



connectFirst
credit union

2022 FIRST QUARTER FINANCIAL REPORT

**For the three months ended
January 31, 2022**

(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>	January 31, 2022	October 31, 2021
ASSETS		
Cash and cash equivalents	72,443	53,171
Investments	687,283	632,524
Loans to members (note 5 and 6)	5,787,117	5,473,345
Foreclosed properties (note 6)	839	3,457
Other assets	63,142	36,693
Intangible assets	13,138	13,198
Property and equipment	52,816	53,234
Right of use assets	19,639	19,156
Deferred tax asset	1,664	1,711
	6,698,081	6,286,489
LIABILITIES		
Members' deposits	5,722,891	5,348,931
Accounts payable and accruals	34,374	31,936
Lease liabilities	28,603	28,272
Secured borrowings	305,189	292,105
	6,091,057	5,701,244
MEMBERS' EQUITY		
Common shares	266,050	246,524
Investment shares	154,804	157,688
Ownership dividend allocation	-	7,137
Investment share dividends declared	-	4,497
Contributed surplus (note 2)	6,687	-
Retained earnings	179,483	169,399
	607,024	585,245
	6,698,081	6,286,489

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	
	2022	2021
<i>(\$ Thousands)</i>		
FINANCIAL INCOME		
Interest on loans to members	47,154	44,140
Investment income	1,081	630
Unrealized gains/(losses) on interest rate swaps	191	-
	<u>48,426</u>	<u>44,770</u>
FINANCIAL EXPENSE		
Interest on members' deposits	9,136	13,726
Interest on loans payable	1,639	2,670
Interest on lease liability	306	323
	<u>11,081</u>	<u>16,719</u>
Financial margin	37,345	28,051
Charge for loan impairment	304	1,548
	<u>37,041</u>	<u>26,503</u>
Other income (note 8)	6,192	5,251
Gross margin	43,233	31,754
Personnel expenses	17,083	15,649
Operating lease expenses	720	506
Depreciation and amortization	2,229	2,188
Other expenses	11,462	8,598
	<u>31,494</u>	<u>26,941</u>
Income before income taxes	11,739	4,813
Income taxes		
Current	1,623	-
Deferred (recovery)	47	1,109
	<u>1,670</u>	<u>1,109</u>
Net income and comprehensive income	10,069	3,704

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>(\$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, 2020	238,477	120,123	4,999	4,192	-	158,958	526,749
Net and comprehensive income						3,704	-
							3,704
Transactions with members							
Shares issued to members for cash	9,205						9,205
Shares issued by dividend	4,999	4,192	(4,999)	(4,192)			-
Shares redeemed for cash	(10,287)	(6,351)					(16,638)
Balance January 31, 2021	242,394	117,964	-	-	-	162,662	523,020
Balance October 31, 2021	246,524	157,688	7,137	4,497	-	169,399	585,245
Acquisition of Spark (note 2)	5,096				6,687		11,783
Net and comprehensive income						10,069	10,069
Transactions with members							
Shares issued to members for cash	15,601						15,601
Shares issued by dividend	7,137	4,497	(7,137)	(4,497)		15	15
Shares redeemed for cash	(8,308)	(7,381)					(15,689)
Balance January 31, 2022	266,050	154,804	-	-	6,687	179,483	607,024

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

(unaudited)

THREE MONTHS ENDED

(\$ Thousands)

January 31, 2022 January 31, 2021

Cash flows from operating activities

Net Income	10,069	4,813
Adjustments for:		
Interest on loans to members	(47,154)	(44,140)
Interest/dividends on investments	(1,081)	(630)
Interest expense	11,081	16,719
Unrealized loss on interest rate swaps	(191)	-
Depreciation and amortization	2,229	2,188
Charge for loan impairment	415	1,666
Current/deferred income tax expense	1,670	-
Change in other assets	(26,062)	912
Change in accounts payable	(2,517)	9,955
Interest received	49,972	47,625
Interest paid	(10,930)	(21,329)
Income tax (paid)/refund	(91)	2,292
Increase in members' deposits	174,793	15,187
(Increase) in loans to members, net of repayments	(151,527)	(37,375)
Proceeds from sale of foreclosed property	6,460	13
Net cash from (used in) operating activities	17,136	(2,104)

Cash flows from financing activities

Common shares issued for cash	15,601	9,205
Common share redemptions	(8,308)	(10,287)
Investment share redemptions	(7,381)	(6,351)
Advances of secured borrowing	44,140	-
Repayment of secured borrowing	(31,056)	(47,836)
Payment of lease liabilities	(769)	(525)
Net cash from (used in) financing activities	12,227	(55,794)

Cash flows from investing activities

Cash acquired on amalgamation	218	-
Acquisition of investments	(304,497)	(417,003)
Proceeds from sale of investments	295,101	464,753
Disposition (acquisition) of property and equipment, net	(429)	561
Acquisition of intangibles, net	(484)	(1,700)
Net cash provided by (used in) investing activities	(10,091)	46,611

Increase in cash and cash equivalents	19,272	(11,287)
Cash and cash equivalents, beginning of period	53,171	72,785
Cash and cash equivalents, end of period	72,443	61,498

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, 2022

(\$ 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 will be accounted for using the acquisition method, with the Credit Union acquiring 100% of the net assets of Spark.

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

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	140
Derivative financial assets	85
Property and equipment	138
Intangible assets	56
Right-of-use assets	241
Total assets acquired	<u>214,567</u>
Member deposits	199,016
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>202,784</u>
Net assets acquired	11,783

The above figures are preliminary and are subject to change.

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 in the amount of \$6,687.

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 do not include all of the information required for full annual financial statements and should be read in conjunction with Connect First's 2021 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 2021 annual financial statements of Connect First.

These condensed consolidated interim financial statements were approved by the Board of Directors on March 8, 2022.

4. SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

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

During the current period, the global COVID-19 pandemic and its related economic impacts have resulted in heightened measurement uncertainty, primarily related to the estimates, assumptions and judgments used in the measurement of the allowance for loan impairment and the estimate of the fair value of foreclosed property. For the quarter ended January 31, 2022, the Credit Union has included all information available to the date of these financial statements in these estimates. The overall impact of the pandemic continues to be uncertain and is dependent on actions taken by Canadian governments, businesses and individuals to limit spread of the COVID-19 virus, as well as government economic response and support efforts. Refer to Notes 5 and 6 for further details.

5. MEMBERS' LOANS

The following table shows the gross carrying amount of loans measured at amortized cost as at January 31, 2022. 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. Refer to additional discussion on the staging of loans as impacted by the current global COVID 19 pandemic in Note 6.

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	Stage 1	Stage 2	Stage 3	Total	Accrued Interest	Allowance for Credit Losses	Total Net of Allowance
As at January 31, 2022							
Consumer	481,182	13,283	2,073	496,538	1,050	5,670	491,918
Residential mortgage	2,605,782	90,007	2,784	2,698,573	2,958	1,742	2,699,789
Commercial and agriculture	2,543,893	11,494	50,124	2,605,511	11,818	21,919	2,595,410
Total member loans	5,630,857	114,784	54,981	5,800,622	15,826	29,331	5,787,117

	Stage 1	Stage 2	Stage 3	Total	Accrued Interest	Allowance for Credit Losses	Total Net of Allowance
As at October 31, 2021							
Consumer	434,149	17,270	1,568	452,987	911	5,217	448,681
Residential mortgage	2,382,414	92,917	3,750	2,479,081	27,289	1,777	2,480,032
Commercial and agriculture	2,484,124	17,327	52,672	2,554,123	13,690	23,181	2,544,632
Total member loans	5,300,687	127,514	57,990	5,486,191	17,329	30,175	5,473,345

6. 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, 2020	915	829	215	1,959
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	(3)	55	(56)	(4)
Remeasurement of loss allowance other than stage transfers	254	(2)	16	268
Derecognitions and maturities	(22)	(33)	(71)	(126)
Loan originations	29	96	74	199
Total remeasurement of loss allowance	258	116	(37)	337
Write offs	-	-	(76)	(76)
As at January 31, 2021	1,173	945	102	2,220
As at November 1, 2021	959	665	153	1,777
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	(1)	2	-	1
Remeasurement of loss allowance other than stage transfers	(66)	(48)	-	(114)
Derecognitions and maturities	(23)	(22)	(29)	(74)
Loan originations	139	13	-	152
Total remeasurement of loss allowance	49	(55)	(29)	(35)
Write offs	-	-	-	-
As at January 31, 2022	1,008	610	124	1,742

2022 FIRST QUARTER FINANCIAL REPORT

Consumer loans	Stage 1	Stage 2	Stage 3	Total
As at November 1, 2020	4,304	1,733	959	6,996
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	(47)	53	329	335
Remeasurement of loss allowance other than stage transfers	297	135	174	606
Derecognitions and maturities	(127)	(55)	(150)	(332)
Loan originations	350	40	13	403
Total remeasurement of loss allowance	473	173	366	1,012
Write offs	(1)	(101)	(396)	(498)
As at January 31, 2021	4,776	1,805	929	7,510
As at November 1, 2021	2,969	1,473	775	5,217
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	(20)	(17)	367	330
Remeasurement of loss allowance other than stage transfers	(240)	(38)	55	(223)
Derecognitions and maturities	(97)	(45)	(19)	(161)
Loan originations	608	32	104	744
Total remeasurement of loss allowance	251	(68)	507	690
Write offs	(1)	(64)	(172)	(237)
As at January 31, 2022	3,219	1,341	1,110	5,670

Commercial and agriculture loans	Stage 1	Stage 2	Stage 3	Total
As at November 1, 2020	3,527	998	16,311	20,836
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	79	1,187	(1,124)	142
Remeasurement of loss allowance other than stage transfers	(582)	139	436	(7)
Derecognitions and maturities	(226)	(1)	(274)	(501)
Loan originations	422	9	260	691
Total remeasurement of loss allowance	(307)	1,334	(702)	325
Write offs	-	(10)	(2)	(12)
As at January 31, 2021	3,220	2,322	15,607	21,149
As at November 1, 2021	2,697	795	19,689	23,181
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	113	(313)	190	(10)
Remeasurement of loss allowance other than stage transfers	(374)	52	1,078	756
Derecognitions and maturities	(110)	(107)	(939)	(1,156)
Loan originations	321	-	-	321
Total remeasurement of loss allowance	(50)	(368)	329	(89)
Write offs	-	(91)	(1,082)	(1,173)
As at January 31, 2022	2,647	336	18,936	21,919
Totals at January 31, 2021	9,169	5,072	16,638	30,879
Totals at January 31, 2022	6,874	2,287	20,170	29,331

The total allowance for expected credit losses is reconciled as follows:		
	January 2022	January 2021
November 1 allowance for expected credit losses	30,175	29,791
Charge for loan impairment:		
Net remeasurement due to stage transfers	321	473
Remeasurement of loss allowance other than stage transfers	419	867
Derecognitions and maturities	(1,391)	(959)
Loan originations	1,217	1,293
Write-offs	(1,410)	(586)
Allowance for expected credit losses, January 31	29,331	30,879
The charge for loan impairment on the statement of comprehensive income is reconciled as follows:		
Charge for loan impairment as above	566	1,674
Charge for loan impairment on foreclosed property at January 31	-	5
Charge for impairment on investments	(172)	(35)
Recoveries	(90)	(96)
Total charge for loan impairment	304	1,548

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As previously disclosed in Note 4, the measurement of the allowance for expected credit losses as well as foreclosed property involves the use of significant judgements, estimates and assumptions. Due to the current global COVID 19 pandemic and related economic impacts, the Credit Union has considered the following in making these estimates at January 31, 2022:

Significant Increase in Credit Risk (“SICR”)

The judgments related to whether or not there is a SICR result in loans moving between stages and, therefore, being subject to different ECL models, as disclosed in the 2021 annual financial statements. With respect to delinquencies, the judgements used related to SICR remain consistent with those at October 31, 2021.

Forward Looking Information (“FLI”)

As of January 31, 2022, the following FLI has been used in the measurement of the ECL, as compared to that used at October 31, 2021. The impact of the pandemic on the long-term outlook remains fluid and uncertain, and FLI has been updated to the best of the Credit Union’s knowledge based on external economic data.

January 31, 2022	Base case scenario		Alternative scenario optimistic		Alternative scenario pessimistic	
	Next 12 months	Remaining forecast	Next 12 months	Remaining forecast	Next 12 months	Remaining forecast
		period		period		period
Driver						
3 month BA rate %	1.06	2.47	1.55	2.93	0.33	0.88
3 month Government of Canada Bond Rate %	0.90	2.24	1.45	2.78	0.14	0.61
Alberta housing price index % change	1.07	1.14	2.96	2.09	(2.01)	0.15
Alberta unemployment rate %	7.01	6.39	6.48	5.61	7.90	7.38

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

The reported expected credit losses at January 31, 2022 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 would decrease by approximately \$0.32 million (2021 – \$0.33 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 would increase by approximately \$0.56 million (2021 - \$0.62 million).

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

Base case scenario

	Next 3 months	Next 6 months	Next 9 months	Next 12 months	Remaining forecast period
Driver					
3 month BA rate %	0.31	0.74	1.05	1.06	2.47
3 month Government of Canada Bond Rate %	0.18	0.60	0.90	0.90	2.24
Alberta housing price index % change	0.18	0.30	0.29	0.29	1.14
Alberta unemployment rate %	7.50	7.49	7.22	7.01	6.39

**Alternative scenario
pessimistic**

	Next 3 months	Next 6 months	Next 9 months	Next 12 months	Remaining forecast period
Driver					
3 month BA rate %	0.31	0.29	0.31	0.33	0.88
3 month Government of Canada Bond Rate %	0.13	0.12	0.12	0.14	0.61
Alberta housing price index % change	(2.17)	(0.49)	0.53	0.12	0.15
Alberta unemployment rate %	8.64	8.35	8.17	7.90	7.38

**Alternative scenario
optimistic**

	Next 3 months	Next 6 months	Next 9 months	Next 12 months	Remaining forecast period
Driver					
3 month BA rate %	0.31	0.84	1.34	1.55	2.93
3 month Government of Canada Bond Rate %	0.23	0.75	1.25	1.45	2.78
Alberta housing price index % change	0.83	1.03	0.53	0.53	2.09
Alberta unemployment rate %	6.94	6.83	6.67	6.48	5.61

Foreclosed Property

In the three-month period ended January 31, 2022, the Credit Union has sold the large commercial property that was originally moved into foreclosure in fiscal 2019. The remaining foreclosed property balance relates to a small residential loan and one commercial loan that has been foreclosed on in the process of realizing on the Credit Union's security.

7. 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 2021 annual financial statements of Connect First.

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January 31, 2022

	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Assets					
Investments - amortized cost	-	557,420	-	557,420	554,623
Investments - FVOCI	-	132,660	-	132,660	132,660
Loans	-	5,789,224	-	5,789,224	5,787,117
Total	-	6,479,304	-	6,479,304	6,474,400
Liabilities					
Deposits	-	5,679,551	-	5,679,551	5,722,891
Secured borrowings	-	296,690	-	296,690	305,189
Total	-	5,976,241	-	5,976,241	6,028,080

October 31, 2021

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

8. OTHER INCOME

	3 months ended January 31	
	2022	2021
Service charges and other fees	1,563	1,490
Foreign exchange gain/loss	272	239
Loan prepayment and other fees	1,037	914
Insurance	534	360
Credit card fees	137	109
Wealth management	2,108	1,647
Other	541	492
	6,192	5,251