



connectFirst
credit union

2023 THIRD QUARTER FINANCIAL REPORT

**For the three and nine months ended
July 31, 2023**

(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>(\$ Thousands)</i>	July 31, 2023	October 31, 2022
ASSETS		
Cash and cash equivalents	73,194	50,950
Investments (note 5)	742,602	679,423
Loans to members (note 6 and 7)	6,331,916	6,350,316
Foreclosed property (note 7)	3,715	1,740
Other assets	47,247	46,200
Intangible assets	15,721	13,595
Property and equipment	52,949	52,380
Right-of-use asset	18,963	20,654
Deferred tax asset	1,324	1,324
	<u>7,287,631</u>	<u>7,216,582</u>
LIABILITIES		
Members' deposits	6,251,392	6,025,747
Accounts payable and accruals	48,971	38,380
Lease liabilities	26,495	29,090
Secured borrowings	329,047	479,887
Deferred tax liability	-	-
	<u>6,655,905</u>	<u>6,573,104</u>
MEMBERS' EQUITY		
Common shares	297,036	288,158
Investment shares	150,940	153,305
Ownership dividend allocation	-	13,382
Investment share dividends declared	-	8,345
Contributed surplus (note 2)	7,445	7,445
Retained earnings	176,305	172,843
	<u>631,726</u>	<u>643,478</u>
	<u>7,287,631</u>	<u>7,216,582</u>

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

(unaudited)

	3 months ended July 31		9 months ended July 31	
	2023	2022	2023	2022
<i>(\$ Thousands)</i>				
FINANCIAL INCOME				
Interest on loans to members	72,488	55,044	206,307	150,212
Interest and dividends on investments	7,451	2,368	20,887	5,502
Unrealized gains/(losses) on interest rate swaps	1,337	(494)	895	1,705
	<u>81,276</u>	<u>56,918</u>	<u>228,089</u>	<u>157,419</u>
FINANCIAL EXPENSE				
Interest on members' deposits	43,181	14,498	110,284	32,797
Interest on loans payable	2,966	1,818	9,534	5,107
Interest on lease liability	289	276	889	870
	<u>46,436</u>	<u>16,592</u>	<u>120,707</u>	<u>38,774</u>
Financial margin	34,840	40,326	107,382	118,645
Charge for loan impairment	7,126	3,790	16,840	4,534
	<u>27,714</u>	<u>36,536</u>	<u>90,542</u>	<u>114,111</u>
Other income (note 9)	5,520	5,203	17,415	16,743
Gross margin	33,234	41,739	107,957	130,854
Personnel expenses	20,869	18,832	59,100	53,868
Operating lease expenses	684	648	2,070	1,959
Depreciation and amortization	2,201	2,257	6,765	6,744
Other expenses (note 10)	13,431	13,538	35,511	37,927
	<u>37,185</u>	<u>35,275</u>	<u>103,446</u>	<u>100,498</u>
Income before income taxes	<u>(3,951)</u>	<u>6,464</u>	<u>4,511</u>	<u>30,356</u>
Income taxes				
Current	(905)	1,623	1,038	4,870
Deferred (recovery)	-	(91)	-	447
	<u>(905)</u>	<u>1,532</u>	<u>1,038</u>	<u>5,317</u>
Net income and comprehensive income	(3,046)	4,932	3,473	25,039

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

<i>(\$Thousands)</i>	Common shares	Series A-H investment shares	Ownership dividends declared	Investment share dividends declared	Contributed surplus	Retained earnings	Total equity
Balance November 1, 2021	246,524	157,688	7,137	4,497	-	169,399	585,245
Acquisition of Spark (note 2)	5,096				7,445		12,541
Net income and comprehensive income						25,039	25,039
Transactions with members							
Shares issued to members for cash	47,880						47,880
Shares issued by dividend	7,137	4,497	(7,137)	(4,497)		16	16
Shares redeemed for cash	(20,538)	(8,599)					(29,137)
Balance July 31, 2022	286,099	153,586	-	-	7,445	194,454	641,584
Balance October 31, 2022	288,158	153,305	13,382	8,345	7,445	172,843	643,478
Net income and comprehensive income						3,473	3,473
Transactions with members							
Shares issued to members for cash	24,830						24,830
Shares issued by dividend	13,382	8,345	(13,382)	(8,345)		(11)	(11)
Shares redeemed for cash	(29,334)	(10,710)					(40,044)
Balance July 31, 2023	297,036	150,940	-	-	7,445	176,305	631,726

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

(unaudited)

(\$ Thousands)	NINE MONTHS ENDED	
	July 31, 2023	July 31, 2022
Cash flows from operating activities		
Net Income	3,473	25,039
Adjustments for:		
Interest on loans to members	(205,882)	(150,212)
Interest/dividends on investments	(21,312)	(5,502)
Interest expense	120,707	38,774
Unrealized gain on interest rate swaps	(895)	(1,705)
Depreciation and amortization	6,765	6,744
Gain on leased assets	(517)	-
Charge for loan impairment	17,491	5,249
Current/deferred income tax expense	1,038	5,317
Change in other assets	3,532	(5,396)
Change in accounts payable	2,278	(16,427)
Interest received	219,906	155,722
Interest paid	(87,053)	(35,234)
Income tax paid	3,592	(91)
Increase in members' deposits	191,991	464,902
(Increase)/decrease in loans to members, net of repayments	587	(655,335)
Proceeds from sale of foreclosed property	1,465	6,460
Net cash from/(used in) operating activities	257,166	(161,695)
Cash flows from financing activities		
Common shares issued for cash	24,830	47,880
Common share redemptions	(29,334)	(20,538)
Investment share redemptions	(10,710)	(8,599)
Advances of secured borrowing	115,775	264,027
Repayment of secured borrowing	(266,615)	(144,065)
Payment of lease liabilities	(2,273)	(2,208)
Net cash from/(used in) financing activities	(168,327)	136,497
Cash flows used in investing activities		
Cash acquired on amalgamation	-	218
Acquisition of investments	(1,010,985)	(1,297,663)
Proceeds from sale of investments	951,976	1,292,495
Acquisition of property and equipment, net	(3,627)	(1,143)
Acquisition of intangibles, net	(3,959)	(1,332)
Net cash used in investing activities	(66,595)	(7,425)
Increase/(decrease) in cash and cash equivalents	22,244	(32,623)
Cash and cash equivalents, beginning of period	50,950	53,171
Cash and cash equivalents, end of period	73,194	20,548

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited)

For the nine months ended July 31, 2023

(\$ 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. BUSINESS COMBINATION

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

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

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

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

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

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

As the initial accounting of the business combination transaction with Spark was not completed as of the reporting period ended July 31, 2022, management has restated the comparative provisional information for that period to account for any measurement changes that were subsequently recognized. Consequently, an incremental adjustment of \$758 to restate contributed surplus to \$7,445, up from previously disclosed \$6,687, was completed on the Condensed Consolidated Statement of Changes in Members' Equity.

3. 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 consequently do not include all of the information required for the full annual financial statements and, therefore, should be read in conjunction with Connect First's 2022 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 2022 annual financial statements of Connect First.

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

Certain comparative information has been amended to conform to current period presentation. These reclassifications had no impact on Connect First's net assets or profit or loss.

These condensed consolidated interim financial statements were approved by the Board of Directors on September 5, 2023.

4. SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

The preparation of the interim condensed consolidated financial statements in conformity with International Financial Reporting 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 included the measurement of the allowance for loan impairment, deferred tax assets and liabilities, the estimate of fair value of foreclosed property, valuation of leased assets and liabilities, the useful lives of property and equipment, and intangibles, and the estimate of fair value of financial instruments measured at fair value, and the fair value of assets and liabilities acquired in a business combination. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates have been recognized in the period in which the estimates are revised and in any future periods affected.

5. INVESTMENTS

	As at July 31 2023	As at October 31 2022
Investments - term deposits and other debt securities	55,880	61,210
Alberta Central term deposits		
- Non-statutory term deposits	91,000	28,688
- Statutory term deposits	528,387	524,488
Alberta Central common shares	67,335	65,037
	<u>742,602</u>	<u>679,423</u>

6. MEMBERS' LOANS

The following table shows the gross carrying amount of loans measured at amortized cost as at July 31, 2023. Stage 1 represents performing loans with a 12-month expected credit loss, Stage 2 represents performing loans with a lifetime expected credit loss, and Stage 3 represents impaired loans with a lifetime expected credit loss.

	Stage 1	Stage 2	Stage 3	Total	Accrued Interest	Allowance for Credit Losses	Total Net of Allowance
As at July 31, 2023							
Consumer	666,233	38,738	2,466	707,437	2,037	7,885	701,589
Residential mortgage	2,714,592	80,657	5,413	2,800,662	4,076	1,121	2,803,617
Commercial and agriculture	2,741,677	28,517	64,651	2,834,845	16,839	24,974	2,826,710
Total member loans	<u>6,122,502</u>	<u>147,912</u>	<u>72,530</u>	<u>6,342,944</u>	<u>22,952</u>	<u>33,980</u>	<u>6,331,916</u>

	Stage 1	Stage 2	Stage 3	Total	Accrued Interest	Allowance for Credit Losses	Total Net of Allowance
As at October 31, 2022							
Consumer	620,701	33,812	2,165	656,678	1,582	8,165	650,095
Residential mortgage	2,745,638	84,991	1,854	2,832,483	3,514	1,753	2,834,244
Commercial and agriculture	2,798,144	16,811	56,132	2,871,087	14,738	19,848	2,865,977
Total member loans	<u>6,164,483</u>	<u>135,614</u>	<u>60,151</u>	<u>6,360,248</u>	<u>19,834</u>	<u>29,766</u>	<u>6,350,316</u>

7. ALLOWANCE FOR EXPECTED CREDIT LOSSES

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

Residential mortgages	Stage 1	Stage 2	Stage 3	Total
As at November 1, 2021	974	680	193	1,847
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	351	(301)	(50)	-
Remeasurement of loss allowance other than stage transfers	(462)	316	51	(95)
Derecognitions and maturities	(115)	(78)	(65)	(258)
Loan originations	307	71	-	378
Total remeasurement of loss allowance	81	8	(64)	25
Write offs	-	(7)	(27)	(34)
As at July 31, 2022	1,055	681	102	1,838
As at November 1, 2022	948	573	232	1,753
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	124	(125)	1	-
Remeasurement of loss allowance other than stage transfers	(686)	(58)	174	(570)
Derecognitions and maturities	(57)	(33)	(40)	(130)
Loan originations	42	36	-	78
Total remeasurement of loss allowance	(577)	(180)	135	(622)
Write offs	-	-	(10)	(10)
As at July 31, 2023	371	393	357	1,121
Consumer loans	Stage 1	Stage 2	Stage 3	Total
As at November 1, 2021	3,017	1,566	899	5,482
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	507	(421)	(86)	-
Remeasurement of loss allowance other than stage transfers	(778)	688	1,021	931
Derecognitions and maturities	(329)	(104)	(114)	(547)
Loan originations	1,570	136	135	1,841
Total remeasurement of loss allowance	970	299	956	2,225
Write offs	(476)	(148)	(530)	(1,154)
As at July 31, 2022	3,511	1,717	1,325	6,553
As at November 1, 2022	3,823	3,157	1,185	8,165
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	451	(314)	(137)	-
Remeasurement of loss allowance other than stage transfers	(644)	1,225	1,272	1,853
Derecognitions and maturities	(127)	(218)	(281)	(626)
Loan originations	634	91	140	865
Total remeasurement of loss allowance	314	784	994	2,092
Write offs	(824)	(871)	(677)	(2,372)
As at July 31, 2023	3,313	3,070	1,502	7,885

2023 THIRD QUARTER FINANCIAL REPORT

Commercial and agriculture loans	Stage 1	Stage 2	Stage 3	Total
As at November 1, 2021	2,699	799	19,690	23,188
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	688	(435)	(253)	-
Remeasurement of loss allowance other than stage transfers	(424)	298	2,130	2,004
Derecognitions and maturities	(280)	(19)	(34)	(333)
Loan originations	1,253	175	-	1,428
Total remeasurement of loss allowance	1,237	19	1,843	3,099
Write offs	(20)	(91)	(15,748)	(15,859)
As at July 31, 2022	3,916	727	5,785	10,428
As at November 1, 2022	3,961	964	14,923	19,848
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	33	32	(65)	-
Remeasurement of loss allowance other than stage transfers	1,839	751	12,884	15,474
Derecognitions and maturities	(430)	(60)	(187)	(677)
Loan originations	821	1	13	835
Total remeasurement of loss allowance	2,263	724	12,645	15,632
Write offs	-	-	(10,506)	(10,506)
As at July 31, 2023	6,224	1,688	17,062	24,974
Totals at July 31, 2022	8,482	3,125	7,212	18,819
Totals at July 31, 2023	9,908	5,151	18,921	33,980

The total allowance for expected credit losses is reconciled as follows:		
	July 2023	July 2022
November 1 allowance for expected credit losses	29,766	30,517
Charge for loan impairment:		
Net remeasurement due to stage transfers	-	-
Remeasurement of loss allowance other than stage transfers	16,757	2,840
Derecognitions and maturities	(1,433)	(1,138)
Loan originations	1,778	3,647
Write-offs	(12,888)	(17,047)
Allowance for expected credit losses, July 31	33,980	18,819
The charge for loan impairment on the statement of comprehensive income is reconciled as follows:		
Charge for loan impairment as above	17,102	5,349
Charge for loan impairment on foreclosed property at July 31	290	-
Charge for impairment on investments	(310)	(380)
Recoveries	(242)	(435)
Total charge for loan impairment	16,840	4,534

As previously disclosed in Note 4, 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 the following 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 note 3 to the 2022 annual consolidated financial statements. With respect to delinquencies, the judgements used related to SICR have remained consistent with those at October 31, 2022.

Forward Looking Information (“FLI”)

As of July 31, 2023, the following FLI has been used in the measurement of the ECL, as compared to that used at October 31, 2022.

2023 THIRD QUARTER FINANCIAL REPORT

July 31, 2023	Base case scenario		Alternative scenario optimistic		Alternative scenario pessimistic	
	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Driver						
3 month BA rate %	4.09	2.98	5.93	5.02	2.27	1.84
3 month Government of Canada Bond Rate %	3.60	2.53	5.50	4.65	1.70	1.30
Alberta housing price index % change	0.65	1.13	3.37	2.08	(2.20)	0.15
Alberta unemployment rate %	6.20	5.36	5.18	4.80	8.14	7.16

October 31, 2022	Base case scenario		Alternative scenario optimistic		Alternative scenario pessimistic	
	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Driver						
3 month BA rate %	4.06	2.98	5.50	4.94	1.31	1.66
3 month Government of Canada Bond Rate %	3.60	2.54	5.10	4.57	0.75	1.12
Alberta housing price index % change	0.30	1.00	4.36	1.00	(2.01)	0.15
Alberta unemployment rate %	5.60	5.27	4.81	4.65	7.63	7.23

The reported expected credit losses at July 31, 2023 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 (2022 – \$0.9 million).

The reported expected credit losses 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 \$1.9 million (2022 - \$2.5 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 %	5.23	5.17	4.78	4.09	2.98
3 month Government of Canada Bond Rate %	4.75	4.70	4.30	3.60	2.53
Alberta housing price index % change	(0.02)	0.09	0.29	0.29	1.13
Alberta unemployment rate %	6.00	6.10	6.30	6.20	5.36

	Alternative scenario pessimistic				
	Next 3 months	Next 6 months	Next 9 months	Next 12 months	Remaining forecast period
Driver					
3 month BA rate %	3.95	3.45	2.64	2.27	1.84
3 month Government of Canada Bond Rate %	3.35	2.85	2.05	1.70	1.30
Alberta housing price index % change	(1.68)	(0.49)	(0.16)	0.12	0.15
Alberta unemployment rate %	7.06	8.23	8.63	8.14	7.16

	Alternative scenario optimistic				Remaining forecast period
	Next 3 months	Next 6 months	Next 9 months	Next 12 months	
Driver					
3 month BA rate %	5.68	6.17	6.12	5.93	5.02
3 month Government of Canada Bond Rate %	5.25	5.75	5.70	5.50	4.65
Alberta housing price index % change	0.93	1.14	0.63	0.63	2.08
Alberta unemployment rate %	5.51	5.43	5.31	5.18	4.80

Foreclosed Property

In the nine-month period ended July 31, 2023, a commercial building was moved into foreclosure and is currently being managed by the Credit Union. This has resulted in an increase of \$3.5 million to the foreclosed property balance.

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 2022 annual consolidated financial statements of Connect First.

The undernoted fair values reflect conditions that existed only at the respective balance sheet dates and do not necessarily reflect future value or the amounts Connect First might receive or pay if it were to dispose of any of its financial instruments prior to their maturity.

July 31, 2023

	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Assets					
Investments - amortized cost	-	576,125	-	576,125	584,266
Investments - FVOCI	-	158,336	-	158,336	158,336
Loans	-	6,038,549	-	6,038,549	6,331,916
Derivatives	-	4,781	-	4,781	4,781
Total	-	6,777,791	-	6,777,791	7,079,299
Liabilities					
Deposits	-	6,164,608	-	6,164,608	6,251,392
Secured borrowings	-	298,098	-	298,098	329,047
Total	-	6,462,706	-	6,462,706	6,580,439

October 31, 2022

	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Assets					
Investments - amortized cost	-	576,885	-	576,885	585,698
Investments - FVOCI	-	93,725	-	93,725	93,725
Loans	-	6,017,221	-	6,017,221	6,350,316
Derivatives	-	3,901	-	3,901	3,901
Total	-	6,691,732	-	6,691,732	7,033,640
Liabilities					
Deposits	-	5,979,665	-	5,979,665	6,025,747
Secured borrowings	-	448,614	-	448,614	479,887
Total	-	6,428,279	-	6,428,279	6,505,634

9. OTHER INCOME

	9 months ended July 31	
	2023	2022
Service charges and other fees	5,310	4,825
Foreign exchange gain/(loss)	1,167	1,060
Loan fees	1,267	931
Insurance	1,403	1,603
Credit card fees	99	435
Wealth management	6,745	6,844
Other	1,424	1,045
	17,415	16,743

10. OTHER EXPENSES

	9 months ended July 31	
	2023	2022
Advertising	2,221	4,730
Technology	12,371	10,696
Member security and deposit insurance premium	3,337	3,154
Professional fees	3,090	3,601
Stationary, telephone, postage, courier	1,166	1,510
Financial planning	138	135
ATM/POS operations	1,537	1,237
Board expenses	603	570
Lending costs	1,521	1,716
Charitable donations/community investment	189	304
Occupancy	3,430	5,682
Other	5,908	4,592
	<u>35,511</u>	<u>37,927</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”).

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 13.50% (2022 - 13.5%) of risk-weighted assets comprised of 8.0% of risk-weighted assets plus a regulatory buffer of 3.5% (2022 – 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. During the third quarter, 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.

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 to the required 13.50%. Regulatory capital ratio of the Credit Union was 13.53% as at July 31, 2023 (13.64% at July 31, 2022), therefore the Credit Union remained fully compliant with the applicable regulatory capital requirements at the reporting period.

For further information on capital management activities of the Credit Union, refer to note 5 of the annual consolidated financial statements.

12. MERGER WITH SERVUS CREDIT UNION

On March 3, 2023 the Board of Directors (“Board”) 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 has been signed by both Boards of Connect First and Servus. Each credit union has 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 will occur on September 19, 2023 for Servus and on September 20, 2023 for Connect First. The timing of the Transaction is currently unknown as it is subject to both a positive member vote and regulatory approval.