



**connectFirst**  
credit union

## **2024 FIRST QUARTER FINANCIAL REPORT**

**For the three months ended  
January 31, 2024**

**(Unaudited)**

### **NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying unaudited interim condensed consolidated financial statements of Connect First Credit Union Ltd. have been prepared by and are the responsibility of the Credit Union's management.

The Credit Union's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants Canada for a review of interim financial statements by an entity's auditor.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(unaudited)

<i>(Amounts in thousands of Canadian dollars)</i>	<b>January 31, 2024</b>	<b>October 31, 2023</b>
<b>Assets</b>		
Cash and cash equivalents	37,636	43,954
Investments (note 4)	687,796	700,619
Loans to members (note 6 and 7)	6,361,882	6,419,117
Derivative assets (note 5)	10,865	9,460
Foreclosed property (note 7)	4,255	3,670
Other assets	26,113	33,579
Intangible assets	13,352	14,046
Property and equipment	51,887	52,818
Right of use assets	19,246	19,853
Deferred tax assets	7,033	7,033
<b>Total assets</b>	<b>7,220,065</b>	<b>7,304,149</b>
<b>Liabilities</b>		
Members' deposits	6,118,379	6,232,605
Accounts payable and accruals	26,762	32,974
Derivative liabilities (note 5)	7,482	4,885
Lease liabilities	27,313	28,050
Secured borrowings	425,964	372,196
<b>Total liabilities</b>	<b>6,605,900</b>	<b>6,670,710</b>
<b>Members' Equity</b>		
Common shares	302,900	295,089
Investment shares	149,229	150,519
Ownership dividend allocation	-	16,105
Investment share dividends declared	-	10,085
Contributed surplus	7,445	7,445
Retained earnings	154,591	154,196
<b>Total members' equity</b>	<b>614,165</b>	<b>633,439</b>
<b>Total liabilities and members' equity</b>	<b>7,220,065</b>	<b>7,304,149</b>

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

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

(unaudited)

3 months ended January 31

<i>(Amounts in thousands of Canadian dollars)</i>	<b>2024</b>	<b>2023</b>
<b>Financial Income</b>		
Interest on loans to members	78,249	66,537
Investment income	7,488	5,783
Unrealized loss on interest rate swaps	(1,192)	(541)
	84,545	71,779
<b>Financial Expense</b>		
Interest on members' deposits	49,120	30,472
Interest on loans payable	3,304	3,567
Interest on lease liabilities	318	304
	52,742	34,343
<b>Financial margin</b>	<b>31,803</b>	<b>37,436</b>
Charge for loan impairment	2,597	6,209
	29,206	31,227
Other income (note 9)	6,188	5,696
<b>Gross margin</b>	<b>35,394</b>	<b>36,923</b>
<b>Non-interest Expenses</b>		
Personnel expenses	19,091	18,729
Operating lease expenses	800	649
Depreciation and amortization	2,338	2,318
Other expenses (note 10)	12,655	10,656
	<b>34,884</b>	<b>32,352</b>
Income before income taxes	<b>510</b>	<b>4,571</b>
Income taxes		
Current	116	1,051
Deferred	-	-
	<b>116</b>	<b>1,051</b>
Net income and comprehensive income	<b>394</b>	<b>3,520</b>

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

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

<i>(Amounts in thousands of Canadian dollars)</i>	Common shares	Series A-H investment shares	Ownership dividends declared	Investment share dividends declared	Contributed Surplus	Retained earnings	Total equity
<b>Balance November 1, 2022</b>	288,158	153,305	13,382	8,345	7,445	172,843	643,478
Net and comprehensive income						3,520	3,520
<b>Transactions with members</b>							
Shares issued to members for cash	13,943						13,943
Shares issued by dividend	13,382	8,345	(13,382)	(8,345)		3	3
Shares redeemed for cash	(12,447)	(9,365)					(21,812)
<b>Balance January 31, 2023</b>	303,036	152,285	-	-	7,445	176,366	639,132
<b>Balance November 1, 2023</b>	<b>295,089</b>	<b>150,519</b>	<b>16,105</b>	<b>10,085</b>	<b>7,445</b>	<b>154,196</b>	<b>633,439</b>
Net and comprehensive income						394	394
<b>Transactions with members</b>							
Shares issued to members for cash	3,999						3,999
Shares issued by dividend	16,105	10,085	(16,105)	(10,085)		1	1
Shares redeemed for cash	(12,293)	(11,375)					(23,668)
<b>Balance January 31, 2024</b>	302,900	149,229	-	-	7,445	154,591	614,165

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

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

(unaudited)

<i>(Amounts in thousands of Canadian dollars)</i>	THREE MONTHS ENDED	
	January 31, 2024	January 31, 2023
<b>Cash flows from operating activities</b>		
Income before income taxes	510	4,571
<b>Adjustments for non-cash items</b>		
Depreciation and amortization	2,338	2,318
Charge for loan impairment	2,786	6,374
Unrealized loss on interest rate swaps	1,192	541
Interest on loans to members	(78,249)	(66,537)
Interest/dividends on investments	(7,488)	(5,783)
Interest expense	52,742	34,343
<b>Changes in operating assets and liabilities</b>		
Change in other assets	7,363	14,667
Change in accounts payable	(6,212)	(7,210)
Interest received	89,651	71,770
Interest paid	(49,667)	(18,516)
(Decrease) increase in members' deposits	(117,301)	10,645
Decrease (increase) in loans to members, net of repayments	52,083	(5,918)
Proceeds from sale of foreclosed property	-	342
Income taxes paid	(13)	(2,300)
Net cash (used in) from operating activities	(50,265)	39,307
<b>Cash flows from financing activities</b>		
Common shares issued for cash	3,999	13,943
Common share redemptions	(12,293)	(12,447)
Investment share redemptions	(11,375)	(9,365)
Advances of secured borrowing	101,558	93,649
Repayment of secured borrowing	(47,790)	(101,953)
Payment of lease liabilities	(727)	(846)
Net cash (used in) from financing activities	33,372	(17,019)
<b>Cash flows from investing activities</b>		
Acquisition of investments	(177,630)	(205,900)
Proceeds from sale of investments	188,320	213,391
Acquisition of property and equipment, net	(115)	(1,983)
Acquisition of intangibles, net	-	(2,072)
Net cash from investing activities	10,575	3,436
<b>Net (decrease) increase in cash and cash equivalents</b>	(6,318)	25,724
Cash and cash equivalents, beginning of year	43,954	50,950
Cash and cash equivalents, end of year	37,636	76,674

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

## **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(unaudited)

**For the three months ended January 31, 2024**

(\$ Thousands)

### **1. REPORTING ENTITY**

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.

### **2. BASIS OF PREPARATION**

The condensed consolidated interim financial statements of the Credit Union have been prepared by management in accordance with International Accounting Standard 34 Interim Financial Reporting and do not include all of the information required for full annual financial statements and should be read in conjunction with Connect First’s 2023 audited annual consolidated financial statements. The accounting policies, methods of computation and presentation of these interim condensed consolidated financial statements are consistent with the most recent 2023 annual financial statements of Connect First.

Except as otherwise indicated, financial information has been rounded to the nearest thousand.

Certain comparative information in the interim condensed consolidated statements and note disclosures have been reclassified to conform to current period presentation.

These condensed consolidated interim financial statements were approved by the Board of Directors on March 12, 2024.

### **3. SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS**

The preparation of the interim condensed consolidated financial statements in conformity with IFRS Accounting Standards (“IFRS”) required management to make estimates, judgments and assumptions that affected 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 have been recognized in the period in which the estimates are revised and in any future periods affected.

**4. INVESTMENTS**

	As at January 31, 2024	As at October 31, 2023
Investments - term deposits and other	48,228	52,066
Alberta Central term deposits		
- Non-statutory term deposits	34,300	44,565
- Statutory term deposits	534,223	530,834
Alberta Central common shares	67,335	67,335
	<b>684,086</b>	694,800
Accrued interest	3,870	6,003
	<b>687,956</b>	700,803
Allowance for investment losses	(160)	(184)
<b>Total</b>	<b>687,796</b>	700,619

**5. DERIVATIVE FINANCIAL INSTRUMENTS**

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

	Net fair value			
	January 2024		October 2023	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	3,383	-	4,575	-
Index-linked options	7,482	7,482	4,885	4,885
<b>Total</b>	10,865	7,482	9,460	4,885

**6. MEMBERS' LOANS**

The following table shows the gross carrying amount of loans measured at amortized cost as at January 31, 2024. 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.

2024 FIRST QUARTER FINANCIAL REPORT

	Stage 1	Stage 2	Stage 3	Total	Accrued Interest	Allowance for Credit Losses	Total Net of Allowance
<b>As at January 31, 2024</b>							
Consumer	667,517	41,524	5,139	714,180	2,236	9,608	706,808
Residential mortgage	2,721,062	87,312	5,472	2,813,846	4,588	957	2,817,477
Commercial and agriculture	2,710,351	50,726	83,655	2,844,732	17,470	24,605	2,837,597
Total member loans	6,098,930	179,562	94,266	6,372,758	24,294	35,170	6,361,882

	Stage 1	Stage 2	Stage 3	Total	Accrued Interest	Allowance for Credit Losses	Total Net of Allowance
<b>As at October 31, 2023</b>							
Consumer	675,888	44,530	2,997	723,415	1,930	9,140	716,205
Residential mortgage	2,738,383	85,840	3,806	2,828,029	4,463	855	2,831,637
Commercial and agriculture	2,749,253	62,440	63,286	2,874,979	19,682	23,386	2,871,275
Total member loans	6,163,524	192,810	70,089	6,426,423	26,075	33,381	6,419,117

## 7. ALLOWANCE FOR EXPECTED CREDIT LOSSES

The tables below represent the allowance for expected credit losses by category and stage:

<b>Residential mortgages</b>	Stage 1	Stage 2	Stage 3	Total
As at November 1, 2022	948	573	232	1,753
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	(4)	28	(24)	-
Remeasurement of loss allowance other than stage transfers	(9)	4	7	2
Derecognitions and maturities	(13)	(16)	(38)	(67)
Loan originations	26	8	-	34
Total remeasurement of loss allowance	-	24	(55)	(31)
Write offs	-	-	-	-
As at January 31, 2023	948	597	177	1,722
As at November 1, 2023	372	317	166	855
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	(1)	17	(16)	-
Remeasurement of loss allowance other than stage transfers	(1)	(38)	165	126
Derecognitions and maturities	(8)	(6)	(40)	(54)
Loan originations	16	14	-	30
Total remeasurement of loss allowance	6	(13)	109	102
Write offs	-	-	-	-
As at January 31, 2024	378	304	275	957

<b>Consumer loans</b>	Stage 1	Stage 2	Stage 3	Total
As at November 1, 2022	3,823	3,157	1,185	8,165
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	67	40	(107)	-
Remeasurement of loss allowance other than stage transfers	169	437	639	1,245
Derecognitions and maturities	292	(50)	(54)	188
Loan originations	237	28	4	269
Total remeasurement of loss allowance	765	455	482	1,702
Write offs	-	(399)	(427)	(826)
As at January 31, 2023	4,588	3,213	1,240	9,041
As at November 1, 2023	3,641	3,764	1,735	9,140
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	50	(107)	57	-
Remeasurement of loss allowance other than stage transfers	(105)	(2)	1,657	1,550
Derecognitions and maturities	(183)	(69)	(50)	(302)
Loan originations	165	29	-	194
Total remeasurement of loss allowance	(73)	(149)	1,664	1,442
Write offs	(104)	(278)	(592)	(974)
As at January 31, 2024	3,464	3,337	2,807	9,608



2024 FIRST QUARTER FINANCIAL REPORT

Commercial and agriculture loans	Stage 1	Stage 2	Stage 3	Total
As at November 1, 2022	3,961	964	14,923	19,848
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	87	(7)	(80)	-
Remeasurement of loss allowance other than stage transfers	295	110	4,198	4,603
Derecognitions and maturities	(139)	(4)	(8)	(151)
Loan originations	202	-	1	203
Total remeasurement of loss allowance	445	99	4,111	4,655
Write offs	-	-	(1,226)	(1,226)
As at January 31, 2023	4,406	1,063	17,808	23,277
As at November 1, 2023	10,502	1,965	10,918	23,385
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	436	(969)	533	-
Remeasurement of loss allowance other than stage transfers	(1,014)	(57)	1,013	(58)
Derecognitions and maturities	(348)	-	-	(348)
Loan originations	312	-	1,314	1,626
Total remeasurement of loss allowance	(614)	(1,026)	2,860	1,220
Write offs	-	-	-	-
As at January 31, 2024	9,888	939	13,778	24,605
Totals at January 31, 2023	9,942	4,873	19,225	34,040
Totals at January 31, 2024	13,730	4,580	16,860	35,170

The total allowance for expected credit losses is reconciled as follows:		
	January 2024	January 2023
November 1 allowance for expected credit losses	33,380	29,766
Charge for loan impairment:		
Net remeasurement due to stage transfers	-	-
Remeasurement of loss allowance other than stage transfers	1,618	5,850
Derecognitions and maturities	(704)	(30)
Loan originations	1,850	506
Write-offs	(974)	(2,052)
Allowance for expected credit losses, January 31	35,170	34,040
The charge for loan impairment on the statement of comprehensive income is reconciled as follows:		
Charge for loan impairment (remeasurement/derecognition/loan origination)	2,764	6,326
Charge for loan impairment on foreclosed property at January 31	-	-
Charge for impairment (recovery) on investments	(24)	14
Recoveries	(143)	(131)
Total charge for loan impairment	2,597	6,209

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

Significant Increase in Credit Risk (“SICR”)

The judgments related to whether or not there was a SICR resulted in loans moving between stages and, therefore, being subject to different ECL models, as disclosed in the 2023 annual financial statements. With respect to delinquencies, the judgements used related to SICR have remained consistent with those at October 31, 2023.

Forward Looking Information (“FLI”)

As of January 31, 2024, the following FLI has been used in the measurement of the ECL, as compared to that used at October 31, 2023.

## 2024 FIRST QUARTER FINANCIAL REPORT

<b>January 31, 2024</b>	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
	<b>Driver</b>					
3 month BA rate %	3.54	2.76	5.78	4.29	2.10	1.65
3 month Government of Canada Bond Rate %	3.20	2.46	5.50	4.07	1.70	1.30
Alberta housing price index % change	3.98	1.92	5.97	2.77	(2.51)	0.15
Alberta unemployment rate %	5.80	5.55	4.84	4.96	8.14	7.16

<b>October 31, 2023</b>	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
	<b>Driver</b>					
3 month BA rate %	4.14	2.80	5.78	4.29	2.10	1.65
3 month Government of Canada Bond Rate %	3.80	2.51	5.50	4.07	1.70	1.30
Alberta housing price index % change	3.98	1.92	5.97	2.77	(2.20)	0.15
Alberta unemployment rate %	6.10	5.30	5.09	4.74	8.14	7.16

The reported expected credit losses as at January 31, 2024 for financial assets in Stage 1 and Stage 2 under the optimistic macroeconomic conditions, with other assumptions held constant, including the application of experienced credit adjustment decreased by approximately \$0.8 million (2023 – \$1.1 million).

The reported expected credit losses as at January 31, 2024 for financial assets in Stage 1 and Stage 2 under the pessimistic macroeconomic conditions, with other assumptions held constant, including the application of experienced credit adjustment increased by approximately \$1.8 million (2023 - \$1.9 million).

At January 31, 2024, management concluded that the weighting to be used would be 80% base, 10% best case, and 10% worst case (January 2023 – 80% base case, 10% best case, 10% worst case).

While management performs analysis at each reporting period to assess the weighting used in the ECL model, there still exists limitations of the model where industry specific or asset class specific factors are not considered in the broader-based assumptions. To account for these limitations, management has conducted sensitivity analysis to support an overlay that is added to the ECL outcome that is calculated by the model. At January 31, 2024 management has applied an overlay of \$5.0 million (October 2023 - \$5.1 million) to stage 1 and stage 2 loans in two industry specific commercial portfolios.

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

## 2024 FIRST QUARTER FINANCIAL REPORT

### Base case scenario

	Next 3 months	Next 4 to 6 months	Next 7 to 9 months	Next 10 to 12 months	Remaining forecast period
<b>Driver</b>					
3 month BA rate %	5.14	4.63	4.14	3.54	2.76
3 month Government of Canada Bond Rate %	4.80	4.30	3.80	3.20	2.46
Alberta housing price index % change	0.83	1.03	1.03	1.03	1.92
Alberta unemployment rate %	5.90	6.00	5.90	5.80	5.55

### Alternative scenario pessimistic

	Next 3 months	Next 4 to 6 months	Next 7 to 9 months	Next 10 to 12 months	Remaining forecast period
<b>Driver</b>					
3 month BA rate %	4.17	3.47	2.91	2.10	1.65
3 month Government of Canada Bond Rate %	3.75	3.05	2.50	1.70	1.30
Alberta housing price index % change	(1.68)	(0.55)	(0.42)	0.12	0.15
Alberta unemployment rate %	7.06	8.23	8.63	8.14	7.16

### Alternative scenario optimistic

	Next 3 months	Next 4 to 6 months	Next 7 to 9 months	Next 10 to 12 months	Remaining forecast period
<b>Driver</b>					
3 month BA rate %	5.54	6.03	5.98	5.78	4.29
3 month Government of Canada Bond Rate %	5.25	5.50	5.50	5.50	4.07
Alberta housing price index % change	1.33	1.54	1.54	1.44	2.77
Alberta unemployment rate %	5.42	5.24	5.03	4.84	4.96

### Foreclosed Property

In the three-month period ended January 31, 2024, the Credit Union foreclosed on an insured residential property.

## 8. FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out in the table below represent the fair values of the Credit Union's financial instruments. The valuations and assumptions are consistent with the most recent 2023 annual financial statements of Connect First.

2024 FIRST QUARTER FINANCIAL REPORT

<b>January 31, 2024</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total fair value</b>	<b>Carrying amount</b>
<b>Financial assets at amortized cost</b>					
Member loans		6,154,572		6,154,572	6,361,882
Investment securities		579,287		579,287	584,043
<b>Financial assets at FVTPL</b>					
Investment securities			2,056	2,056	2,056
Derivatives		10,865		10,865	10,865
<b>Financial assets at FVOCI</b>					
Investment securities		101,698		101,698	101,698
Total financial assets	-	6,846,422	2,056	6,848,478	7,060,544
<b>Financial liabilities at amortized cost</b>					
Deposits		6,050,000		6,050,000	6,118,379
Secured borrowings		385,191		385,191	425,964
<b>Financial assets at FVTPL</b>					
Derivatives		7,482		7,482	7,482
Total financial liabilities	-	6,442,673	-	6,442,673	6,551,825
<b>October 31, 2023</b>					
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total fair value</b>	<b>Carrying amount</b>
<b>Financial assets at amortized cost</b>					
Member loans		6,185,140		6,185,140	6,419,117
Investment securities		581,167		581,167	586,670
<b>Financial assets at FVTPL</b>					
Investment securities			1,989	1,989	1,989
Derivatives		9,460		9,460	9,460
<b>Financial assets at FVOCI</b>					
Investment securities		111,960		111,960	111,960
Total financial assets	-	6,887,727	1,989	6,889,716	7,129,196
<b>Financial liabilities at amortized cost</b>					
Deposits		6,170,945		6,170,945	6,232,605
Secured borrowings		347,877		347,877	372,196
<b>Financial assets at FVTPL</b>					
Derivatives		4,885		4,885	4,885
Total financial liabilities	-	6,523,707	-	6,523,707	6,609,686

**9. OTHER INCOME**

	<b>3 months ended January 31</b>	
	<b>2024</b>	<b>2023</b>
Service charges and other fees	1,887	1,754
Foreign exchange gain/(loss)	732	317
Loan fees	547	395
Insurance	413	376
Credit card fees	-	99
Wealth management	2,497	2,007
Other	112	748
	<u>6,188</u>	<u>5,696</u>

**10. OTHER EXPENSES**

	<b>3 months ended January 31</b>	
	<b>2024</b>	<b>2023</b>
Advertising	422	683
Technology	4,966	3,891
Member security and deposit insurance premium	1,107	1,089
Professional fees	464	936
Stationary, telephone, postage, courier	460	342
Financial planning	73	23
ATM/POS operations	540	453
Board expenses	197	154
Lending costs	480	559
Charitable donations/community investment	90	85
Occupancy	1,006	1,152
Other	2,850	1,289
	<u>12,655</u>	<u>10,656</u>

**11. CAPITAL MANAGEMENT**

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

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

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

Consequently, the collective minimum regulatory capital requirement under this approach is 13.50% of risk-weighted assets.

During the third quarter of 2023, the Credit Union Deposit Guarantee Corporation (“CUDGC”) approved a temporary 100 bps drop of its regulatory capital requirements to 12.50%, down from 13.50% in the previous reporting periods. This forbearance expires May 1, 2024.

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

Regulatory capital ratio of the Credit Union was 13.37% as at January 31, 2024 (13.56% at January 31, 2023). The Credit Union remained fully compliant with the applicable regulatory capital requirements at the reporting date.

For further information on capital management activities of the Credit Union, refer to note 6 of the annual consolidated financial statements.

## **12. MERGER WITH SERVUS CREDIT UNION**

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

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

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