



**connectFirst**  
credit union

## **2022 SECOND QUARTER FINANCIAL REPORT**

**For the six months ended  
April 30, 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>	April 30, 2022	October 31, 2021
<b>ASSETS</b>		
Cash and cash equivalents	43,924	53,171
Investments	666,881	632,524
Loans to members (note 5 and 6)	5,936,720	5,473,345
Foreclosed property (note 6)	1,282	3,457
Other assets	44,169	36,693
Intangible assets	13,328	13,198
Property and equipment	52,030	53,234
Right-of-use asset	19,053	19,156
Deferred tax asset	1,259	1,711
	<b>6,778,646</b>	<b>6,286,489</b>
<b>LIABILITIES</b>		
Members' deposits	5,781,291	5,348,931
Accounts payable and accruals	23,934	31,936
Lease liabilities	27,907	28,272
Secured borrowings	314,008	292,105
	<b>6,147,140</b>	<b>5,701,244</b>
<b>MEMBERS' EQUITY</b>		
Common shares	281,098	246,524
Investment shares	154,200	157,688
Ownership dividend allocation	-	7,137
Investment share dividends declared	-	4,497
Contributed surplus (note 2)	6,687	-
Retained earnings	189,521	169,399
	<b>631,506</b>	<b>585,245</b>
	<b>6,778,646</b>	<b>6,286,489</b>

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)

(\$ Thousands)	3 months ended April 30		6 months ended April 30	
	2022	2021	2022	2021
<b>FINANCIAL INCOME</b>				
Interest on loans to members	47,557	42,209	94,711	86,349
Interest and dividends on investments	2,053	1,855	3,134	2,485
Unrealized gains/(losses) on interest rate swaps	2,008	-	2,199	-
	51,618	44,064	100,044	88,834
<b>FINANCIAL EXPENSE</b>				
Interest on members' deposits	9,163	11,088	18,299	24,814
Interest on loans payable	1,650	2,276	3,289	4,946
Interest on lease liability	288	319	594	642
	11,101	13,683	22,182	30,402
<b>Financial margin</b>	<b>40,517</b>	<b>30,381</b>	<b>77,862</b>	<b>58,432</b>
Charge for loan impairment	440	1,811	744	3,359
	40,077	28,570	77,118	55,073
Other income (note 8)	6,555	5,539	12,747	10,790
<b>Gross margin</b>	<b>46,632</b>	<b>34,109</b>	<b>89,865</b>	<b>65,863</b>
Personnel expenses	17,953	16,462	35,036	32,111
Operating lease expenses	591	489	1,311	995
Depreciation and amortization	2,258	1,940	4,487	4,128
Other expenses	13,677	10,072	25,139	18,670
	34,479	28,963	65,973	55,904
Income before income taxes	12,153	5,146	23,892	9,959
Income taxes				
Current	1,624	1,223	3,247	1,223
Deferred (recovery)	491	-	538	(1,109)
	2,115	1,223	3,785	114
<b>Net income and comprehensive income</b>	<b>10,038</b>	<b>3,923</b>	<b>20,107</b>	<b>9,845</b>

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

## 2022 SECOND QUARTER FINANCIAL REPORT

**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
<b>Balance November 1, 2020</b>	238,477	120,123	4,999	4,192	-	158,958	526,749
Net income						9,845	9,845
<b>Transactions with members</b>							
Shares issued to members for cash	19,082						19,082
Shares issued by dividend	4,999	4,192	(4,999)	(4,192)			-
Shares redeemed for cash	(18,411)	(5,738)					(24,149)
<b>Balance April 30, 2020</b>	244,147	118,577	-	-	-	168,803	531,527
<b>Balance October 31, 2021</b>	<b>246,524</b>	<b>157,688</b>	<b>7,137</b>	<b>4,497</b>	-	<b>169,399</b>	<b>585,245</b>
Acquisition of Spark (note 2)	5,096				6,687		11,783
Net and comprehensive income						20,107	20,107
<b>Transactions with members</b>							
Shares issued to members for cash	37,522						37,522
Shares issued by dividend	7,137	4,497	(7,137)	(4,497)		15	15
Shares redeemed for cash	(15,181)	(7,985)					(23,166)
<b>Balance April 30, 2022</b>	281,098	154,200	-	-	6,687	189,521	631,506

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)	SIX MONTHS ENDED	
	April 30, 2022	April 30, 2021
<b>Cash flows from operating activities</b>		
Net Income	20,107	9,845
Adjustments for:		
Interest on loans to members	(94,711)	(86,349)
Interest/dividends on investments	(3,134)	(2,485)
Interest expense	22,182	30,402
Unrealized gain on interest rate swaps	(2,199)	-
Depreciation and amortization	4,487	4,128
Charge for loan impairment	1,173	3,675
Current/deferred income tax expense	3,785	114
Change in other assets	(5,170)	1,389
Change in accounts payable	(14,578)	6,075
Interest received	100,883	92,181
Interest paid	(24,177)	(43,489)
Income tax (paid) refund	(91)	2,292
Increase in members' deposits	235,339	81,936
(Increase) in loans to members, net of repayments	(303,762)	(152,387)
Proceeds from sale of foreclosed property	6,460	73
<b>Net cash (used in) operating activities</b>	<b>(53,406)</b>	<b>(52,600)</b>
<b>Cash flows from financing activities</b>		
Common shares issued for cash	37,522	19,082
Common share redemptions	(15,181)	(18,411)
Investment share redemptions	(7,985)	(5,738)
Advances of secured borrowing	82,865	30,650
Repayment of secured borrowing	(60,962)	(87,361)
Payment of lease liabilities	(1,491)	(1,073)
<b>Net cash from (used in) financing activities</b>	<b>34,768</b>	<b>(62,851)</b>
<b>Cash flows used in investing activities</b>		
Cash acquired on amalgamation	218	-
Acquisition of investments	(975,391)	(645,998)
Proceeds from sale of investments	986,527	784,584
Acquisition of property and equipment, net	(690)	(442)
Acquisition of intangibles, net	(1,273)	(1,521)
<b>Net cash provided by investing activities</b>	<b>9,391</b>	<b>136,623</b>
Increase (decrease) in cash and cash equivalents	(9,247)	21,172
Cash and cash equivalents, beginning of period	53,171	72,785
<b>Cash and cash equivalents, end of period</b>	<b>43,924</b>	<b>93,957</b>

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 six months ended April 30, 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 June 14, 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 April 30, 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 April 30, 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
<b>As at April 30, 2022</b>							
Consumer	518,378	22,383	1,921	542,682	1,177	5,835	538,023
Residential mortgage	2,669,521	77,035	1,585	2,748,141	2,899	1,586	2,749,455
Commercial and agriculture	2,609,197	16,295	34,192	2,659,684	10,319	20,761	2,649,242
Total member loans	5,797,096	115,713	37,698	5,950,507	14,395	28,182	5,936,720

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

**6. ALLOWANCE FOR EXPECTED CREDIT LOSSES**

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

<b>Residential mortgages</b>	Stage 1	Stage 2	Stage 3	Total
As at November 1, 2020	915	829	215	1,959
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	3	120	81	204
Remeasurement of loss allowance other than stage transfers	127	11	54	192
Derecognitions and maturities	(48)	(47)	(81)	(176)
Loan originations	86	29	-	115
Total remeasurement of loss allowance	168	113	54	335
Write offs	(32)	-	(107)	(139)
As at April 30, 2021	1,051	942	162	2,155
As at November 1, 2021	974	680	193	1,847
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	382	(363)	(19)	-
Remeasurement of loss allowance other than stage transfers	(459)	183	(15)	(291)
Derecognitions and maturities	(61)	(45)	(65)	(171)
Loan originations	162	51	-	213
Total remeasurement of loss allowance	24	(174)	(99)	(249)
Write offs	-	-	(12)	(12)
As at April 30, 2022	998	506	82	1,586



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<b>Consumer loans</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
As at November 1, 2020	4,304	1,733	959	6,996
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	(57)	242	313	498
Remeasurement of loss allowance other than stage transfers	(349)	72	346	69
Derecognitions and maturities	(316)	(100)	(296)	(712)
Loan originations	572	132	53	757
Total remeasurement of loss allowance	(150)	346	416	612
Write offs	(101)	(241)	(604)	(946)
As at April 30, 2021	4,053	1,838	771	6,662
As at November 1, 2021	3,017	1,566	899	5,482
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	483	(364)	(119)	-
Remeasurement of loss allowance other than stage transfers	(928)	675	578	325
Derecognitions and maturities	(183)	(65)	(92)	(340)
Loan originations	965	87	82	1,134
Total remeasurement of loss allowance	337	333	449	1,119
Write offs	(279)	(109)	(378)	(766)
As at April 30, 2022	3,075	1,790	970	5,835

<b>Commercial and agriculture loans</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
As at November 1, 2020	3,527	998	16,311	20,836
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	(24)	524	(383)	117
Remeasurement of loss allowance other than stage transfers	(1,213)	(58)	3,205	1,934
Derecognitions and maturities	(463)	(222)	(2,298)	(2,983)
Loan originations	547	8	2,379	2,934
Total remeasurement of loss allowance	(1,153)	252	2,903	2,002
Write offs	-	(22)	(2)	(24)
As at April 30, 2021	2,374	1,228	19,212	22,814
As at November 1, 2021	2,699	799	19,690	23,188
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	680	(445)	(235)	-
Remeasurement of loss allowance other than stage transfers	(752)	257	655	160
Derecognitions and maturities	(192)	(17)	(14)	(223)
Loan originations	629	2	-	631
Total remeasurement of loss allowance	365	(203)	406	568
Write offs	(20)	(91)	(2,884)	(2,995)
As at April 30, 2022	3,044	505	17,212	20,761

Totals at April 30, 2021	7,478	4,008	20,145	31,631
Totals at April 30, 2022	7,117	2,801	18,264	28,182

The total allowance for expected credit losses is reconciled as follows:		
	<b>April 2022</b>	<b>April 2021</b>
November 1 allowance for expected credit losses	30,517	29,791
Charge for loan impairment:		
Net remeasurement due to stage transfers	-	819
Remeasurement of loss allowance other than stage transfers	194	2,195
Derecognitions and maturities	(734)	(3,871)
Loan originations	1,978	3,806
Write-offs	(3,773)	(1,109)
Allowance for expected credit losses, April 30	28,182	31,631
The charge for loan impairment on the statement of comprehensive income is reconciled as follows:		
Charge for loan impairment as above	1,438	2,949
Charge for loan impairment on foreclosed property at April 30	-	719
Charge for impairment on investments	(474)	(24)
Recoveries	(220)	(285)
Total charge for loan impairment	744	3,359

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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 April 30, 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 April 30, 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.

April 30, 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
<b>Driver</b>						
3 month BA rate %	2.10	2.83	2.79	4.54	1.18	1.68
3 month Government of Canada Bond Rate %	1.75	2.39	2.50	4.17	0.75	1.12
Alberta housing price index % change	8.56	1.67	13.98	1.67	(2.01)	0.15
Alberta unemployment rate %	6.12	5.67	5.43	5.01	7.63	7.23

October 31, 2021	Base case scenario		Alternative scenario optimistic		Alternative scenario pessimistic	
	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
<b>Driver</b>						
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 April 30, 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 \$0.6 million (2021 – \$0.3 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 \$1.2 million (2021 - \$0.6 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
<b>Driver</b>					
3 month BA rate %	1.27	1.54	1.81	2.10	2.83
3 month Government of Canada Bond Rate %	1.00	1.25	1.50	1.75	2.39
Alberta housing price index % change	3.30	2.09	1.63	1.29	1.67
Alberta unemployment rate %	6.71	6.58	6.48	6.12	5.67

**Alternative scenario  
pessimistic**

	Next 3 months	Next 6 months	Next 9 months	Next 12 months	Remaining forecast period
<b>Driver</b>					
3 month BA rate %	0.85	0.87	0.90	1.18	1.68
3 month Government of Canada Bond Rate %	0.50	0.50	0.50	0.75	1.12
Alberta housing price index % change	(2.17)	(0.49)	0.53	0.12	0.15
Alberta unemployment rate %	8.17	8.40	7.77	7.63	7.23

**Alternative scenario  
optimistic**

	Next 3 months	Next 6 months	Next 9 months	Next 12 months	Remaining forecast period
<b>Driver</b>					
3 month BA rate %	1.47	1.91	2.26	2.79	4.54
3 month Government of Canada Bond Rate %	1.25	1.67	2.00	2.50	4.17
Alberta housing price index % change	8.46	2.09	1.63	1.29	1.67
Alberta unemployment rate %	5.96	5.76	5.75	5.43	5.01

**Foreclosed Property**

In the six-month period ended April 30, 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 two small residential loans 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.

2022 SECOND QUARTER FINANCIAL REPORT

April 30, 2022

	Level 1	Level 2	Level 3	Total fair value	Carrying amount
<b>Assets</b>					
Investments - amortized cost	-	569,923	-	569,923	553,050
Investments - FVOCI	-	113,831	-	113,831	113,831
Loans	-	5,710,769	-	5,710,769	5,936,720
Other assets	-	44,169	-	44,169	44,169
Total	-	6,438,692	-	6,438,692	6,647,770
<b>Liabilities</b>					
Deposits	-	5,734,077	-	5,734,077	5,781,291
Secured borrowings	-	298,694	-	298,694	314,008
Total	-	6,032,771	-	6,032,771	6,095,299

October 31, 2021

	Level 1	Level 2	Level 3	Total fair value	Carrying amount
<b>Assets</b>					
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
<b>Liabilities</b>					
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**

	6 months ended April 30	
	2022	2021
Service charges and other fees	3,167	2,939
Foreign exchange gain/loss	670	64
Loan prepayment and other fees	1,833	2,049
Insurance	1,154	690
Credit card fees	323	210
Wealth management	4,713	3,978
Other	887	860
	<u>12,747</u>	<u>10,790</u>