credit union

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NOTE REGARDING FORWARD LOOKING INFORMATION

This financial report contains forward-looking statements about the operations, objectives and expected financial performance of Connect First Credit Union Ltd. (connectFirst or the credit union). These statements are subject to risk and uncertainty. Actual results may differ depending on 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, 2021. The MD&A is an integral part of the annual report and should be read in conjunction with the consolidated financial statements.

Like the financial statements, the MD&A allows us to demonstrate our accountability to members for effective stewardship of resources and for meeting strategic objectives. The financial statements reflect what happened, while the MD&A explains why these changes occurred.

By providing a balanced discussion of operational results, financial condition, and future prospects, the MD&A lets members look at connectFirst through the eyes of management. The MD&A compares the 2021 and 2020 audited financial statements of the credit union.

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

ABOUT US

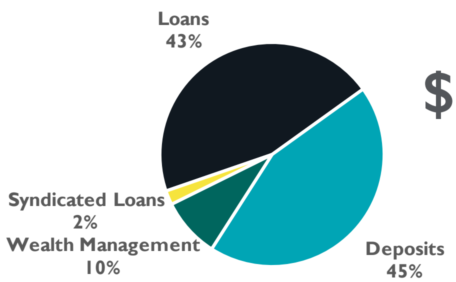
As a credit union, we're different than a bank - and we like it that way

At connectFirst, we spend our days helping our members achieve their financial aspirations through our newly launched local brand – 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.

2021 – FINANCIAL HIGHLIGHTS

2021 was a strong and successful year with record loan growth and earnings despite the continued low interest margins. The credit union achieved profitable financial performance above that experienced prior to the pandemic and experienced continued asset growth as we expanded our membership base. The success translated into a 3.0% common share dividend and a 3.5% investment share dividend for our 124,000 plus members.

Book of business



$12.3
billion

Asset growth

$332 million or 5.6% reaching $6.3 billion

750
Employees

Member's equity

$585
million

Income before taxes

$25.2
million

Deposits from members

$5.3
billion

↑ $357
million

Loans to members

$5.5
billion

↑ $459
million

Dividends paid

$105 million

in dividends paid to our members over the last 10 years

2021 – YEAR IN REVIEW

2021 has been a year with its ups and downs. As the COVID-19 pandemic continued into 2021 we shared the challenging times but at the same time we shared the positive changes and experiences together as Albertans. We support each others' local businesses. We watched the price of oil rise and fall, and rise again, together. We push each others' cars out of snowbanks. Through good times and bad, helping Albertans is our purpose, our history, our DNA. We're a true credit union, born out of the collective legacies of four others that came before: First Calgary Financial, Chinook Financial, Mountain View Financial, and Legacy Financial. As of November 1, 2021, we also welcomed SPARK the Energy Credit Union to our connectFirst family.

The pandemic accelerated our members' desire to interact with our employees in an increasingly digital way. In 2021 we launched an entirely new online digital experience, supported by the alignment of our back-end processes to create the foundation for a world-class member experience. We set the stage to create a remarkable experience that does what's right for every member – and for all Albertans.

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

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

FINANCIAL PERFORMANCE

($ Thousands)	**2021**	**2020**	**2019**	**2022 Budget**
Statement of Financial Position				
Assets	6,286,489	5,954,170	5,787,141	6,688,197
Liabilities	5,701,244	5,427,421	5,265,139	6,056,918
Equity	585,245	526,749	522,002	631,279
Statement of Comprehensive Income				
Financial Margin	126,647	101,853	107,999	135,718
Other income	23,522	21,932	22,844	23,612
Managed Expenses	119,338	102,978	104,873	129,018
Provisions	5,664	16,938	5,960	6,300
Income Before Taxes	25,167	3,869	20,010	24,012
Regulatory Capital & Ratios				
Regulatory Capital	580,747	521,975	516,710	605,807
Capital to Assets	9.2%	8.8%	8.9%	9.1%
Risk Weighted Capital	14.2%	14.3%	14.7%	13.6%
Return on Assets	0.41%	0.07%	0.35%	0.37%
Interest Margin	2.07%	1.73%	1.88%	2.11%

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets

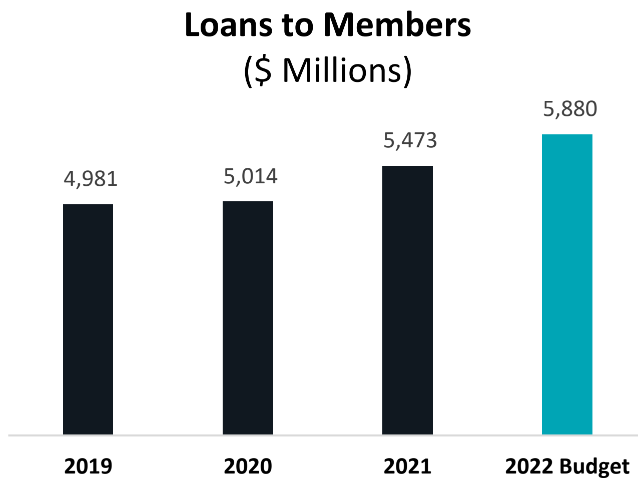
Total assets of the credit union increased $332.3 million (5.58%) over the previous year.

Loans

Total loans to members increased $459.0 million (9.15%) from a year ago, showing growth in all service areas, with exceptional growth in Commercial and Agriculture.

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

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



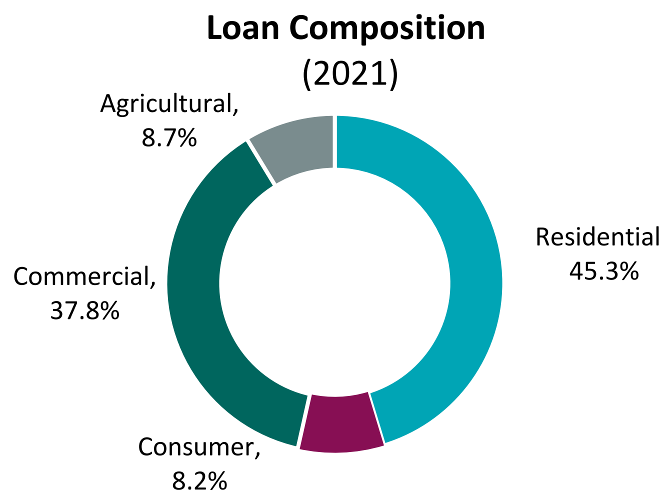
A key priority for the credit union is supporting our memberships goals of achieving home ownership. COVID-19 has had a significant impact on the competitive environment for these lower-risk assets as financial institutions manage increased deposits and excess liquidity generated from government program support for consumers. We continue to be competitive in the marketplace and remain committed to growing this area of our portfolio. Surpassing $2.48 billion, traditional residential lending comprises over 45% of the lending portfolio. During 2021, residential mortgages increased by $44.0 million (1.81%) over the previous year. This growth was fueled by a rebound of Alberta housing sales of 36.3% growth as reported through MLS in December 2021 compared to the same time in 2020. While this growth was higher in some markets that connectFirst does not operate, it is a positive trend for all Albertans. For fiscal 2022, residential mortgage growth is expected to continue to grow as the credit union continues to enhance the member experience and capitalizing on stronger economic growth compared to 2021.

We continued to remain competitive for our members with consumer loans in 2021. With the softening of some travel restrictions and the increased demand for recreational and consumer purchases we saw an increase in loans as consumer behavior aligned with government programs to stimulate economic recovery. Consumer loans increased by $19.4 million (4.52%) as our members took advantage of restrictions lifted, resuming travel and increased spending. At year-end, our consumer loan portfolio comprises 8.2% of our total loan portfolio, consistent with historical trends. This is made up primarily of automotive loans and individual member loans such as lines of credits and term loans.

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

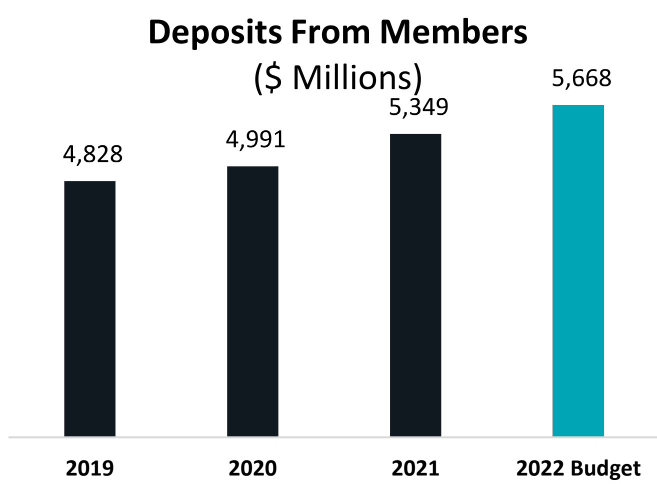
Commercial loan growth during fiscal 2021 was a remarkable $294.3 million, 16.59% above one year ago. We continued to support our members and businesses in the community by offering competitive rates and advice to manage through the pandemic. Overall, commercial loans comprised 37.8% of the total loan portfolio in 2021, compared to 35% during 2020.

Agricultural loans had another significant growth year, reaching $476.7 million (27.0% growth) in 2021. Agricultural loans and supporting our rural communities continue to be a strategic focus of ours and comprise 8.7% of the total loan portfolio.

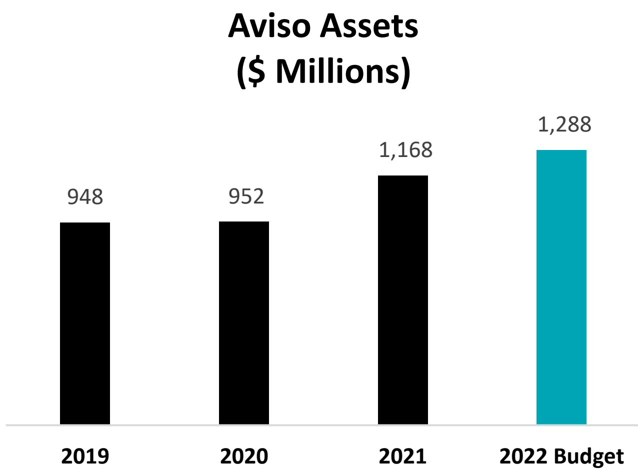


Deposits

The credit union saw an increase in demand deposits to $2.6 billion (48.5%) of the total deposit portfolio. Whereas term deposits decreased slightly to $2.4 billion making up (44.1%) of the deposit portfolio. Registered deposits made up $399 million (7.5%). This is in line with the trend seen in most financial institutions with funds being converted to demand deposits and continued savings occurring for many members as they continue to hedge against the pandemic uncertainty.



Total member deposits were up $357 million from one year ago, or 7.16%. The increase in member deposits continued to be partially driven by retail members who have reduced spending habits under COVID-19 restrictions, coupled with access to government support programs that have allowed for members to set aside funds for times of need. Term deposits decreased by $112.2 million, or 4.6% and registered deposits by $24.7 million (5.9%). With ready access to funds being a priority for members, demand accounts increased by $509.0 million (24.5%). The Credit Union Deposit Guarantee Corporation (CUDGC) guarantees all deposits held with the credit union, including accrued interest. Additionally, the Credit Union Act provides that the Government of Alberta will ensure that the obligation of CUDGC to depositors is met



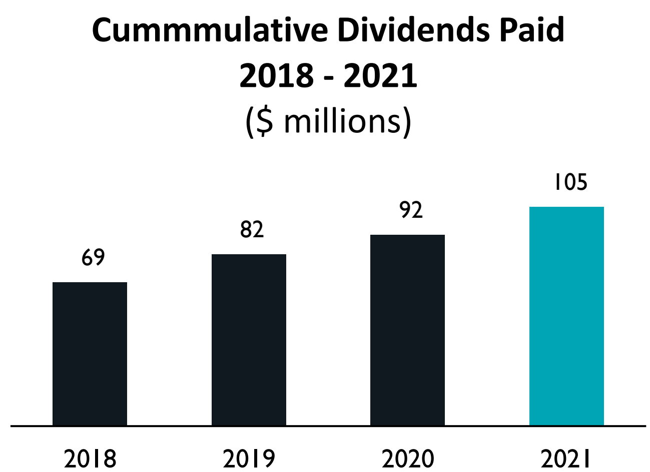
Off-balance sheet deposits (investments with our wealth management partner Aviso) increased by $216.0 million (22.7%) as we onboarded new wealth clients, with an increased number of our members taking advantage of our expertise in this area. Values in wealth portfolios for members rose as markets continued to recover and members confidence in investing increased.

Members' Equity

Members' equity increased by $58.5 million (11.1%) in 2021. Member's equity was supported by continued growth in common and investment share purchases and retained earnings growth through solid earnings for the year.

We also issued our latest series of investment shares during fiscal 2021. Series H was fully subscribed with 40 million shares purchased by the membership with a guaranteed first year dividend of 3.50%.

In 2021, we were proud to declare a common share dividend rate of 3.0%, resulting in $7.1 million returned to members. Dividends on investment shares were 3.5% for each investment share series, resulting in a total investment share dividend of $4.5 million.



Over the past ten years, the credit union has paid over $105 million in dividends to our membership.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Financial Margin

The financial margin represents the difference between the income the credit union earns on loans and the interest paid on member deposits. The decrease in Bank of Canada rates in March 2020 of 150 basis points contributed to a significant drop in interest earned on variable rate loans. This drop in 2020 and the continued low interest rate environment throughout 2021 with no changes in Bank of Canada rates continue to be a tough market for all financial institutions, further compounded by the continued growth in member deposits. However, as some deposits repriced at market rates during 2021, and members chose to keep many deposits in demand accounts net interest margin as a percentage of average assets increased during 2021 to 2.07% from 1.73% in 2020. On a dollar-for-dollar basis, financial margin was $126.6 million in 2021 compared to $101.9 million in 2020.

Non-Interest Revenue

Non-interest revenue, which includes banking fees, mutual-fund sales fees, foreign-exchange transactions, and insurance-related services, was $23.5 million in 2021, compared to $21.9 million in 2020. The increase can be attributed to loan prepayment fees as members paid down large sums of the loans or refinanced at lower rates; this is offset by a reduction of in-branch service charges as members shifted towards online banking to complete day-to-day transactions.

Managed Expenses

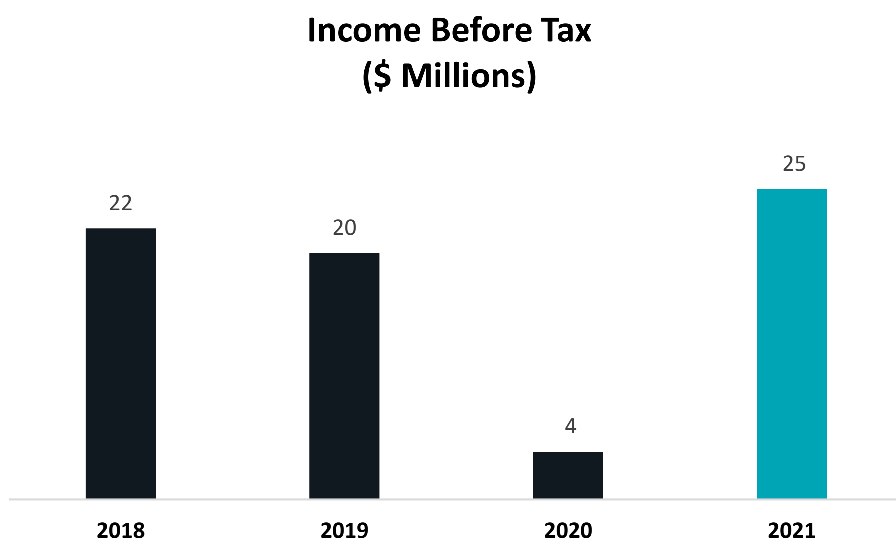
Expenses increased due to strategic decisions to invest in advertising, technology, and our employees. A significant investment was made in a state-of-the-art technology system, designed to streamline processes and create efficiency. Advertising increased as part of our re-branding initiative to incorporate and unify our four legacy brands: First Calgary Financial, Chinook Financial, Mountain View Financial, and Legacy Financial. We also focussed on integrating our newest addition to the family, SPARK the Energy Credit Union in the lead up to November 1, 2021. Part of this unification process was the banking conversion that took place in November 2020 to consolidated four legacy systems into one banking system as well as the restructuring of our organization as a whole to ensure a seamless member experience. Our Board and travel expenses continued to be low as we balanced the need to meet in person with ever changing provincial restrictions and guidelines. Overall managed expenses increased in the current year to $119.3 million compared to $103.0 million.

Charges for Loan Impairment

Charges for loan impairment represents the amount the credit union records for loan loss provisions. The economic climate within Alberta, both in relation to COVID-19 and oil and gas, significantly impacts our members. We must balance managing risk for our large membership base with supporting our members. Given the trend towards economic recovery in 2021 and increased confidence in the market, many members were able to manage their cash flows to make regular payments and reduce deferral requests, resulting in a significant decrease in our loan write-downs and allowances. Total charges for loan impairment, net of recoveries was $5.7 million down from $16.9 million in 2020. Our historical conservative lending practices have minimized the economic impact to our financial position long term.

Income Before Income Taxes

Despite the low interest rate environment, we have seen outstanding growth and highest earnings we have ever recorded in our history. Throughout 2021 our team worked to create a state-of-the art digital banking solution and offering a full-service banking experience to our members. Income before income taxes was $25.2 million in fiscal 2021. There are many factors that influence the length of economic recovery that will drive income; however, we are confident that we are well positioned into 2022.



CAPITAL MANAGEMENT

Our credit union is committed to maintaining a strong and stable capital position that meets the requirements of members and regulators while supporting the credit union's vision of growth. Our diversified total capital base consists of retained earnings, common shares, and investment shares and reached $585 million in fiscal 2021.

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.

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

Through its balanced approach to capital growth, the credit union has a capital to risk-weighted assets ratio of 14.15% (at October 31, 2021). We will continue to strengthen our capital position in 2022, maintaining a solid base for sustainable growth, and ensuring sufficient capital buffer against unexpected negative developments or further economic downturn.

ECONOMIC GROWTH

Alberta's current economic landscape has seen a tremendous downturn caused by the COVID-19 pandemic in addition to continued challenges for the energy industry and business investment seen in previous years. Due to COVID-19, the banking industry has seen a record low-interest environment caused by the retraction of Gross Domestic Product (GDP), which closer to home in Alberta finished the year at a negative 7.9% in 2020.

The Bank of Canada's rate decisions in March 2020 had a profound impact on all financial institutions. This was a proactive measure taken in light of the negative shocks to Canada's economy arising from the COVID-19 pandemic and the sharp drop in oil prices. On January 26, 2022, while the Bank of Canada held its rates, sentiments indicate that the policy rate is likely to rise in the future, curbing the higher than anticipated growth in inflation that was achieved in 2021. There may be light at the end of the tunnel for the prolonged low-rate environment and revenue recovery potential for financial institutions.

As it relates to Alberta, GDP is forecasted to recover at 5.1% in 2022 following the economic factors mentioned, even after a strong rebound of 6.1% in 2021. The unemployment rate is expected to gradually decline from its high of 11.4% recorded in 2020 to approximately 8.8% in 2021 and forecast of 7.1% in 2022 which shows the optimism on economic recovery. Loan deferral programs have helped members deal with job losses and business shutdowns in 2020, however, in a majority of cases the re-payment obligations have resumed. As at year-end the deferral program had ended. Current conditions and forecasts are indicative of a slow recovery. After the initial downturn in 2020 due to the onset of the pandemic; there has been a sharp recovery and steady improvements while seeing setback due to multiple waves of COVID-19 and imposed restrictions.

COVID-19 Response

The Canadian economy continues to see significant disruption and market volatility related to the ongoing global COVID-19 pandemic. With the highly transmissible Omicron variant emerging in late 2021, governments imposed additional restrictions trying to reduce transmission and protect the healthcare system from being overwhelmed. The overall impact of the pandemic continues to be uncertain and is dependent on actions taken by Canadian governments, businesses, and individuals to limit the spread of COVID-19, as well as fiscal and monetary response and support efforts. The COVID-19 pandemic continues to evolve and the economic environment in which the credit union operates, continues to be subject to sustained volatility, which could continue to negatively impact the credit union's financial results, as the duration of the COVID-19 pandemic and the effectiveness of steps undertaken by governments and central banks in response to the COVID-19 pandemic remains uncertain. While the strong economic rebound in 2021 and higher than budgeted inflation signals that interest rate increases from the Bank of Canada may be coming, which would have a positive impact on operational results for the credit union, the full extent of the impact that COVID-19, including government and/or regulatory responses to the outbreak, will have on our results is highly uncertain and difficult to predict at this time. Accordingly, there is a higher level of uncertainty with respect to management's judgments and estimates. We have detailed policies and internal controls that are intended to ensure that these judgments and estimates are well controlled and independently reviewed, and that policies are consistently applied from period to period.

connectFirst is here to Help

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

We are proud to say that we worked closely with our members during the pandemic as they were faced with layoffs or business closures. We offered relief options to help members manage through challenges of the COVID-19 pandemic through payment deferrals, interest-only payments, skipped payments, and extended amortization.

Commencing in 2020 until the program ended, connectFirst offered relief to business members through the Canada Emergency Business Account Program (CEBA) with funding provided by the Government of Canada and Export Development Canada (EDC). Under the original CEBA Program, eligible businesses received a $60,000 interest-free loan until December 31, 2022. If $40,000 is repaid on or before December 31, 2022, the remaining amount of the loan is eligible for complete forgiveness. However, on January 12, 2022, the government extended the repayment deadline for these loans to qualify for partial loan forgiveness to December 31, 2023, giving businesses more time to recover. The credit union has provided approximately 1,873 members with CEBA loans and had funded approximately $96 million in loans under the program as of October 31, 2021

BUSINESS MODEL

Strategy

Having embarked on a new Strategic Direction in 2019, we began an aggressive two-year journey to transform our credit union. Fiscal 2021 was a particularly transformative year for connectFirst and saw the completion of our most important steps in this journey. As we worked to *Come* Together, we completed the conversion of and upgrade to our internal banking system and related systems and launched our new brand. This new aligned technology platform and unified culture has brought us together in a way we haven't been before – and sets the stage for our continued and sustained growth in the years ahead.

In pursuit of our visions *To Do What's Right for Every Member*, our Strategic Direction outlines three key pillars to guide connectFirst in the coming years as we look to build a credit union fit for the 21st century: DIFFERENTIATE, EXPAND, and TRANSFORM.

These pillars reinforce our commitment to building a remarkable member experience that resonates with our members and in our local communities, and allows us to be sustainable and relevant into the future. Looking forward, our focus will be growth through differentiation; ensuring we create a truly unique and remarkable experience to lay the foundation for connectFirst's continued success in years to come.

DIFFERENTIATE
Grow today by building a differentiated member experience

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

TRANSFORM
Innovate in preparation for tomorrow's disruptive business models

As we continue our focus on growth, we are committed to delivering a remarkable member experience. One where we take time to connect with our members, understand their needs, and feel pride in the role we play in creating a more prosperous Alberta. At connectFirst, we are on a mission to make money make a difference. We have a relentless focus on connecting with you – our members – to understand your needs, stand up for your financial wellness, and earn your business through every positive interaction.

COMMUNITY INVESTMENT

Although 2021 saw several exciting transformations across our business, one thing that remained the same was our commitment to our member experience and to the pressing needs in our communities.

Some highlights of our community investment from fiscal 2021 include:

- 112 employees volunteered 802 total hours in their communities
- $539,559 invested in over 100 local organizations

Through these funds and our volunteer time, connectFirst continued to invest in long-term community partnerships and established new relationships including:

- Enabling citizens to come together safely by directly supporting over 25 different outdoor events during the summer months – totalling over $30,000 invested in the urban and rural communities of our members.

- Contributing $60,000 to the YMCA Calgary's YMAP program to deliver financial literacy and skill building sessions to 300 new Canadian youth.

- Investing $22,000 in our Learn and Earn Scholarship Program to help grade 12 students enroll in a 10-month matched savings program that helps money skills and career planning.

- Becoming the presenting sponsor of the Ag for Life Home Grown Series with an investment of $42,000. The partnership was able to spotlight stories of local Alberta farmers, food producers and artisans, highlighting the importance of agriculture and food production to every aspect of life.

- Making a $50,000 contribution to Local Investing YYC, a cooperative investment hub that raises funds for local businesses.

- Highlighting the significant role small businesses provide to the community by investing $63,000 to support the Chamber of Commerce Small Business Week and Made in Alberta Awards.

- Investing $65,000 with our charitable partner, Momentum, to support local community economic development initiatives, including the Be Local business network.

ACCOUNTING POLICY DEVELOPMENTS

Significant accounting estimates, assumptions and judgements

The global COVID-19 pandemic and its related economic impacts have resulted in heightened measurement uncertainty, primarily related to the estimates, assumptions and judgements used in the measurement of the allowance for loan impairment and the estimate of the fair value of foreclosed property. For the year ended October 31, 2021, we included all information available to the date of the financial statements in the estimates. The overall impact of the pandemic continues to be uncertain and is dependent on actions taken by Canadian governments, businesses and individuals to limit spread of the COVID-19 virus, as well as government economic response and support efforts. The credit union has applied judgment, including consideration of these factors in the assessment of any underlying credit deterioration, and considered both qualitative and quantitative information.

The judgments related to whether there is a significant increase in Credit risk (SICR) result in loans moving between stages and, therefore, being subject to different measurement. With respect to delinquencies, the judgements used related to SICR remain consistent with those in the prior year.

Standards issued but not yet effective

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

RISK MANAGEMENT

Our credit union has always made a strong commitment to managing risk strategically with the objectives of protecting and increasing member value. We use a proactive program of enterprise risk management to enable decision making through the consistent identification of risk inherent in our strategies, activities, assets, and operations while taking into consideration the heightened risk impacts of COVID-19.

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

One foundation of our enterprise risk management program is the building of a risk awareness, where everyone is an owner of risk, from the Board of Directors to Management to all employees. The ongoing discussion of the inherent risks of connectFirst allows us to navigate through market disruptions such as the COVID-19 pandemic in a continued effort to balance both opportunities and risk.

Risk Governance

connectFirst has adopted the lines of defence model to support the foundation of risk management and provide a consistent, transparent, and clearly documented allocation of accountabilities and segregation of functional responsibilities. Our first line, which consists of operational management, is responsible to identify and manage risks. Our second line responsibilities include independent challenge, independent assessment, coordination, risk monitoring, as well as providing risk management advice. Our third line of defense is internal audit which evaluates both preventative and detective controls and provides an independent review of key risk areas within our credit union. The Board Risk Committee has ultimate oversight and approves the Risk Management Policy. Regulators and external auditors provide additional assurance by providing oversight on behalf of external stakeholders and setting risk management and control standards and requirements for the industry.

All roles working together collectively contribute to the creation and protection of value when they are aligned with each other and with the prioritized interests of stakeholders. Alignment of activities is achieved through communication, cooperation, and collaboration. This ensures the reliability, coherence, and transparency of information needed for risk-based decision making.

Key Risks

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

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

Strategic Risk

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

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

Financial Risk

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

Liquidity Risk

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

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

We continue to maintain liquidity levels well above the regulatory minimum. This has allowed us to continue to grow our balance sheet by funding loans and making investments while maintaining a stable core of liquid assets and provide a well-established contingency liquidity plan to access if required through the COVID-19 situation. Liquidity has not been a challenge as members consider deposits in connectFirst to be a safe alternative for funds until they need them. Our deposit guarantee provides peace of mind during this volatile time. We continue to offer competitive deposit rates to members while being cognizant of net interest margin. We continue to watch the impacts of Bank of Canada decisions, along with other market disruptions to predict how our members will manage their deposits and loans. We have seen reduced usage of loans and lines of credits, however, want to ensure that members can access funding sources as or when needed.

Credit Risk

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

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

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

Overall monitoring and processes have changed and will continue to change due to COVID-19. We have enhanced our credit risk management with COVID-19 due to the significant impact of government changes such as the closure of non-essential businesses, employee layoffs, and mandated measures that have significantly impacted the economy. While there have been improvements since the roll out of vaccinations, the impact of several waves this past year resulted in further curtailment of economic activity, which could result in higher credit loss exposure in future periods. While payment deferrals were granted and government relief programs accessed by many members, the conclusion of these programs and support could lead to further challenges and negatively impact the market value of underlying collateral securing member loans.

We have been working with our members to resume normal payments and have seen limited requests for new or extended deferrals and therefore have concluded the COVID-19 related deferral program effective October 31, 2021. Our loan portfolio remains diversified among industries, and our strong underwriting standards and conservative loan-to-value ratios help manage the increased risk during this time. We continue to work with our members during this difficult time while maintaining our credit risk management practices.

Market Risk

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

We manage market risk by developing and implementing asset and liability management policies, with day-to-day market risks managed by our Treasury department. These policies define acceptable market risk limits caused by changes in the volume, mix, maturity and quality, and interest and exchange rate sensitivity of assets and liabilities. Reports are prepared monthly by Treasury for the Asset and Liability Management Committee to ensure policy compliance, and quarterly reporting on these matters is provided to the Audit and Finance Committee and Risk Committee.

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

Operational Risk

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

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

We have successfully implemented a state-of-the-art digital banking system that created a full-service and streamlined solution for our members. As more members utilize online and mobile channels, the risk of a cybersecurity breach can increase; however, the credit union has taken additional measures to improve its technology security infrastructure to mitigate these risks as best as possible. Our IT team is focused primarily on ensuring uninterrupted service of our banking platform and remote access for our teams while we continue to work from home for the safety of our employees. These risks are actively managed through enterprise-wide technology risk assessment and information security management programs using industry best practices.

With regards to operational risk, management reports to the Risk Committee, the Audit and Finance Committee and to the Board on a quarterly basis. Internal audit staff attends all Risk, and Audit and Finance Committee meetings to report on their activities and findings related to operational risk and management's representations and responses to the enterprise-wide risk management program and overall control environment.

Compliance (Regulatory) Risk

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

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

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

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

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

Competition Risk

Similarly, competition risk is the potential for actions of a competitor to negatively impact our business. Examples of competitive risks are pricing, innovation, locations, resources, promotions, and campaigns. These risks are all considered in the assessment of strategic risk in terms of planning and innovation.

OUTLOOK

2021 was an exceptional year for connectFirst. Our balance sheet grew at a record pace, leading to the most profitable year in our organization's history. We invested heavily in our member experience by consolidating our banking systems, launching a state-of-the-art online banking platform, and uniting our local brands under the connectFirst beacon. Our pledge to re-define banking for Albertans and do what is right for every member drives us to be different than any other financial institution. And over the last ten years, we have returned over $105 million to our members through our ownership and investment share dividends. As we look to the upcoming year, we are focused and driven by our desire to continue to create new opportunities for our members, support our local businesses and reinvest in our communities.

2021 Financial Report

connectFirst
credit union

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INDEPENDENT AUDITORS' REPORT

To the Members of Connect First Credit Union Ltd.

Opinion

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

- the consolidated statement of financial position as at October 31, 2021;
- 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, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

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

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going

concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.
Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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

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

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

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

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

KPMG LLP

Chartered Professional Accountants

December 14, 2021
Calgary, Canada

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

($ Thousands)	Notes	As at October 31 2021	2020
ASSETS			
Cash and cash equivalents		53,171	72,785
Investments	6	632,524	725,313
Loans to members	7	5,473,345	5,014,343
Foreclosed properties	8	3,457	5,413
Other assets	9	36,693	41,529
Intangible assets	10	13,198	13,625
Property and equipment	10	53,234	55,171
Right of use assets	26	19,156	21,142
Deferred tax asset	17	1,711	4,849
		6,286,489	**5,954,170**
LIABILITIES			
Members' deposits	11	5,348,931	4,991,483
Accounts payable and accruals		31,936	17,615
Lease liabilities	26	28,272	30,500
Secured borrowings	25	292,105	387,823
		5,701,244	**5,427,421**
MEMBERS' EQUITY			
Common shares	14	246,524	238,477
Investment shares	14	157,688	120,123
Ownership dividend allocation	13	7,137	4,999
Investment share dividends declared	14	4,497	4,192
Retained earnings		169,399	158,958
		585,245	**526,749**
		6,286,489	**5,954,170**

Commitments (Note 12)

Subsequent Event (Note 27)

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

On behalf of the Board:

Andrew Eberl
Board Chair

Carey Taubert
Chair, Audit Committee

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

($ Thousands)	Notes	YEARS ENDED OCTOBER 31 2021	2020
FINANCIAL INCOME			
Interest on loans to members		175,616	176,752
Investment income	24	3,661	7,039
Unrealized gains/(losses) on interest rate swaps	22	540	-
		179,817	183,791
FINANCIAL EXPENSE			
Interest on members' deposits		43,076	69,987
Interest on loans payable		8,832	10,720
Interest on lease liability		1,262	1,231
		53,170	81,938
Financial margin		**126,647**	**101,853**
Charge for loan impairment	7	5,664	16,938
		120,983	84,915
Other income	15	23,522	21,932
Gross margin		**144,505**	**106,847**
Personnel expenses	19	66,857	58,835
Operating lease expenses		2,472	2,032
Depreciation and amortization	10 & 26	8,228	7,804
Other expenses	16	41,781	34,307
		119,338	**102,978**
Income before income taxes		**25,167**	**3,869**
Income taxes	17		
Current		2,629	2,908
Deferred (recovery)		3,135	(984)
		5,764	**1,924**
Net income and comprehensive income		**19,403**	**1,945**

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

CONSOLIDATED STATEMENT OF MEMBERS' EQUITY

Years ended October 31, 2021 and 2020

($Thousands)	Common shares	Series A-H investment shares	Ownership dividends declared	Investment share dividends declared	Retained earnings	Total equity
Balance November 1, 2019	217,260	121,242	7,913	5,441	170,146	522,002
Transition to IFRS 16 net of tax of $2,142 (note 26)					(6,415)	(6,415)
Net and comprehensive income					1,945	1,945
Tax recovery, prior period adjustment					195	195
Transactions with members						
Shares issued to members for cash	34,258					34,258
Shares issued by dividend	7,913	5,441	(7,913)	(5,441)	26	26
2020 dividends declared - investment (note 14)				4,192	(4,192)	-
2020 dividends declared - ownership (note 13)			4,999		(4,999)	-
Deferred income tax recovery, dividends declared					2,252	2,252
Shares redeemed for cash	(20,954)	(6,560)				(27,514)
Balance October 31, 2020	238,477	120,123	4,999	4,192	158,958	526,749
Net and comprehensive income					19,403	19,403
Transactions with members						
Shares issued to members for cash	30,992	40,000				70,992
Shares issued by dividend	4,999	4,192	(4,999)	(4,192)		-
2021 dividends declared - investment (note 14)				4,497	(4,497)	-
2021 dividends declared - ownership (note 13)			7,137		(7,137)	-
Current income tax recovery, dividends declared					2,672	2,672
Shares redeemed for cash	(27,944)	(6,627)				(34,571)
Balance October 31, 2021	246,524	157,688	7,137	4,497	169,399	585,245

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)	**2021**	**2020**
Cash flows from operating activities		
Net Income	19,403	1,945
Adjustments for:		
Interest on loans to members	(175,616)	(176,752)
Interest/dividends on investments	(3,661)	(7,039)
Interest expense	53,170	81,938
Unrealized gain/(loss) on interest rate swaps	(540)	-
Depreciation and amortization	8,228	7,804
Charge for loan impairment	6,303	17,383
Current/deferred income tax expense	5,764	1,924
Change in other assets	5,376	8,330
Change in accounts payable	24,963	2,661
Interest received	179,086	182,424
Interest paid	(67,777)	(86,217)
Income tax (paid)/refund	(10,596)	(4,551)
Increase (decrease) in members' deposits	372,055	167,854
(Increase) in loans to members, net of repayments	(463,583)	(48,592)
Proceeds from sale of foreclosed property	285	1,751
Net cash from (used in) operating activities	**(47,140)**	**150,863**
Cash flows from financing activities		
Common shares issued for cash	30,992	34,258
Common share redemptions	(27,944)	(20,954)
Investment shares issued for cash	40,000	-
Investment share redemptions	(6,627)	(6,560)
Advances of secured borrowing	130,467	96,000
Repayment of secured borrowing	(226,185)	(127,292)
Payment of lease liabilities	(2,421)	(2,139)
Net cash from (used in) financing activities	**(61,718)**	**(26,687)**
Cash flows from investing activities		
Acquisition of investments	(935,882)	(1,309,260)
Proceeds from sale of investments	1,028,811	1,195,664
(Acquisition) of property and equipment, net	(2,151)	(1,173)
(Acquisition) of intangibles, net	(1,534)	(8,496)
Net cash from (used in) investing activities	**89,244**	**(123,265)**
Increase (decrease) in cash and cash equivalents	(19,614)	911
Cash and cash equivalents, beginning of year	72,785	71,874
Cash and cash equivalents, end of year	**53,171**	**72,785**

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, 2021 with comparative figures for the year ended October 31, 2020.

($ Thousands)

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

These consolidated financial statements include the accounts of the Credit Union and its wholly-owned subsidiaries, 1549081 Alberta Ltd., First Calgary Savings Insurance Ltd., and First Calgary Financial Investment Services Ltd. During the fiscal years ended October 31, 2021 and 2020, the subsidiary 1549081 Alberta Ltd. held title to certain foreclosed property. During the fiscal years ended October 31, 2021 and 2020, 1549081 Alberta Ltd., First Calgary Savings Insurance Ltd. and First Calgary Financial Investment Services Ltd. had no activity. Therefore, the only difference between the consolidated and separate financial statements of the Credit Union would be the elimination of the foreclosed property on the statement of financial position. There would be no other significant differences from the consolidated financial statements.

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

The consolidated financial statements have been approved for issue by the Board of Directors on December 14, 2021.

1. BASIS OF PRESENTATION

a) Statement of compliance

The Credit Union’s consolidated annual financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The significant accounting policies as set out in Note 2 below, comply with the requirements of IFRS and have been applied consistently to all periods presented in the consolidated financial statements, except as otherwise noted.

b) Basis of measurement

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

c) Functional and presentation currency

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

d) Use of estimates and judgments

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

During the current period, the global COVID-19 pandemic and its related economic impacts have resulted in heightened measurement uncertainty, primarily related to the estimates, assumptions and judgments used in the measurement of the allowance for loan impairment and the estimate of the fair value of foreclosed property. For the year ended October 31, 2021, the Credit Union has included all information available to the date of these financial statements in these estimates. The overall impact of the pandemic continues to be uncertain and is dependent on actions taken by Canadian governments, businesses and individuals to limit spread of the COVID-19 virus, as well as government economic response and support efforts. Refer to Note 7 for further details.

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Financial Instruments

A. Recognition, classification and measurement

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

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

- the asset is held within a business model whose objective is to hold the asset to collect contractual cash flows; and

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

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

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

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

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

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

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

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

A financial asset may be irrevocably designated at FVTPL on initial recognition in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. The Credit Union does not hold any financial assets designated to be measured at FVTPL.

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

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

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or

- a group of financial liabilities or financial assets and financial liabilities is managed with its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to key management personnel.

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

Business model assessment

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

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

Contractual cash flow characteristics assessment

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

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

Reclassification of financial assets

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

Derecognition of financial assets and liabilities

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

Modification of financial assets

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

When the modifications do not result in derecognition of the financial asset, the gross carrying amount of the financial asset is recalculated with any difference between the previous carrying amount and the new carrying amount recognized in profit or loss. The new gross carrying amount is recalculated as the present value of the modified contractual cash flows discounted at the asset's original effective interest rate.
For the purpose of applying the impairment requirements, at each reporting date subsequent to the modification, the Credit Union continues to assess whether there has been a significant increase in credit risk on the modified financial assets from the date of initial recognition.

B. Impairment

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

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

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

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

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

Evaluating significant increases in credit risk is completed on a quarterly basis and is determined using the following factors:

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

The Credit Union generally defines default as any financial instrument that is more than 90 days past due. However, default can also occur when delinquency is less than 90 days but when there is evidence that the borrower is unlikely to pay their obligation in full (eg. breach of covenants, bankruptcy).

Measurement of ECL

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

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

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

- Unemployment rate
- Housing price index
- Banker's acceptance rate

Credit-impaired and restructured financial assets

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

Presentation of impairment

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

Write-off

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

(b) Cash and cash equivalents

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

(c) Translation of foreign currencies

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

(d) Secured borrowings

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

(e) Foreclosed Properties

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

(f) Intangible Assets

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

Computer software	3 to 10 years

(g) Property and Equipment

Property and equipment are initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, with the exception of land which is not depreciated.

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

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

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

(h) Impairment of Non-Financial Assets

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

(i) Provisions

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

(j) Income Taxes

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

(k) Share Capital

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

(l) Revenue Recognition

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

Revenues under the scope of IFRS 15 are described below:

Service charges

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

Insurance commissions

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

Credit card fees

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

Wealth management

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

Other

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

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

Interest income on loans to members

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

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

Investment income

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

Gains (losses) on interest rate swaps

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

(m) Defined contribution pension plan

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

(n) Leases

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

(o) Consolidated financial statements

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

3. CHANGES IN ACCOUNTING POLICIES

IFRS 16 *Leases*

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

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

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

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

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

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

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

4. FUTURE ACCOUNTING CHANGES

There are no new standards, interpretations and amendments to standards that have been issued as at October 31, 2021 that have not been applied in preparing these consolidated financial statements.

5. CAPITAL MANAGEMENT

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

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

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

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

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

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

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

The Credit Union management ensures compliance with capital adequacy through an Internal Capital Adequacy Assessment Process (ICAAP) that includes the following activities:

- Identifying the capital needed to support the current and planned operations of the Credit Union;
- Developing and submitting to the Board of Directors for its approval, appropriate and prudent capital management policies, including policies on the quantity and quality of capital needed to support the current and planned operations that reflect both the risks to which the Credit Union is exposed and its regulatory capital requirements;
- Regularly measuring and monitoring capital requirements and capital position, and ensuring Connect First meets its capital requirements;
- Establishing appropriate and effective procedures and controls for managing capital, monitoring adherence to those procedures and controls, and reviewing them on a regular basis to ensure that they remain effective;
- Providing the Board of Directors with appropriate reports on the Credit Union's capital position and on the procedures and controls for managing capital.
- Stress testing the capital levels on at least an annual basis. The tests include a variety of scenarios that vary growth and income assumptions. They include a test for the current year as well as for the following year. A sufficient number of scenarios are tested to ensure that sensitivity levels can reasonably be assessed and planned for.

The Credit Union has exceeded its minimum regulatory capital requirements. As at October 31, 2021, the Credit Union's regulatory capital is 14.15% (2020 – 14.38%) of risk-weighted assets.

6. INVESTMENTS

	2021	2020
Investments - term deposits and other debt securities	58,026	37,400
Alberta Central term deposits		
- Non-statutory term deposits	61,001	201,276
- Statutory term deposits	453,955	428,743
Alberta Central common shares	59,542	57,894
	632,524	725,313

The Credit Union is required by the Act to hold common shares in Alberta Central, which are also a condition of membership in Alberta Central. The common shares entitle the holders to vote. Voting privileges are restricted to one vote per credit union member, regardless of the number of common shares held by a member. The common shares also provide the right to receive dividends declared. In certain limited circumstances where a weighted vote occurs, the Credit Union would have approximately 21% of the votes (proportionate to its share-holdings in Alberta Central), however, the Credit Union has determined that it does not have significant influence over Alberta Central. Common shares of Alberta Central are redeemable at par.

As required by the Act, the Credit Union maintains statutory term deposits in Central to satisfy the legislated liquidity level, as described in Note 23 (c).

7. LOANS TO MEMBERS

The following table shows the gross carrying amount of loans measured at amortized cost as of October 31, 2021 and 2020. Stage 1 represents performing loans with a 12-month expected credit loss, Stage 2 represents performing loans with a lifetime expected credit loss, and Stage 3 represents impaired loans with a lifetime expected credit loss.

Loans to members comprise as follows:

	2021	**2020**
Performing loans	5,428,201	4,951,566
Non-performing loans	57,990	75,290
Accrued interest	17,329	17,278
Allowance for impairment	(30,175)	(29,791)
Total	5,473,345	5,014,343

	Stage 1	Stage 2	Stage 3	Total	Accrued Interest	Allowance for Credit Losses	Total Net of Allowance
As at October 31, 2021							
Consumer	434,149	17,270	1,568	452,987	911	5,217	448,681
Residential mortgage	2,382,414	92,917	3,750	2,479,081	2,728	1,777	2,480,032
Commercial and agriculture	2,484,124	17,327	52,672	2,554,123	13,690	23,181	2,544,632
Total member loans	5,300,687	127,514	57,990	5,486,191	17,329	30,175	5,473,345

	Stage 1	Stage 2	Stage 3	Total	Accrued Interest	Allowance for Credit Losses	Total Net of Allowance
As at October 31, 2020							
Consumer	422,835	10,647	1,731	435,213	1,080	6,996	429,297
Residential mortgage	2,325,950	102,617	6,664	2,435,231	2,731	1,959	2,436,003
Commercial and agriculture	2,070,971	17,606	67,834	2,156,411	13,468	20,836	2,149,043
Total member loans	4,819,756	130,870	76,229	5,026,855	17,279	29,791	5,014,343

Allowance for expected credit losses consists of the following:

Residential mortgages	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at November 1, 2019	925	764	375	2,064
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	14	(8)	86	92
Remeasurement of loss allowance other than stage transfers	(19)	45	(89)	(63)
Derecognitions and maturities	(150)	(73)	(94)	(317)
Loan originations	145	101	11	257
Total remeasurement of loss allowance	(10)	65	(86)	(31)
Write offs	-	-	(74)	(74)
As at October 31, 2020	915	829	215	1,959
Remeasurement of loss allowance:				-
Net remeasurement due to stage transfers	(5)	(60)	57	(8)
Remeasurement of loss allowance other than stage transfers	(41)	(63)	74	(30)
Derecognitions and maturities	(124)	(105)	(81)	(310)
Loan originations	246	65	-	311
Total remeasurement of loss allowance	76	(163)	50	(37)
Write offs	(33)	-	(112)	(145)
As at October 31, 2021	958	666	153	1,777

Consumer loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at November 1, 2019	3,663	1,656	1,021	6,340
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	(16)	227	560	771
Remeasurement of loss allowance other than stage transfers	677	385	947	2,009
Derecognitions and maturities	(452)	(193)	(250)	(895)
Loan originations	1,023	179	187	1,389
Total remeasurement of loss allowance	1,232	598	1,444	3,274
Write offs	(591)	(521)	(1,505)	(2,617)
As at October 31, 2020	4,304	1,733	959	6,996
Remeasurement of loss allowance:				-
Net remeasurement due to stage transfers	(150)	69	385	304
Remeasurement of loss allowance other than stage transfers	(1,156)	24	514	(618)
Derecognitions and maturities	(681)	(185)	(333)	(1,199)
Loan originations	1,080	176	101	1,357
Total remeasurement of loss allowance	(907)	84	667	(156)
Write offs	(428)	(344)	(851)	(1,623)
As at October 31, 2021	2,969	1,473	775	5,217

Commercial and agriculture loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at November 1, 2019	1,556	1,219	6,113	8,888
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	-	(147)	4,702	4,555
Remeasurement of loss allowance other than stage transfers	1,249	(18)	5,616	6,847
Derecognitions and maturities	(208)	(57)	(438)	(703)
Loan originations	987	1	485	1,473
Total remeasurement of loss allowance	2,028	(221)	10,365	12,172
Write offs	(57)	-	(167)	(224)
As at October 31, 2020	3,527	998	16,311	20,836
Remeasurement of loss allowance:				-
Net remeasurement due to stage transfers	(46)	55	(196)	(187)
Remeasurement of loss allowance other than stage transfers	(1,334)	(63)	6,860	5,463
Derecognitions and maturities	(587)	(223)	(3,554)	(4,364)
Loan originations	1,142	37	2,481	3,660
Total remeasurement of loss allowance	(825)	(194)	5,591	4,572
Write offs	(5)	(10)	(2,212)	(2,227)
As at October 31, 2021	2,697	794	19,690	23,181

Totals at October 31, 2020	8,746	3,560	17,485	29,791
Totals at October 31, 2021	6,624	2,933	20,618	30,175

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

	2021	**2020**
Opening allowance for impairment	29,791	17,292
Charge for loan impairment:		
Net remeasurement due to stage transfers	109	5,418
Remeasurement of loss allowance other than stage transfers	4,815	8,793
Derecognitions and maturities	(5,873)	(1,915)
Loan originations	5,328	3,119
Write-offs	(3,995)	(2,915)
Allowance for expected credit losses, October 31	30,175	29,791

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

Charge for loan impairment as above	4,379	15,415
Charge for loan impairment on foreclosed property at October 31 (note 8)	1,505	1,436
Charge for impairment on investments	209	346
Recoveries	(429)	(259)
Total charge for loan impairment	5,664	16,938

As previously disclosed in Note 1, the measurement of the allowance for expected credit losses as well as foreclosed property (see Note 8) involves the use of significant judgements, estimates and assumptions. Due to the current global COVID 19 pandemic and related economic impacts, the Credit Union considered the impact and uncertainty on the outlook, including timing of economic recovery, combined with continued shutdowns and uncertainties on re-opening and vaccination rollouts. The Credit Union has applied judgment, including consideration of these factors in the assessment of any underlying credit deterioration, and considered both qualitative and quantitative information. Specifically, the Credit Union considered the following:

Significant Increase in Credit Risk ("SICR")

The judgments related to whether or not there is a SICR result in loans moving between stages and, therefore, being subject to different measurement. Due to the ongoing pandemic, the Credit Union implemented programs in 2020 to allow for the deferral of payments on loans to members in certain circumstances. With respect to delinquencies, the judgements used related to SICR remain consistent with those at October 31, 2020. With respect to those loans where the member has taken advantage of the loan payment deferral programs or where the loan is in an industry that is particularly hard hit by the pandemic, the Credit Union has assessed whether this is indicative of a SICR, including consideration on whether this is indicative of a short-term change or an increase in the risk the member will default over the life of the loan. Utilization of a payment deferral program by a member was not necessarily considered an immediate trigger of a significant increase in credit risk. At October 31, 2021 the deferral program had ended.

Forward Looking Information ("FLI")

As of October 31, 2021, the following FLI has been used in the measurement of the ECL, as compared to that used at October 31, 2020. The impact of the pandemic on the long-term outlook remains fluid and uncertain, and FLI has been updated to the best of the Credit Union's knowledge based on external economic data, including consideration of other Canadian banks' macroeconomic factors.

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

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

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

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

October 31, 2021	Base case scenario		Alternative scenario optimistic		Alternative scenario pessimistic	
	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Driver						
3 month BA rate %	0.51	1.43	1.10	2.25	0.32	0.60
3 month Government of Canada Bond Rate %	0.35	1.20	1.00	2.10	0.12	0.33
Alberta housing price index % change	1.07	1.14	2.96	2.09	(2.01)	0.15
Alberta unemployment rate %	7.01	6.39	6.48	5.61	8.15	7.40

October 31, 2020	Base case scenario		Alternative scenario		Alternative scenario	
	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Driver						
3 month BA rate %	0.33	1.11	1.06	2.36	0.67	0.79
3 month Government of Canada Bond Rate %	0.25	0.73	0.75	1.97	0.25	0.33
Alberta housing price index % change	0.92	1.46	12.60	2.42	(3.32)	0.12
Alberta unemployment rate %	9.10	7.35	7.00	5.34	10.36	8.41

The reported expected credit losses for loans in Stage 1 and Stage 2 under the optimistic macroeconomic conditions, with other assumptions held constant would decrease by approximately $0.3 million (2020 - $0.7 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 $0.6 million (2020 - $1.4 million).

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

Base case scenario

	Next 3 months	Next 6 months	Next 9 months	Next 12 months	Remaining forecast period
Driver					
3 month BA rate %	0.33	0.39	0.40	0.51	1.43
3 month Government of Canada Bond Rate %	0.20	0.25	0.25	0.35	1.20
Alberta housing price index % change	0.18	0.30	0.29	0.29	1.14
Alberta unemployment rate %	7.74	7.49	7.22	7.01	6.39

Alternative scenario pessimistic

	Next 3 months	Next 6 months	Next 9 months	Next 12 months	Remaining forecast period
Driver					
3 month BA rate %	0.26	0.26	0.27	0.32	0.60
3 month Government of Canada Bond Rate %	0.08	0.09	0.08	0.12	0.33
Alberta housing price index % change	(2.17)	(0.49)	0.53	0.12	0.15
Alberta unemployment rate %	9.08	8.62	8.32	8.15	7.40

Alternative scenario optimistic

	Next 3 months	Next 6 months	Next 9 months	Next 12 months	Remaining forecast period
Driver					
3 month BA rate %	0.43	0.59	0.84	1.10	2.25
3 month Government of Canada Bond Rate %	0.35	0.50	0.75	1.00	2.10
Alberta housing price index % change	0.83	1.03	0.53	0.53	2.09
Alberta unemployment rate %	7.17	6.92	6.67	6.48	5.61

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

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

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

8. FORECLOSED PROPERTY

During the year ended October 31, 2019, a commercial loan secured by real estate was moved into foreclosure and continues to be managed by the Credit Union. During the fiscal year, the Credit Union has recognized $1.5 million in additional charges for loan impairment due to ongoing maintenance and operating costs and a reduction in the concluded fair value less costs to sell at October 31, 2021. The recorded value of the loan at October 31, 2021 is $3.45 million (2020 $5.04 million) and appears under foreclosed properties on the statement of financial position. The remaining foreclosed property balance relates to a residential loan that has been foreclosed on in the process of realizing on the Credit Union’s security.

9. OTHER ASSETS

	2021	2020
Accounts receivable	4,009	3,850
Lease residual	5,275	7,435
Prepaid expenses and deposits	26,860	19,735
Fair value of swaps (Note 22)	540	-
Income tax receivable	-	10,500
Other	9	9
	36,693	41,529

10. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

	Land	Buildings	Furniture & equipment	Computer equipment	Leasehold improvements	Total	Intangible assets
COST							
Balance at November 1, 2020	7,591	35,977	17,630	5,891	16,817	83,906	27,052
Acquisitions	-	82	2,150	702	6	2,940	2,105
Disposals	-	-	(2,756)	(12)	(162)	(2,930)	(9,170)
Balance at October 31, 2021	7,591	36,059	17,024	6,581	16,661	83,916	19,987

	Land	Buildings	Furniture & equipment	Computer equipment	Leasehold improvements	Total	Intangible assets
DEPRECIATION AND AMORTIZATION							
Balance at November 1, 2020	-	(6,275)	(9,940)	(3,576)	(8,944)	(28,735)	(13,427)
Depreciation and amortization for the year	-	(1,444)	(1,168)	(711)	(764)	(4,087)	(1,961)
Disposals	-	-	1,980	12	148	2,140	8,599
Balance at October 31, 2021	-	(7,719)	(9,128)	(4,275)	(9,560)	(30,682)	(6,789)
NET BOOK VALUE							
October 31, 2020	7,591	29,702	7,690	2,315	7,873	55,171	13,625
October 31, 2021	7,591	28,340	7,896	2,306	7,101	53,234	13,198

*Intangible assets acquisitions include $754 (2020 - $2,403) of internal costs and $1,351 (2020 - $6,093) of external costs.

11. MEMBERS' DEPOSITS

	2021	2020
Demand Deposits	2,586,331	2,077,335
Registered Savings Plans	392,118	416,835
Term Deposits	2,350,718	2,462,881
Registered Education Savings Plans	6,396	6,458
	5,335,563	4,963,509
Accrued Interest	13,368	27,974
Total	5,348,931	4,991,483

Maturities are as follows:

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

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

12. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Credit Commitments

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

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

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

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

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

	2021	2020
Letters of credit	15,301	11,558
Commitments to extend credit with a term to maturity of one year or less	608,772	602,388

(b) Contingencies

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

13. OWNERSHIP DIVIDENDS

The Board of Directors has declared an ownership dividend to be paid in fiscal 2022 in respect of fiscal 2021 to members by way of an issuance of common shares in the amount of $7,137 (2020 - $4,999). The ownership dividend allocated to members is based on member common share holdings.

14. SHARE CAPITAL

($ thousands, except per share amounts)

(a) Common Shares

Common shares have the following characteristics:

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

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

In October 2021, the Board of Directors approved a 3.5% dividend to holders of record of Series A, B, C, D, E, F, G and H Investment Shares for the year ended October 31, 2021 in the aggregate amount of $4,497 (2020 – $4,192). The payment will be made in November 2020 through the issuance of additional Series A, B, C, D, E, F and G Investment Shares, respectively.

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

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

On June 21, 2021 40 million investment shares series H were made available to members to purchase for $1 per share. At October 31, 2021 $40 million shares had been issued.

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

15. OTHER INCOME

	2021	2020
Service charges and other fees	5,913	7,279
Foreign exchange gain/loss	847	738
Loan prepayment and other fees	5,130	3,315
Insurance	1,529	1,507
Credit card fees	469	364
Wealth management	8,461	7,208
Other	1,173	1,521
	23,522	21,932

16. OTHER EXPENSES

	2021	2020
Advertising	6,006	2,481
Technology	12,371	9,985
Member security and deposit insurance premium	3,861	3,338
Professional fees	2,490	1,980
Stationary, telephone, postage, courier	1,963	2,147
Financial planning	132	248
ATM/POS operations	1,625	1,460
Board expenses	657	676
Lending costs	1,601	1,023
Charitable donations/community investment	371	513
Occupancy	3,862	3,871
Other	6,842	6,585
	41,781	34,307

17. PROVISION FOR INCOME TAXES

The components of tax expense for the years ended October 31, 2021 and 2020 are as follows:

	2021	2020
Current tax expense:		
Current period	2,629	2,908
Deferred tax expense:		
Origination and reversal of temporary differences	3,135	(984)
Total income tax expense	**5,764**	**1,924**

Reconciliation of effective tax rate

	2021	2020
Income before tax	25,167	3,869
Income tax using the Credit Union's combined federal and provincial statutory Canadian tax rate of 23.00% (2020 - 24.50%)	5,788	948
Effect of tax rate changes and other	(54)	956
Non-deductible expenses	30	20
Total income tax expense	**5,764**	**1,924**

Recognized deferred tax assets and liabilities

	Property and Equipment	Provisions	ROU Assets	Lease Liabilities	Non-Capital Losses	Other Assets	Totals
As at November 1, 2020	(5,149)	4,065	(4,863)	7,015	3,781	-	4,849
Credit/(Charged) to the statement of income	139	(655)	501	(554)	(2,442)	(124)	(3,135)
Credit/(Charged) to other	-	-	(44)	41	-	-	(3)
As at October 31, 2021	**(5,010)**	**3,410**	**(4,406)**	**6,502**	**1,339**	**(124)**	**1,711**

18. RELATED PARTY TRANSACTIONS

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

Outstanding loans to:	**2021**	2020
Key management personnel and entities controlled by key management personnel	24,935	26,888

Outstanding deposits from:	**2021**	2020
Key management personnel and entities controlled by key management personnel	25,478	4,311

All loans to key management personnel are current as of October 31, 2021.

Compensation of key management personnel ($)

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

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

The performance incentives shown above represent 2020 bonus amounts that were subsequently paid in 2021.

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

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

Paid to directors ($):

	2021	2020
Directors' fees and committee remuneration	465,954	471,708
Directors' expenses	34,601	37,608

Compensation to directors ranged from $2,000 (2020 - $13,500) to $74,100 (2020 - $60,000) with an average of $29,122 (2020- $27,748). Members of the Board do not receive or pay preferred rates on products and services offered by the Credit Union and are only compensated with short term director fees.

19. PERSONNEL EXPENSES

	2021	**2020**
Salaries and wages	47,280	44,571
Short term benefits	12,686	9,415
Long term benefits	3,741	3,181
Termination benefits	3,150	1,668
	66,857	58,835

20. ASSET AND LIABILITY MANAGEMENT

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

financial instruments are subject to normal credit standards, financial controls, and risk management and monitoring procedures.
Payments exchanged under the swaps are calculated on a fixed rate, pay floating rate basis. The notional principal amounts, shown in the table below, are not exchanged by the Credit Union and its counterparties. They are used as the basis for determining payments under the contracts.

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

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

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

2021

($ Thousands)	Average Rate	Variable & Within 3 Months	3 Months to 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	Over 4 Years	Non-Interest Sensitive	Total
October 31, 2021									
ASSETS									
Cash	0.25%	53,171	-	-	-	-	-	-	53,171
Investments	0.26%	466,682	18,576	-	-	27,542	119,681	43	632,524
Loans to Members	3.34%	1,041,238	818,953	951,205	750,828	808,594	1,040,186	62,341	5,473,345
Other	0.00%	-	-	-	-	-	-	127,449	127,449
	2.94%	**1,561,091**	**837,529**	**951,205**	**750,828**	**836,136**	**1,159,867**	**189,833**	**6,286,489**
LIABILITIES and EQUITY									
Deposits	0.62%	3,219,862	1,582,245	313,039	143,581	49,584	40,620	-	5,348,931
Other	2.91%	1,975	54,821	91,328	54,528	54,089	37,480	643,337	937,558
	0.96%	**3,221,837**	**1,637,066**	**404,367**	**198,109**	**103,673**	**78,100**	**643,337**	**6,286,489**
BALANCE SHEET MISMATCH		(1,660,746)	(799,537)	546,838	552,719	732,463	1,081,767	(453,504)	-
Derivatives		25,000					(25,000)		
NET MISMATCH		(1,635,746)	(799,537)	546,838	552,719	732,463	1,056,767	(453,504)	-

2020

($ Thousands)	Average Rate	Variable & Within 3 Months	3 Months to 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	Over 4 Years	Non-Interest Sensitive	Total
October 31, 2020									
ASSETS									
Cash	0.20%	72,785	-	-	-	-	-	-	72,785
Investments	0.20%	625,520	7,970	5,000	-	-	86,290	533	725,313
Loans to Members	3.49%	994,773	783,944	911,976	860,685	585,485	825,464	52,016	5,014,343
Other	0.00%	-	-	-	-	-	-	141,729	141,729
	2.97%	**1,693,078**	**791,914**	**916,976**	**860,685**	**585,485**	**911,754**	**194,278**	**5,954,170**
LIABILITIES and EQUITY									
Deposits	1.17%	2,433,036	1,601,978	309,976	138,460	124,003	29,310	354,720	4,991,483
Other	1.97%	9,166	55,655	128,875	114,526	79,600	-	574,865	962,687
	1.30%	**2,442,202**	**1,657,633**	**438,851**	**252,986**	**203,603**	**29,310**	**929,585**	**5,954,170**
BALANCE SHEET MISMATCH		(749,124)	(865,719)	478,125	607,699	381,882	882,444	(735,307)	-
Derivatives									
NET MISMATCH		(749,124)	(865,719)	478,125	607,699	381,882	882,444	(735,307)	-

21. CREDIT FACILITIES

The Credit Union has certain credit facilities in place allowing it to borrow funds on a short-term basis from Alberta Central. These facilities are classified as other financial liabilities and are measured at amortized cost. As at October 31, 2021, the following facilities were in place:

(a) A revolving line of credit authorized to a maximum amount of $118,807 (2020 - $113,808) including a US dollar component equivalent of up to CAD $13,775 (2020 - $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 $356,422 (2020 - $341,423) that is available for terms up to 30 days. Prime rate-based loans are payable at the Prime rate in effect less 1%. Subject to Alberta Central's discretion, the Credit Union can enter into a fixed rate loan for terms of 1 to 24 months repayable at a rate determined by Alberta Central at the date of draw down for the loan.

As at October 31, 2021 and 2020, the credit facilities were undrawn.

The total guaranteed commitment level for the above facilities at October 31, 2021 is limited to 2% of the Credit Union's assets. Total borrowing facilities can be increased to 8% of the Credit Union's assets in the case of an unexpected emergency liquidity event. The balance of the facility is subject to availability. A security agreement covering substantially all of the Credit Union's assets is collateral for the credit facilities.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

From time to time, transfers between various fair value hierarchy levels may result as there may be changes in the availability of quoted market prices or observable market inputs as a result of changes in market conditions. Transfers between levels in the fair value hierarchy are recognized at the end of the reporting period. During the year ended October 31, 2021, there were no transfers between levels of the hierarchy for any financial assets and liabilities.

2021

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

2020

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

Derivative Financial Instruments

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

2021

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

2020

	Notional Amount	Positive Fair Value
Interest Rate Swaps	0	0

The fair values of derivative financial instruments are calculated based on market conditions at the reporting date and may not be reflective of future fair values. The fair values are recognized in other assets (note 9). During the year ended October 31, 2021, outstanding interest rate swaps resulted in realized losses of $74 (2020 – loss of $157) and unrealized gains of $540 (2020 – $0). Realized losses are included in interest on loans to members in the statement of comprehensive income.

23. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS

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

a) Credit Risk

Credit risk is the risk that a financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to the Credit Union. Credit risk arises principally in lending activities that result in loans to members as described in Note 7. Credit risk is also present in interest rate swaps, cash and investments held for liquidity purposes. The Credit Union monitors counterparty published credit ratings to mitigate risks with respect to these assets.

The impaired retail loans plus accrued interest disclosed below are included in Stage 3 of the expected credit loss model, as disclosed in Note 7. The remainder of the retail mortgages and loans included below are classified as either Stage 1 or Stage 2, including accrued interest as disclosed in Note 7.

Credit Quality

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

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

2020	Stage 1	Stage 2	Stage 3	Total
Commercial mortgages and loans				
1 to 5 - satisfactory risk	2,079,298	2,941	7,079	2,089,318
6 to 7 - unimpaired	2,639	14,882	33,381	50,901
8 to 9 - impaired	0	0	29,659	29,659
Allowance for credit losses	(3,527)	(998)	(16,311)	(20,836)
Carrying amount	**2,078,410**	**16,825**	**53,808**	**2,149,043**

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

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

		2021	2020
Commercial:			
	Real estate, rental & leasing	1,120,519	1,028,968
	Construction	291,303	183,735
	Accommodation & food services	183,218	150,832
	Health care & social assistance	62,881	82,587
	Retail trade	88,559	62,821
	Finance & insurance	31,615	8,134
	Other	341,730	261,127
		2,119,825	1,778,204
Retail:			
	Mortgages	2,479,081	2,434,872
	Dealer loans & leases	288,014	277,282
	Unsecured lending	77,941	40,378
	Secured lending	87,032	116,953
		2,932,068	2,869,485
Agriculture:			
	Mortgages	360,652	320,870
	Loans	73,646	58,297
		434,298	379,167
		5,486,191	**5,026,856**

Credit Risk Management

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

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

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

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

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

b) Market Risk

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

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

Risk management

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

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

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

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

	2021	2020
Before tax impact on financial margin of:		
100 basis point increase in rates	6,462	9,996
100 basis point decrease in rates	(5,677)	(8,215)

c) Liquidity Risk

Liquidity risk is the risk of having insufficient financial resources to meet the Credit Union's cash and funding requirements, statutory liquidity requirements, or both. The Credit Union has a strong liquidity base, is active in the securitization market, and has a well-established contingency liquidity plan to access if required through the COVID-19 situation.

The desired liquidity level above the statutory requirement is determined by taking into account the balance between the cost of liquidity and the yield achieved. The Credit Union will at all times maintain statutory liquidity levels as required by regulations. Immediate corrective action will be taken if the ratio approaches the regulatory minimum. The Act requires that statutory liquidity deposits be held with Alberta Central. Statutory liquidity includes eligible deposits and shares of Central. The statutory liquidity ratio is 9.0% of average deposits and borrowings for the second prior month. Based on average deposits and borrowings for August 2021 the Credit Union's liquidity as at October 31, 2021 exceeds minimum requirements by $2,147 (2020 - $71).

d) Capital Management

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

24. INVESTMENT INCOME

	2021	**2020**
Interest on statutory investments	714	3,839
Dividends on statutory investments	1,278	1,196
Interest on other investments	1,669	2,004
	3,661	7,039

25. SECURITIZATION

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

The Credit Union has determined that these securitization transactions should be accounted for as secured borrowings as the Credit Union did not transfer substantially all of the risks and rewards of ownership, including principal prepayment, interest rate and credit risk of the mortgages in the securitization transactions. The balance at October 31, 2021 is $292,105 (2020 - $387,823). 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, 2021, of the associated residential mortgages as at October 31, 2021 is $422,168 (2020 - $408,338). 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, 2021	As at October 31, 2020
CMB	September 1, 2022 to July 1, 2023	1.0268% to 2.5898%	26,296	39,017
NHA MBS	December 1, 2021 to October 1, 2026	1.1586% to 3.1077%	265,809	348,806
Total			292,105	387,823

26. LEASES

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

	2021	2020
Right of use (ROU) assets		
	Property	
Balance at November 1	21,142	23,326
Additions	193	-
Depreciation charge for the year	(2,179)	(2,184)
Balance at October 31	**19,156**	21,142

Lease Liabilities

	2021	2020
Maturity analysis - contractual undiscounted cash flows		
Less than one year	3,876	3,439
One to five years	13,255	15,367
More than five years	14,355	19,761
Total undiscounted lease liabilities at October 31	**31,486**	38,567
Lease liabilities included in the statement of financial position at October 31	**28,272**	30,500

Amounts recognized in profit or loss

	2021	2020
Interest on lease liabilities	(1,262)	(1,231)
Variable lease payments not included in the measurement of lease liabilities	(2,363)	(1,973)
Expenses relating to short term leases	(113)	(59)
Expenses relating to leases of low-value assets	(29)	(103)

Amounts recognized in the statement of cash flows

	2021	2020
Total cash outflow for leases	(2,421)	(2,139)

The variable lease payments that are not included in the calculation of the lease liability include operating costs associated with the lease that are not based on an index or rate.

27. SUBSEQUENT EVENT

Amalgamation with Spark Credit Union Ltd.

Subsequent to year end, on November 1, 2021, the Credit Union amalgamated with Spark Credit Union Ltd. (“Spark”). Pursuant to the terms of the amalgamation, all members of Spark exchanged their common shares for shares of Connect First on a one for one basis for total consideration of $5.1 million.

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

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

At the date of these financial statements, the fair values of the assets and liabilities acquired has not yet been finalized. The carrying amount of net assets acquired is $11.8 million.