



Connect First and Servus Credit Union Ltd.

Management's Discussion & Analysis

For the year ended October 31, 2024

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Connect First and Servus Credit Union Ltd.'s ('CFSCU' or 'Credit Union') 2024 annual report consists of the Management's Discussion and Analysis ('MD&A') and the Consolidated Financial Statements for the year ended October 31, 2024, which details our credit union's financial and operating results. This document is available upon request or online at www.servus.ca.

Note Regarding Forward-Looking Statements

This annual report contains forward-looking statements, which CFSCU may also provide in other written or verbal communications. These statements often address objectives, short- and medium-term targets, planned strategies, and outlooks for operations or the Alberta economy. Common terms include "anticipate," "believe," "expect," "intend," and similar expressions, as well as conditional verbs like "could," "should," or "will." Such statements inherently involve assumptions by CFSCU's management and are subject to both general and specific risks and uncertainties.

Various factors may cause actual results, conditions, actions, or events to differ significantly from those anticipated in forward-looking statements. These include changes in legislation, regulation, markets, technology, or general economic conditions such as interest rates, commodity prices, currency values, and liquidity. Geopolitical uncertainty and CFSCU's ability to anticipate and manage related risks also play a role. For more details, refer to the Risk Management section of our MD&A.

CFSCU reminds readers that this list is not comprehensive. Those relying on forward-looking statements should carefully consider these and other factors that could negatively impact CFSCU's future results, as there is a substantial risk these statements may not prove accurate.

Member Banking

The Credit Union has served Albertans for over 80 years with a full line of secure financial services. After the merger between connectFirst and Servus that closed in May 2024, we now have more than 140 branches in 80 communities throughout the entire province of Alberta, as well as options for online and mobile banking. We offer cooperative financial services delivered by a strong, purpose-driven organization.

We're proud of the relationships we have developed with our members and strive to be a valuable strategic partner that offers market-leading, personalized support and expert financial solutions. From financial advisors who help members achieve their personal money goals, to business banking experts specializing in solutions that power Alberta businesses, to our wealth strategies team who offer sophisticated planning and investment advice — we're dedicated to helping our members feel good about their money.



We're dedicated to helping our members feel good about their money.

[View All Branches](#)

Leading CFSCU is our Executive Leadership Team with deep experience in the industry:



Ian Burns
Chief Executive Officer



James Shore
Chief of Staff



Randy Allarie
Chief Risk Officer

Michelle Belland
Chief People and Experience Officer



Ryan Gobolos
Chief Financial Officer



Dion Linke
Chief Operating and Integration Officer

Atul Varde
Chief Information and Payments Officer



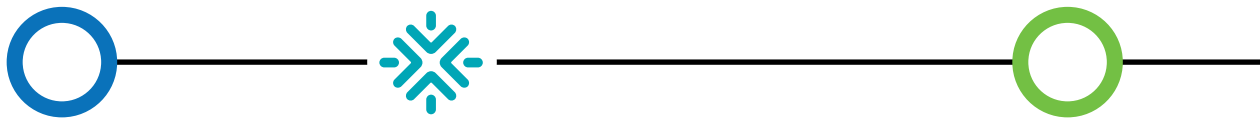
Over the past year, the Credit Union has taken great strides to evolve our credit union to continue providing the expert advice and modern services our members expect and deserve.

In May 2024, we made credit union history by combining connectFirst and Servus credit unions through a merger supported by more than 84% of each credit union's voting members. This historic milestone resulted in us becoming one of the strongest credit unions in Canada – a credit union by Albertans, for Albertans. We now offer a truly province-wide network of branches staffed by more than 3,000 dedicated employees. This merger ensures the credit union way of banking continues to thrive in Alberta, despite challenges present in the marketplace today.

[On September 27, 1938 the Servus story begins >>](#)

[In 1939 the connectFirst story begins >>](#)

[On May 1, 2024 connectFirst and Servus Credit Unions Merge >>](#)



Drawing on the best of both credit unions, we are on a mission to reignite the power of cooperative banking and create a new and brighter tomorrow for all our members. Cooperative principles remain our guiding light as we focus on better ways of banking, helping change lives and driving for a better world where community banking sets the standard in the digital age.



Cooperative principles remain our guiding light as we focus on better ways of banking, helping change lives and driving for a better world...

Trailblazing this new path requires a bold and transformative journey where we will, over time, reinvent and modernize the member experience, both in branch and online. Our aim is to ensure members enjoy the personal touch of local banking enabled by technological ingenuity that rivals our biggest competitors. In so doing, we can reach more members in more meaningful ways. Because when we empower our members, we grow communities, and we propel Alberta forward.

To enhance our service levels this year, we made significant changes to how Servus members bank by launching a new digital banking platform – leveraging the same technology already in use at connectFirst. This modernization provides a reliable platform for mobile and online banking and will enable us to grow and evolve even further as we add new features over time. The new platform is part of our efforts to deliver a seamless banking experience to all members so they can easily bank when, how, and where they want.

Our Shared Approach

Both Servus and connectFirst have been financial pillars for Albertans for many years. Throughout our long histories, both credit unions have prioritized the needs of our members, going beyond traditional financial services to create personalized member experiences. Now that we have merged, being a valuable strategic partner will remain our focus as we continue to provide advice, encouragement, and support to our members as they strive for and achieve their financial goals. This is how both credit unions have always operated, and it is how we will continue to operate for years to come.

Also at the heart of every credit union is a deep commitment to serving and empowering communities. We are member-owned, community-based and we operate on the principle of people helping people. As a merged entity, we will continue to improve and invest in the places where we live and work, helping to foster financial well-being so we can build strength and prosperity in our local communities across Alberta.

Finally, as a merged entity, we are bringing together two teams who value working with integrity, honesty, and fairness. These values have been the bedrock of both credit unions, and they will continue to lead us in our work for members as we embrace our joint future.

Environment, Social, Governance+

CFSCU embraces Environment, Social & Governance+ (ESG+) as a lens to manage our business responsibly, meeting the needs of our members and communities today while safeguarding the needs of the future. While traditional ESG programs focus on three pillars: environment, social and governance, our framework includes a fourth pillar: economics, which involves us adapting to our economic environment by making capital conscious business decisions. Through our ESG+ approach, we track our carbon footprint and uphold strong systems for corporate accountability.



We are member-owned, community-based and we operate on the principle of people helping people.

Environmental Reporting

CFSCU has gathered environmental data for many years through our former Corporate Social Responsibility program, now part of our ESG+ framework. This reflects our longstanding commitment to sustainability and environmental responsibility. As we integrate practices from both Servus and connectFirst, we continue to adapt and enhance our efforts, expanding our environmental tracking program to meet evolving industry standards and address challenges like climate change.

Tracking environmental metrics has helped us better understand and manage our impact on the planet. To enhance this effort, we are exploring improved emissions tracking to uncover new opportunities for reducing our carbon footprint.

Sustainability is at the core of our ESG+ framework, guiding us in creating lasting value for our members, communities, and stakeholders. Through continuous monitoring and assessment, we are committed to environmental stewardship and building a more sustainable future.

Compliance with Climate Risk Guidelines

Our regulator, the Credit Union Deposit Guarantee Corporation (CUDGC), has recently published Climate Risk Guidelines that Alberta credit unions are required to implement and comply with in 2025 and beyond. These guidelines provide a framework for identifying, assessing, and managing climate-related risks. CFSCU has already initiated efforts to align with these guidelines. We expect that our operations will be more resilient to climate change impacts as we continue to assess and mitigate potential environmental risks that impact our operations and members.

Economic Impact

Our economic impact focuses on efficiently using our resources as a credit union to ensure long-term sustainability to continue serving our members' financial needs. By helping our members, we contribute towards healthier, more viable and prosperous households and communities.

In 2024, we issued a Financial Fitness Survey to our members during the latter half of the year, emphasizing simple and effective strategies to spend, save, borrow, and plan:



SPEND

Spend less than income

- Pay bills on time



SAVE

Have sufficient liquid savings

- Have sufficient long-term savings



BORROW

Have manageable debt

- Have a prime credit score



PLAN

Have appropriate insurance

- Plan ahead financially

Survey results reflect member behaviours across each of the above strategies. In 2024, overall financial fitness scores as well as spending, saving, borrowing, and planning scores collected from CFSCU members outpaced average Alberta scores.

Social Impact

CFSCU continues to prioritize social responsibility. The merger has enabled CFSCU, as one of Canada's largest credit unions, to serve nearly 500,000 members across Alberta. Our expanded network strengthens our ability to support local communities while offering members personalized, community-focused banking experiences.

Community Investment and Sponsorship

This past year, CFSCU proudly supported communities across Alberta through over \$2 million in partnerships, including donations and sponsorships, across approximately 500 organizations.

Our social impact is organized under three pillars:



Community Access

Partnerships with film festivals to boost our brand
Free and low-cost access to activities like skating, swimming and soccer



Supporting Mental Well-Being

Servus Marathon title sponsorships in Edmonton and Calgary
18 food bank partnerships across Alberta to ease food insecurity



Improving Financial Literacy

Partnerships with Junior Achievement
Financial workshops through:
Federation of Calgary Communities & Edmonton Federation of Community Leagues

Our contributions included wildfire relief efforts, funding for food banks, and support for public initiatives like Stampede breakfasts, free swimming, school lunch programs, and community events – ensuring inclusive opportunities for Albertans.

We also partnered with key organizations to advance critical causes, such as safe housing, youth financial literacy, and Indigenous knowledge sharing. In addition, many of our employees volunteered their time to local causes.

Through these efforts, CFSCU continued to build strength and prosperity in our local communities. This reflects our commitment to building stronger, more resilient communities and creating a lasting positive impact across the province.

Community Councils

As a member-owned credit union, it is critically important to understand the communities in which we work and play. Community councils are an integral way for us to connect with our members and obtain feedback about our community involvement. Through 2024 and heading into 2025, efforts are underway to integrate and refresh the community council concept as a result of our merger.

Diversity, Equity, Inclusion & Belonging

We are deeply committed to integrating diversity, equity, inclusion, and belonging (DEIB) across our organization. This is reflected within our hiring practices and through creating a meaningful and fulfilling workplace for our employees. This is also reflected across our branch network and the services we provide, ensuring that all Albertans are welcome as members.

1. New Employee Resource Circles for Neurodivergent employees and Aspiring Women In Leadership.
2. South Asian Employee Resource Circle: Diwali celebrations to promote cultural exchange and first annual cricket match to foster connection through sport.
3. BIPOC Resource Circle Trivia Night raised \$1K in donations towards Black history and cultural awareness.
4. Pride Employee Resource Circle: Drag Me Out to the Ball Game raised over \$30K in raising awareness on 2SLGBTQ2+ issues.
5. Respectful Workplace signage to promote employee advocacy and respect between employees and members.



Recognizing Our Credit Union

In 2024, the organization was honoured to receive several prestigious awards, reflective of our employees' ongoing efforts to provide exceptional member service.

Our awards included:

- Recognition among an aggregate of Canadian credit unions that received the overall 2024 Customer Service Excellence Award for all financial institutions in the retail banking sector. This is one of Ipsos' Best Banking Awards, an annual program that recognizes Canadian financial institutions for excellence in customer experience.
- Requalification as a Platinum Club member of Deloitte LLPs' Canada's Best Managed Companies. This is a level reserved for businesses that have maintained their Best Managed Companies status for seven or more years. The organization has received this award for the past 21 years.
- Tied for second place on the Surviscor Service Level Assessment review list of Canadian financial institutions. This award is based on an index that measures Canadian banking firms for their customer service levels.

Economic Review & Outlook

The Global Perspective

As of October 31, 2024, the global economy is projected to finish 2024 with 3.2% annual growth, below the 3.3% it achieved in 2023. A slight improvement to 3.3% growth is expected for 2025. National economic output is becoming less divergent. The United States, which recently led global economic growth, is slowing down, while Europe shows signs of strengthening. China has exceeded expectations thanks to strong domestic spending.

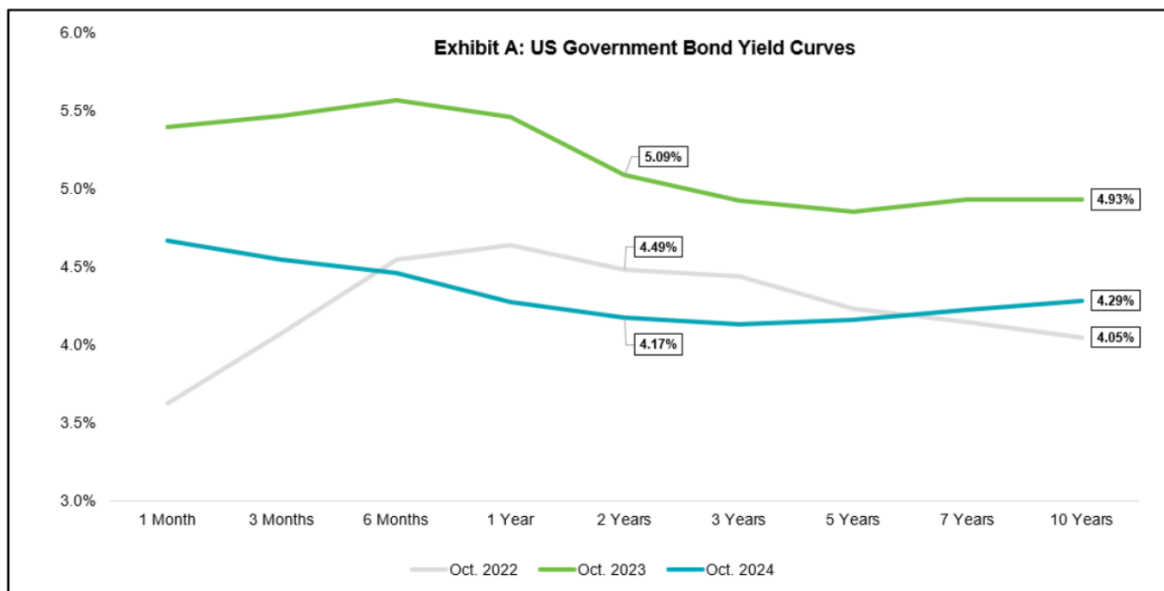
Inflation slowdown has been sluggish due to persistently high inflation levels in the services sector. Inflation on goods, on the other hand, has declined sharply, driving overall inflation decline. In the United States, hopes for a "soft landing" outcome through controlled inflation reduction face the risk of a "no landing" scenario, where economic expansion reignites inflation. At 4.1%, the latest US unemployment rate remains below historical averages while productivity remains strong. This has led to the Federal Reserve initiating rate cuts later than other central banks, sparking market speculation that the United States may soon pause its current series of rate cuts.

Expectations in emerging economies have been revised upward, particularly as China's and India's strength is expected to fuel widespread growth across many developing nations.

While the outlook for the global economy remains balanced, significant short-term risks persist. Inflation could remain elevated related to the services sector, geopolitical tensions, and rising trade protectionism. The ongoing Russia-Ukraine conflict, as well as the war between Israel and Hamas pose additional threats, with potential for broader economic shocks. The Russia-Ukraine conflict will mark three years in February 2025, and the Israel-Hamas war, which began in October 2023, faces heightened risks of escalation and international involvement.

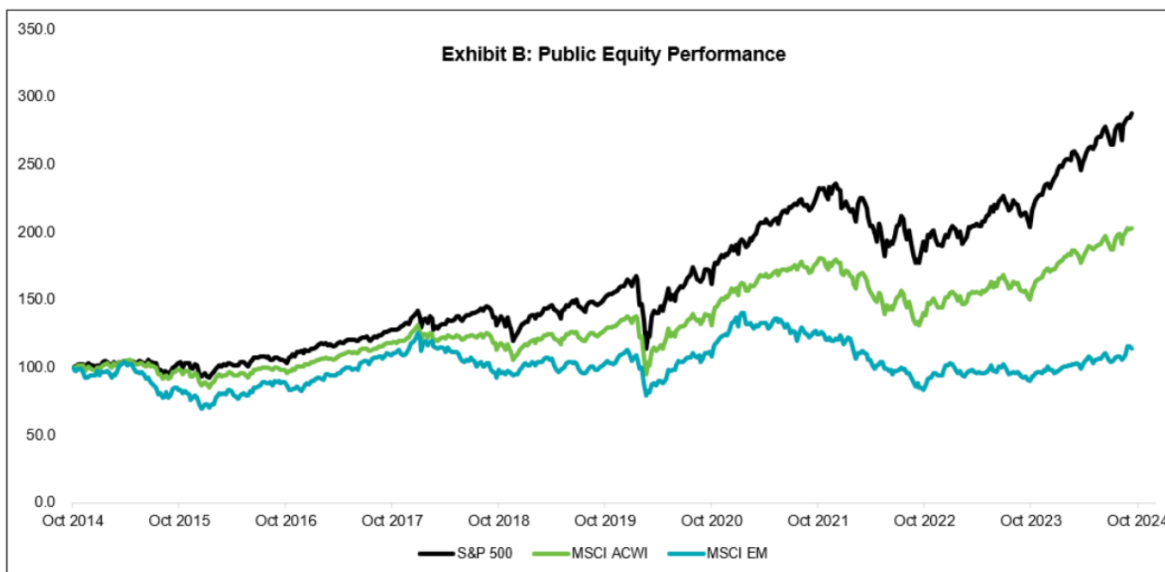
2024 has been a significant election year in the United States with Donald Trump being re-elected to office on November 5, 2024. Talks of tariffs on Canadian imports into the US could cost the Canadian economy dearly, resulting in economic shrinkage and inflation creeping up, ultimately burdening consumers with higher prices.

Easing inflation has lowered bond yields, while optimism for a soft landing have lifted public equity valuations. US government bond yields have significantly fallen year-over-year, leading to a normalized yield curve. US two-year yields decreased 92 basis points (bps) since October last year while ten-year yields fell 66 bps, seen in Exhibit A below. As of early November 2024, yield curves are indicating a normal, upward-sloping curve shape.



Source: Bloomberg.

The S&P 500 has risen 24% in 2024, excluding its 1.2% dividend yield. U.S. equity valuations have benefitted from the widespread adoption of artificial intelligence, while global markets have also climbed. The MSCI All Country World Index (ACWI) is up 16% this year with a 1.6% dividend yield, and emerging markets are seeing smaller gains, with the MSCI Emerging Markets (EM) Index up 11% and a 2.6% dividend yield. These increases are notable from a historical perspective, leaving most markets well above their pre-COVID levels (see Exhibit B on the next page below).

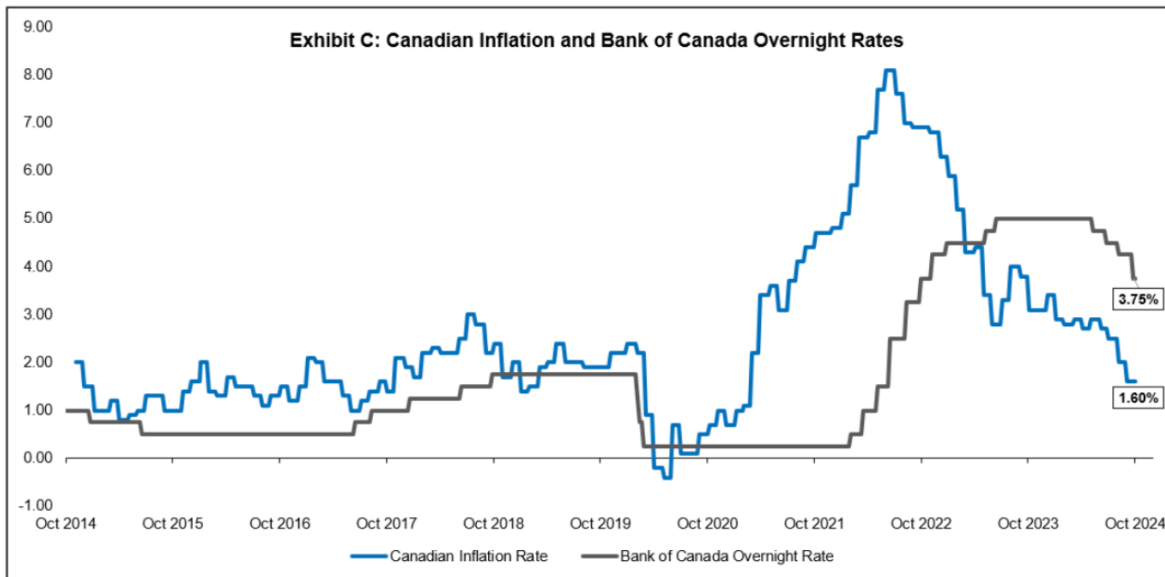


Source: Bloomberg. Price return only. Dividends are excluded. Index values scaled to equal 100 on Oct. 31, 2014.

The Canadian Perspective

By September 2023, Canada's inflation rate dropped to 1.6%, down from 3.1% in October 2023 and its 8.1% peak in June 2022. This return to the target inflationary range of 1-3% without entailing economic contraction has been positive for Canadians. The Bank of Canada began cutting interest rates in June 2024, making three 25-bps cuts and a 50-bps cut by October 2024. More cuts, totaling at least 75 bps, are expected by September 2025.

These rate cuts should ease borrowing costs for consumers paying variable interest, thereby boosting spending, domestic consumption, and the economy. Canadian consumers are highly leveraged and sensitive to interest rates, so with inflation and interest rates lowering in a timely manner, Canada is poised to avoid a technical recession (a situation entailing two consecutive quarters of negative growth). Real GDP is projected to grow 1.2% in 2024, 2.1% in 2025, and 2.4% in 2026. Rising consumer and business insolvencies have recently slowed, offering hope that the harsher effects of previous monetary policies are behind us.



Source: Bloomberg.

Canada's next federal election is due by October 2025 but could happen sooner given the recent announcement and intent to resign from office by Prime Minister Justin Trudeau.

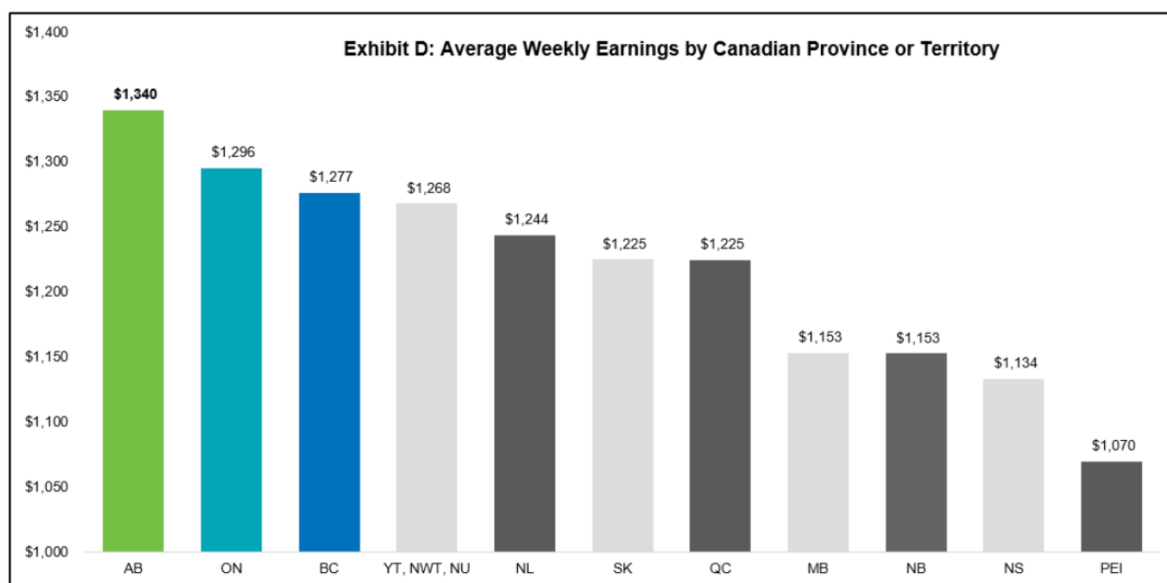
The Alberta Perspective

Alberta's real GDP economy is set to finish 2024 with a 3.3% increase, up from 1.5% in 2023, with further acceleration to 3.5% annual rate expected in 2025. Inflation has eased since 2022 but remains above the national average—1.9% in Alberta versus the national average of 1.6% in September 2024. High housing costs are driving Alberta's inflation, limiting household spending on discretionary items.

Rapid population growth is a key factor behind rising housing costs. In 2024, Alberta's population is expected to grow to 4.6%, up from 4.1% in 2023, mainly due to international immigration and interprovincial relocation. This trend is expected to plateau in 2025, with Alberta's population expected to grow by 3.2% next year. Nevertheless, this extended period of growth continues to strain housing availability and adds pressure to the provincial healthcare and education systems. Real GDP per capita is expected to remain flat in 2024 and 2025, staying below its 2022 post-COVID peak.

Unemployment in Alberta has risen despite economic growth, as the growth in labor availability outpaces job creation. The unemployment rate is expected to average 7% in 2024 before improving to 6.8% in 2025. Currently, Alberta remains Canada's highest-paying province, with average weekly earnings of \$1,340 (see Exhibit D below). Albertan wages have grown steadily; however, there is concern that this wage advantage will weaken should ongoing population growth (and consequently, labour supply) remain high.

Alberta's major cities, Edmonton and Calgary, are absorbing much of the province's rapid population growth, along with its challenges, like climbing housing costs and strains on public infrastructure. Edmonton's population is projected to grow from 1.59 million in July 2023 to 1.71 million by 2025 and 1.81 million by 2028. Edmonton's population and real GDP are expected to grow over 2% annually from 2024 to 2028, while real GDP per capita is forecast to decline by about 2% per year during this time. Calgary's population growth is trending consistent with Edmonton's.



Source: Alberta Economic Dashboard. August 2024 reported data.

2024 Financial Highlights

In 2024 CFSCU's focus on fiscal responsibility and sustainable growth led to strong financial results, despite uncertainty in the financial services industry across Canada.

CFSCU's balance sheet post-merger is both strong and sustainable. By focusing on stable member deposits, the credit union has supported steady loan growth. While the income statement reflects the ongoing pressure our credit union faces in the financial services market, it is also a testament to our ability to withstand uncertainties. There was a strong focus this fiscal year to preserve net interest income in a high-interest rate environment. Cost management continues to be a challenge, given adverse macroeconomic conditions and elevated costs associated with our joint ventures and equity investments. The strength and scale of the merged credit union is expected to result in synergies that will strengthen both the income statement and balance sheet as integration milestones are achieved.

The merger occurred when interest rates were significantly elevated in the market as compared to the origination rates in our loan and deposit portfolios. This interest rate environment, combined with the merger-related accounting requirement to value CFCU assets and liabilities at fair market value, resulted in large accounting adjustments.



In 2024 CFSCU's focus on fiscal responsibility and sustainable growth led to strong financial results, despite uncertainty in the financial services industry across Canada.

These adjustments had an immediate downward impact on capital and will reverse over future years. The subsequent reversal will positively impact both income and capital. While the financial statements reflect these merger adjustments, the discussion on financial results focuses on the credit union's underlying operational results.

The investment in Alberta Central shifted from an equity investment to full consolidation due to the credit union having majority of the seats on Alberta Central's board of directors and a majority share ownership post-merger. Under equity accounting, the Credit Union's investment in Alberta Central appears as one line on the balance sheet and one line on the income statement. Using consolidation, all Alberta Central assets and liabilities appear on the consolidated balance sheet and all revenue and expenses appear in the relevant sections on the consolidated income statement. All transactions between the Credit Union and Alberta Central are eliminated as they are considered intercompany transactions. The accounting for the consolidation required all assets and liabilities of Alberta Central to be valued at fair market value, having an immediate impact on the consolidated entity's income and capital as well as an ongoing impact on both income and capital over the next several years.

Net income is elevated over prior year results as expected post-merger. Net income for 2024 includes six months of the combined credit union results while net income for 2023 only reflects the operational results of Servus. This construct creates challenges with meaningful year over year comparisons as all financial results in the current year are significantly elevated as a result of becoming a joint entity. Net income is positively impacted by strong net interest income, with some adverse offsets from higher expenses and elevated provision for credit losses as a joint entity.

Financial Position

The successful merger and focus on sustainable growth resulted in assets under management of \$37.6 billion and total assets of \$29.3 billion. Total assets, representing assets that are on the balance sheet, are primarily comprised of \$24.9 billion in member loans and leases. The focus leading up to and immediately following the merger was on capital maintenance to address the immediate accounting impacts related to the merger.

CFSCU continues to support members who are facing mortgage and loan renewals at elevated interest rates. As these renewals continue over the next several years, we will continue to focus on supporting our members in finding financial solutions that align with their goals.

The Credit Union continues to expand the equipment leasing business that was acquired in 2023 to serve both Albertans and Canadians.

Regulatory Capital Performance and Requirements

CFSCU is well capitalized with capital ratios well above the regulatory requirement and capital to risk weighted assets slightly higher than the previous year.

	2024	2023	Minimum Regulatory Requirement
Capital as a % of total assets	8.6%	8.7%	4.0%
Capital as a % of risk weighted assets	14.8%	14.8%	11.5%

Going forward, our focus is on the deliberate deployment of capital in profitable and sustainable areas that will allow for ongoing capital maintenance through retained earnings growth. Capital will continue to be positively impacted over the next several years as the immediate financial impact from the merger reverses.

Net Interest Income

Net interest income is the difference between interest earned on assets (primarily member loans and investments) and interest paid on liabilities (primarily member deposits and securitization liabilities).

Members continued to benefit from high interest rates by shifting their money into higher rate term deposits. CFSCU supports members' financial wellbeing by offering a variety of term deposits to meet individual needs.

While benefiting members' financial wellbeing, higher cost deposits have a negative impact on net interest income. This was successfully managed through proactive pricing and hedging strategies that mitigated pressure from the high-interest rate environment.

Net interest income will continue to be a focus area of the credit union. Mortgage renewals are poised to hit record highs across Alberta over the next several years, at rates higher than those originally locked in by members during the pandemic's low-interest rate environment.

Non-Interest Income

Non-interest income includes all income that is not classified as net interest income. It is primarily comprised of Mastercard, wealth, insurance, service charges, and loan fees. In addition, with the consolidation of Alberta Central, non-interest income now includes income from joint ventures and equity investments.

Non-interest income remains strong, primarily due to growth in the wealth portfolio. This was partially driven by growth in equity markets which directly benefited members. Additionally, CFSCU grew our wealth portfolio both organically and inorganically leading to increased wealth revenue.

Mastercard revenue is elevated by \$6 million (15.7%) over the prior year as we expanded card offerings to connect First members, some of whom did not previously have access to a credit union Mastercard.

Non-interest income now includes \$10.1 million in revenue from Alberta Central which is primarily comprised of revenue from joint operations.

Provision for Credit Losses

Credit loss continues to be a challenge throughout the industry and within the credit union sector as Canadians and our members navigate the high-interest rate and inflationary environment. Some members have struggled to fulfill their obligations given rising costs. The credit union remains committed to sound loss limitation practices and supporting our members with debt resolution.

The ratio of delinquent loans that are more than 60 days past due to the total loan portfolio peaked at 1.4% in April 2024, higher even than pre-pandemic levels. It decreased moderately in the latter half of the year but is expected to remain elevated throughout 2025. The higher delinquency ratio led to larger provision for credit losses for two reasons: firstly, the higher delinquency results in deterioration of the loans requiring higher provisions. Secondly, rising provincial delinquency rates increase the probability of default that is used in the calculation of provision for credit losses.

The cannabis portfolio continues to contribute to higher provisions for credit losses due to the challenges with loan servicing and the subsequent reduction in collateral values. CFSCU is winding down this portfolio, but we expect that provisions will continue in this portfolio throughout 2025 as the wind down occurs.

The provision for credit losses included a one-time \$13.1 million adjustment relating to merger accounting adjustments.

Operating Expenses

Operating expenses appear elevated year over year due partly to the implications of the merger. Additionally, expenses are notably higher over prior year due to inflation, increased costs from affiliates, and an uptick in personnel costs over prior year.

General Expenses

General expenses are higher in all categories due to the merger and consequent consolidation of connectFirst and Alberta Central. The prior year expenses were only for Servus. The current year results are made up of six months of Servus expenses and six months of expenses for the entire merged credit union, including Alberta Central.

Software expenses will continue to be a focal point in expense management for the next several years as we look to fully integrate the credit union's operations and reduce the quantity of systems used.

Mastercard fees have increased over prior year consistent with the increased Mastercard revenue. Transaction costs relating to cards increase as member card usage increases.

Marketing expenses were intentionally lower than prior year as we focused on cost reduction for capital maintenance in advance of the merger. We intentionally delayed investing in the individual credit union brands until the brand for the combined entity was selected. Investments in the brand will be reignited in the 2025 fiscal year.

Personnel

Personnel costs are elevated over prior year in large part due to increased salaries and benefits as we continue to align compensation to the market which is experiencing inflationary increases.

Additionally, there were one-time costs of \$2.6 million in severance as we built a strong and unified organizational structure for our evolving credit union.

Depreciation and Amortization

Amortization was elevated over prior years in large part due to accelerated amortization on customized intangible software. This was a result of our subsidiary's operational decisions that are focused on stable software that can be maintained at a reasonable cost.

Income Before Income Taxes and Patronage

The financial results came together for a net income before tax and patronage of \$187.1 million. This includes \$21.7 million in one-time merger-related accounting adjustments for CFSCU, driven by the high-interest rate environment and the requirement to value assets and liabilities at fair market value.

The normalized income before income taxes and patronage, excluding the merger related adjustments, is \$165.4 million. Income will continue to be challenged by market forces and inflationary pressures as we evolve and strengthen our credit union.

Corporate Governance

Board Mandate

The Board of Directors ensures that CFSCU creates and maintains value for its stakeholders and serves the needs of the members and their communities. The board sets the credit union's strategic direction, employs the CEO, manages CEO performance (establishes a CEO scorecard that the credit union employees align to for driving and measuring corporate performance), formulates and monitors policies, evaluates organizational performance, and ensures an effective risk management framework is in place.

The board uses a policy governance model and functions in accordance with the Credit Union Act and the Credit Union bylaws which took effect on May 1, 2024, for the merged credit union. It is responsible for the election of the board chair and vice-chair, committee chairs and for the selection of directors to represent CFSCU on the Alberta Central board.

Board of Directors

Prior to the merger, both legacy credit unions each had 12 directors. Through the assistance of an expert governance consultant, a thorough and fair process was undertaken to identify 12 directors from the legacy credit unions who would serve on the board of the merged credit union. As of May 1, 2024, the Servus Board of Directors is made up of 12 directors who represent both legacy credit unions. Of the 12 directors, seven served on the legacy Servus credit union board and five served on the legacy connectFirst Credit Union board, as set out in the Amalgamation Agreement that was approved by members at their respective Special General Meetings in 2023.

Both legacy credit unions and the merged credit union utilize established committees to help govern the organization effectively and manage risk. The Amalgamation Agreement that members approved set out that the directors of the merged credit union would serve staggered terms up to three years and that directors would be able to serve to a maximum of 12 cumulative years, which includes service on their legacy credit union boards.

Every year, the board holds an organizational meeting in March, following the AGM (which is part-way through the fiscal year) to elect the chairs and vice chairs for the board and committees, and to appoint each director to the committees. At the May 1, 2024 Board meeting, the board elected Perry Dooley as the Board Chair and Andrew Eberl as the Board Vice Chair.

The committees established as of May 1, 2024 include Audit & Finance ("AFC"), Enterprise Risk Management ("ERM"), Governance & Human Resources ("GHRC") and Nominating Committee. Both legacy credit unions had strict policies in place in relation to attendance at board and committee meetings.

The Bylaws approved by members to be effective upon close of the merger indicate that directors will be removed if, without board chair approval, they fail to attend two consecutive regularly scheduled board or committee meetings within 12 months or fail to attend a minimum of 75% of all Board and applicable committee meetings within 12 months.

- For the period of November 1, 2023, until April 30, 2024, legacy connectFirst Credit Union held five Board meetings.
- For the period of November 1, 2023, until April 30, 2024, legacy Servus held four Board meetings.
- For the period of May 1 until October 31, 2024, CFSCU held eight Board meetings.

As of May 1, 2024, the 12 CFSCU directors and the committees they serve on are as follows:

- Perry Dooley, Board Chair and ex officio to all committees
- Andrew Eberl, Board Vice Chair and member of ERM
- Kelso Brennan, Member of GHRC & member of Alberta Central Board
- Doug Bristow, Chair of AFC and member of ERM
- Amy Corrigan, Chair of Nominating Committee and member of GHRC
- Shawn Eltom, Member of AFC & member of Alberta Central Board
- Danielle Ghai, Chair of GHRC and member of Nominating Committee & AGM Committee
- Darlene Harris, Chair of ERM and member of Alberta Central Board
- Adil Lalani, Vice Chair of ERM
- Greg Nakonechny, Vice Chair of Nominating Committee and member of AFC
- Shannon Rennie, Vice Chair of GHRC
- Carey Taubert, Vice Chair AFC and member of Alberta Central Board

[See Biographies >>](#)

Board Committees

Both legacy credit unions had standing committees made up of its directors. Directors are required to participate on at least one committee.

For the period of November 1, 2023, until April 30, 2024, legacy connectFirst Credit Union held the following number of committee meetings: 3 Governance Committee, 1 Human Resources Committee, 2 Risk Committee, 2 Audit & Finance Committee, and no Nomination Committee.

For the period of November 1, 2023, until April 30, 2024, legacy Servus held the following number of board committee meetings: 3 Governance & Human Resources Committee, 2 Enterprise Risk Committee, 4 Audit & Finance Committee, and 2 Nominating Committee. The Governance & Human Resources Committee Chair attended 4 AGM Committee meetings as the board representative.

For the period of May 1, 2024, until October 31, 2024, CFSCU held the following number of board committee meetings: 3 Governance & Human Resources Committee, 2 Enterprise Risk Committee, 3 Audit & Finance Committee, and 5 Nominating Committee. The Governance & Human Resources Committee Chair attended 1 AGM Committee meeting as the board representative.

Additionally, for the period of November 1, 2023, to April 30, 2024, the legacy credit unions held 15 Joint Steering Committee meetings.

The merged credit union has four standing committees and has also appointed a combination of directors and management to the Alberta Central board.

Audit & Finance Committee

Oversees the financial reporting process and management of financial risks such as liquidity and capital, reviews financial statements, liaises with internal and external auditors and regulators and reviews internal control procedures. This committee makes recommendations to the Board in relation to the hiring and performance of the internal auditor, who directly reports to the board, and indirectly reports to management.

Enterprise Risk Management Committee

Oversees the identification, understanding and management of risks that may impact CFSCU.

Governance & Human Resources Committee

Establishes and maintains effective governance guidelines, ensures the performance and succession of the CEO, and ensures compliance with governance policies and CFSCU bylaws.

Nominating Committee

Establishes the process for individuals to apply to be directors for the credit union and administers all the process to interview and provide a slate of candidates for Board approval.

Joint Steering Committee (ad-hoc)

This committee was made up of three Servus Credit Union representatives and three connectFirst Credit Union representatives who provided guidance and direction in relation to governance matters associated with the merger. This included revision of bylaws, governance models, and review of the business case. This committee was dissolved upon the merger.

Alberta Central Board Representatives

The Alberta Central Board includes both management and board representatives.

For the period of November 1, 2023, until April 30, 2024, connectFirst had 2 representatives and Servus had 5 representatives on the Alberta Central Board.

For the period of May 1, 2024, until October 31, 2024, the following individuals served on the Alberta Central Board: Carey Taubert, Darlene Harris, Ian Burns, Kelso Brennan, Kendra Holland, Michelle Belland, and Shawn Eltom.

Annual General Meeting Committee

This committee is made up of a management team and the Chair of the Board's Governance & Human Resources Committee who provide guidance and decisions in relation to the Annual General Meeting's location, venue, third-party vendors, and general preparation, such as notices to members, etc. Legacy connectFirst Credit Union did not have a similar committee. As such, for the period of November 1, 2023, to October 31, 2024, the Servus Annual General Meeting Committee met 5 times.

Governance Excellence

The Board of Directors adheres to a high standard of governance. In particular, the board has a nominating committee that includes directors, non-director members and an independent recruitment expert to provide a fair and transparent process to evaluate candidates for the election process.

Once elected, new directors must complete an orientation session within two months of their election and are encouraged to complete both a Policy Governance and Credit Union Director Accreditation course during their first year in office. These and other learning opportunities, which include the Institute of Corporate Directors Designation and various Credit Union leadership designations, enable directors to further develop their knowledge and skills and enhance their performance on the board.

The board is committed to ethical, professional, and lawful conduct. Directors work to ensure the organization meets all public, regulatory and member expectations in compliance with existing laws. Directors must adhere to fiduciary duties including disclosure of actual and perceived conflicts of interests. This accountability comes before any personal interest. The board adheres to a Code of Conduct, which is regularly reviewed, and was amended in 2024.

Additionally, the board has a robust process to annually evaluate board performance and conducts peer reviews. This work is aided by an independent consultant.

Since May 1, 2024, the Board has conducted orientation for the full Board and has focused on integrating board policies (including the Code of Conduct) and integrating best practices from the two legacy boards while fulfilling its fiduciary duties.

Competencies & Attributes

The board uses a competencies and attributes matrix to assess and ensure the board has the necessary skills and diverse perspectives to fulfill its mandate. The board reviews this matrix annually and uses this information to assist directors with individual development plans, as well as board and individual director performance feedback.

Board Remuneration

Both legacy credit unions provided board remuneration consistent with their legacy policies.

As a larger financial institution, the board retained an expert consultant to assist with advising on appropriate remuneration for a credit union with the size and financial strength of CFSCU. As such, the annual remuneration for the board since May 1, 2024, has been established at approximately the 50th percentile of peer financial service organizations, to be as follows:

- Board Retainer \$70,000 + additional remuneration as applicable
- Committee Chair Retainer \$10,000
- Board Vice Chair \$12,000
- Board Chair \$40,000
- Nine or more scheduled Committee meetings \$5,000
- Committee Vice Chair \$4,000
- Directors on committees with > 9 committee meetings \$5,000
- Extraordinary Meetings - rate based on length of meeting

Further details on the aggregated remuneration paid to directors, along with the mean, highest and lowest remuneration paid to a director is included in the notes to the 2024 Consolidated Financial Statements.

Risk Management

CFSCU uses a risk management structure that enables us to adapt to changes in our economic and operational environments. The following is an overview of this structure and the types of risk our credit union is exposed to.

See Note 32 for more details on financial risk management in the 2024 Consolidated Financial Statements.

Enterprise Risk Management

The primary goals of risk management are to ensure the outcomes of risk-taking activities are consistent with the credit union's objectives and risk appetite and that there is an appropriate balance between risk and reward to maximize value for our members.

CFSCU believes effective enterprise risk management is a journey and not a destination. The program continues to grow, evolve and adapt. The framework provides processes for identifying risks and assessing the likelihood of their occurrence and potential impact. The framework is also used to establish policies, procedures, and controls to ensure risks are managed within acceptable risk tolerances. The credit union's enterprise risk management governance model begins with oversight by the Board of Directors, either directly or through its committees, as shown below:



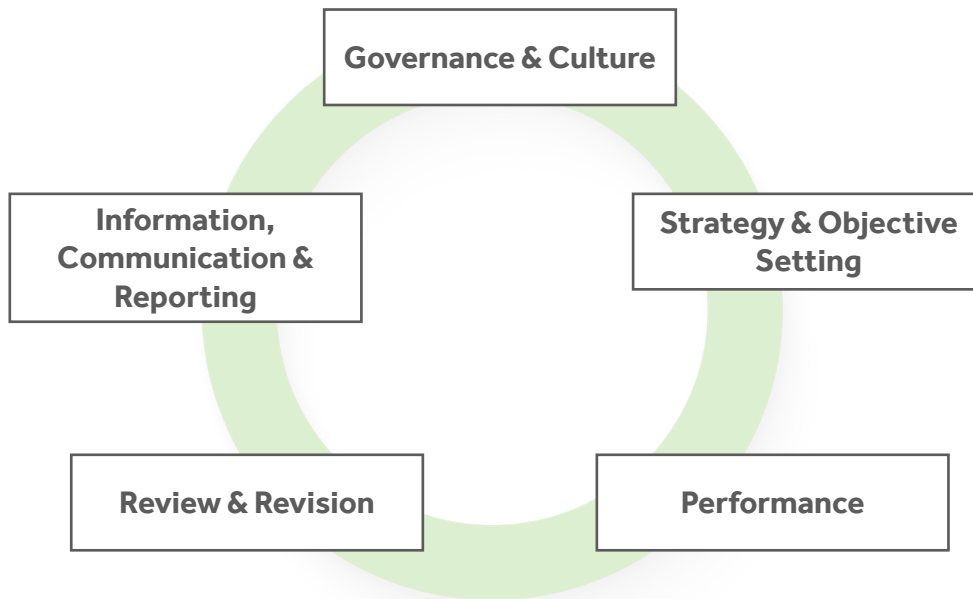
Our Chief Executive Officer, Ian Burns, is responsible and accountable for risk management. Day-to-day monitoring and reporting on risk has been delegated to the Chief Risk Officer, Randy Allarie. Three management committees – the Asset Liability Committee, the Expected Credit Loss Committee, and the Management Risk Committee – identify, assess, and monitor risks through their work.



Ownership of key risks is delegated to the appropriate Executive Leadership Team member. Traditional risk management solutions tend to focus on negative events and often depend on diligent corporate compliance programs. CFSCU proactively elevates material risk issues to senior management and the board. This helps us find a better balance between loss prevention, risk mitigation efforts and entrepreneurial risk-taking.

CFSCU’s enterprise risk management framework aligns closely to the “COSO Enterprise Risk Management Framework” and, as such, our framework is organized into five interconnected pillars shown below. The framework is reviewed and updated periodically to ensure consistency with our strategic direction and risk-taking ventures, operating activities, the Credit Union Deposit Guarantee Corporation’s Standards of Sound Business and Financial Practices, and the general legislative and economic environment.

Risk Management Framework



Governance and Culture

Governance establishes the importance of, and oversight responsibilities regarding, the prudent management of the credit union's risk-taking activities. Culture pertains to the ethical conduct and organizational philosophy around the management of opportunities and the associated risks.

Strategy and Objective-Setting

The strategic-planning process is informed by an assessment of the credit union's overall risk-taking capacity in the setting of strategic objectives and investments. Risk capacity pertains to the level of resiliency or financial strength available to the credit union, as well as the strength of its risk management processes and systems, which vary over time. Risk appetite is a function of risk capacity, prudential regulatory limits, and governance philosophy around the pursuit of opportunities. A risk appetite is established and aligned with the setting of strategic objectives. These objectives serve as the basis for the identification, assessment, and response to the related risks.

Performance

Threats to the achievement of the credit union's strategy, business, and regulatory objectives are identified and assessed. These risks are prioritized by severity in the context of risk appetite. The credit union then selects risk responses and takes portfolio views of its exposures as well as an overall consolidated exposure that is assessed against the credit union's risk capacity and appetite. The results of this process are regularly reported to key stakeholders for the purpose of effective risk governance and oversight.

Review and Revision

The performance of the credit union is monitored closely in terms of growth and profitability objectives as well as adherence to internal risk appetites and external regulatory thresholds. The effectiveness of the overall enterprise risk management system is assessed through the performance of the credit union over time and in light of substantial changes. Revisions to risk management processes are applied as needed through a journey of continuous improvement and effective oversight.

Information, Communication, and Reporting

The credit union’s enterprise risk management framework contains processes for obtaining and sharing necessary internal and external risk information which flows up, down, and across the organization to help identify, assess, respond, and monitor the key strengths, weaknesses, opportunities, and threats to the credit union.

Practices and the Legislative Environment

CFSCU operates in a legislative and regulatory environment that ensures member deposits are guaranteed by our key regulator, CUDGC. To that end, CUDGC sets various standards that CFSCU’s internal policies, processes and guidelines adhere to.



Policies, Strategies and Limits

The governance, risk management direction and extent of our risk-taking activities are established through policies, strategies, and limits. Policies are also developed based on the requirements of the regulator and required input from the Board of Directors and senior management.

Guidelines

Guidelines are the directives provided to implement the policies. Generally, these describe specific types of risks and exposures.

Processes and Standards

Processes are the activities associated with identifying, evaluating, documenting, reporting, and controlling risk. Standards define the breadth and quality of information required to make decisions and the expectations in terms of quality of analysis and presentation.

Measurement and Reporting

We monitor our risk exposure to ensure it is operating within approved limits or guidelines. Any breaches are reported to senior management and board committees, depending on the limit or guideline. CFSCU's Internal Audit department independently monitors the effectiveness of risk management policies, procedures, and internal controls.

Key Risks



Strategic Risk

Strategic risk is the risk that CFSCU makes inappropriate strategic choices or is unable to effectively implement its strategies and achieve its strategic objectives. To mitigate this risk, CFSCU has adopted a comprehensive annual strategic planning process that includes board and executive leadership involvement and the use of detailed analysis such as environmental scans and SWOT (strengths, weaknesses, opportunities, and threats) analyses, as well as integration with enterprise risk management processes and oversight. Responsibility for implementing strategic priorities is mandated to executive leaders with ongoing oversight from multiple management committees and the board.

Information Technology Risk

Information Technology Risk is the risk to CFSCU associated with the use, ownership, operation, influence, and adoption of information technology (IT) within the enterprise. It includes risks associated with the security and protection of information, availability and recovery of services, accuracy and timeliness of data, performance and scalability of services, and agility and appropriateness of adoption. It also includes the risk of IT meeting the current business needs of the organization as well as the risk of IT meeting the future strategic needs of the organization.

We are reliant on IT for processing large volumes of transactions and storing large amounts of data. Despite a strong dedication to confronting cyber security, we may not be able to fully mitigate against all such risks due to the complexity and high rate of change associated with IT and cyber threats.

Any significant disruption to IT infrastructure could adversely affect our ability to conduct regular credit union operations. We maintain robust controls that guard the credit union and its members against cyber threats. These controls are regularly evaluated, updated, and tested to ensure that IT risk is reduced to an acceptably low level.

Liquidity Risk

Liquidity risk is the risk that we will not be able to fund loan growth on a cost-effective basis or will be unable to generate or obtain sufficient cash to meet short-term obligations.

Liquidity policies place limits on large individual deposits and require CFSCU to monitor items such as its liquidity coverage ratio, forecasted cash flows and deposit sources. These policies are designed to ensure CFSCU maintains sufficient operational liquidity from a stable base of core deposits spread across various sources. CFSCU's liquidity management strategy includes the daily monitoring of expected cash inflows and outflows, as well as the tracking and forecasting of our liquidity position on a forward 90-day rolling basis.

The Board of Directors approves and reviews liquidity risk policies at least annually, with regular reporting provided to its Enterprise Risk Management and Audit and Finance Committees.

Interest Rate and Market Risk

Interest rate and market risk relates to the threat of incurring significant losses from unfavourable changes in the values of assets or liabilities due to changes in market prices related to interest rates, foreign exchange rates, equity or commodity prices and the volatility of these prices.

To manage interest rate and market risk effectively, CFSCU's Asset Liability Committee establishes policy guidelines and meets regularly to monitor Bank of Canada rates, economic indicators, trends in member behaviour and competitive pricing and uses these factors to determine pricing strategies. The Board of Directors approves and reviews interest rate risk policies at least annually, with regular reporting provided to its Enterprise Risk Management and Audit and Finance Committees.

Credit Risk

Credit risk is the risk of suffering a financial loss from the failure of a counterparty (e.g. borrower, debtor, issuer, guarantor, etc.) to honour its obligation to CFSCU. It arises any time CFSCU funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet.

CFSCU manages credit risk through credit risk policies and limits to ensure broad diversification across Alberta and within various industries and product mixes. Risk is also managed through maximum limits on individual and connected accounts, participation in syndicated loans and minimum standards for loan quality. As well, we manage this risk through well-trained and experienced lenders, clearly documented decision-making authority and approval processes that include operational oversight from the Expected Credit Loss Committee.

Competitive Risk

Competitive risk is the risk that competitive forces prevent growth, stifle revenues, or prevent us from achieving our strategic goals. Market participants, consisting of major financial institutions and other participants operating within Alberta, are highly competitive. Emerging local and global competitive challenges coming from non-traditional competitors and emerging technologies are increasing, opaque and difficult to assess. We manage these risks through regular market assessments, emerging risk reviews, and strategic planning.

A sub-component of competitive risk is our reputational risk. We define reputational risk as any activity, inactivity, or decision of CFSCU or one of its employees, business partners, affiliates or representatives that has the potential to impair the perception of CFSCU by stakeholders and negatively impact achievement of the credit union's objectives. Reputational risk can be influenced by factors external to CFSCU and may not be entirely within the control of the credit union.

CFSCU manages and measures reputation risk by monitoring the external media environment; conducting regular surveys of members, non-members, and employees; and reviewing regular reports from the Management Risk Committee. Additionally, the employee code of conduct, corporate values and Corporate Social Responsibility policy reinforce the standards and sound business practices that are essential to maintaining a good reputation.

Regulatory and Compliance Risk

Regulatory and compliance risk is the risk of CFSCU failing to comply with applicable laws, rules, regulations, prescribed practices, or ethical standards in any jurisdiction in which it operates. Regulatory risk differs from other banking risks, such as credit risk or market risk, in that it is typically not a risk actively or deliberately assumed by management in expectation of a return. Rather, it occurs as part of the normal course of operating a regulated entity. CFSCU manages its regulatory risk through comprehensive policies, training, processes, oversight and maintaining a strong compliance culture. Individual business units are responsible for managing day-to-day regulatory and legal risk, while various compliance departments assist them by providing advice and oversight.

Operational Risk

Operational risk is the risk of suffering a significant loss or other damage resulting from inadequate or failed internal processes, people, and/or systems or possibly from uncontrollable external events. Operational risk is segmented into several sub-categories such as business continuity risk, project risk, people risk, fraud risk and legal risk as well as many other risks specific to banking and wealth management activities. We manage this risk through our knowledgeable and experienced management team. The team members are committed to applying and enforcing key risk management policies and to promoting an ethical culture that guides operational risk-taking activities.

Implementation of supporting policies and procedural controls includes the segregation of duties and built-in checks and balances. Additional controls include an established whistleblower process, an employee code of conduct, regular internal audits by an independent audit team, and regular reviews and updates of systems, policies, and procedures.

Emerging Risks

CFSCU monitors and reports to both the Management Risk Committee and the Board's Enterprise Risk Management Committee on risks that, although not fitting in any of the previous risk categories, may have an impact on our operations. These include emerging market trends, competitive forces or technologies, changing economic conditions, social and political trends, the impacts of industry and geographic concentrations, fraud and crime trends, financial system trends and other newsworthy items.



Connect First and Servus Credit Union Ltd.

For the year ended October 31, 2024