



**connectFirst**  
credit union

## **2023 FIRST QUARTER FINANCIAL REPORT**

**For the three months ended  
January 31, 2023**

**(Unaudited)**

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

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

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

(unaudited)

<i>(\$ Thousands)</i>	January 31, 2023	October 31, 2022
<b>ASSETS</b>		
Cash and cash equivalents	76,674	50,950
Investments (note 5)	673,472	679,423
Loans to members (note 6 and 7)	6,334,202	6,335,654
Foreclosed property (note 7)	1,404	1,740
Other assets	45,730	60,862
Intangible assets	15,009	13,595
Property and equipment	53,371	52,380
Right of use assets	19,700	20,654
Deferred tax asset	1,324	1,324
	<u>7,220,886</u>	<u>7,216,582</u>
<b>LIABILITIES</b>		
Members' deposits	6,052,219	6,025,747
Accounts payable and accruals	30,007	38,380
Lease liabilities	27,945	29,090
Secured borrowings	471,583	479,887
	<u>6,581,754</u>	<u>6,573,104</u>
<b>MEMBERS' EQUITY</b>		
Common shares	303,036	288,158
Investment shares	152,285	153,305
Ownership dividend allocation	-	13,382
Investment share dividends declared	-	8,345
Contributed surplus (note 2)	7,445	7,445
Retained earnings	176,366	172,843
	<u>639,132</u>	<u>643,478</u>
	<u>7,220,886</u>	<u>7,216,582</u>

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

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

(unaudited)

	3 months ended January 31	
<i>(\$ Thousands)</i>	2023	2022
<b>FINANCIAL INCOME</b>		
Interest on loans to members	66,388	47,154
Investment income	5,783	1,081
Unrealized gains/(losses) on interest rate swaps	(541)	191
	71,630	48,426
<b>FINANCIAL EXPENSE</b>		
Interest on members' deposits	30,113	9,136
Interest on loans payable	3,567	1,639
Interest on lease liability	304	306
	33,984	11,081
<b>Financial margin</b>	<b>37,646</b>	<b>37,345</b>
Charge for loan impairment	6,209	304
	31,437	37,041
Other income (note 9)	5,845	6,192
<b>Gross margin</b>	<b>37,282</b>	<b>43,233</b>
Personnel expenses	18,729	17,083
Operating lease expenses	649	720
Depreciation and amortization	2,318	2,229
Other expenses (note 10)	11,015	11,462
	32,711	31,494
Income before income taxes	4,571	11,739
Income taxes		
Current	1,051	1,623
Deferred (recovery)	-	47
	1,051	1,670
<b>Net income and comprehensive income</b>	<b>3,520</b>	<b>10,069</b>

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

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

(unaudited)

<i>(\$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, 2021</b>	246,524	157,688	7,137	4,497	-	169,399	585,245
Acquisition of Spark (note 2)	5,096				7,445		12,541
Net and comprehensive income						10,069	10,069
<b>Transactions with members</b>							
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)
<b>Balance January 31, 2022</b>	266,050	154,804	-	-	7,445	179,483	607,782
<b>Balance October 31, 2022</b>	<b>288,158</b>	<b>153,305</b>	<b>13,382</b>	<b>8,345</b>	<b>7,445</b>	<b>172,843</b>	<b>643,478</b>
Net and comprehensive income						3,520	3,520
<b>Transactions with members</b>							
Shares issued to members for cash	13,943						13,943
Shares issued by dividend	13,382	8,345	(13,382)	(8,345)		3	3
Shares redeemed for cash	(12,447)	(9,365)					(21,812)
<b>Balance January 31, 2023</b>	303,036	152,285	-	-	7,445	176,366	639,132

*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	
<i>(\$ Thousands)</i>	January 31, 2023	January 31, 2022
<b>Cash flows from operating activities</b>		
Net Income	3,520	10,069
Adjustments for:		
Interest on loans to members	(66,388)	(47,154)
Interest/dividends on investments	(5,783)	(1,081)
Interest expense	33,984	11,081
Unrealized (gain)/loss on interest rate swaps	541	(191)
Depreciation and amortization	2,318	2,229
Charge for loan impairment	6,374	415
Current/deferred income tax expense	1,051	1,670
Change in other assets	14,667	(26,062)
Change in accounts payable	(7,210)	(2,517)
Interest received	71,621	49,972
Interest paid	(18,157)	(10,930)
Income tax paid	(2,300)	(91)
Increase in members' deposits	10,645	174,793
Increase in loans to members, net of repayments	(5,918)	(151,527)
Proceeds from sale of foreclosed property	342	6,460
<b>Net cash from operating activities</b>	<b>39,307</b>	<b>17,136</b>
<b>Cash flows from financing activities</b>		
Common shares issued for cash	13,943	15,601
Common share redemptions	(12,447)	(8,308)
Investment share redemptions	(9,365)	(7,381)
Advances of secured borrowing	93,649	44,140
Repayment of secured borrowing	(101,953)	(31,056)
Payment of lease liabilities	(846)	(769)
<b>Net cash from (used in) financing activities</b>	<b>(17,019)</b>	<b>12,227</b>
<b>Cash flows from investing activities</b>		
Cash acquired on amalgamation	-	218
Acquisition of investments	(205,900)	(304,497)
Proceeds from sale of investments	213,391	295,101
Acquisition of property and equipment, net	(1,983)	(429)
Acquisition of intangibles, net	(2,072)	(484)
<b>Net cash provided by (used in) investing activities</b>	<b>3,436</b>	<b>(10,091)</b>
Increase in cash and cash equivalents	25,724	19,272
Cash and cash equivalents, beginning of period	50,950	53,171
<b>Cash and cash equivalents, end of period</b>	<b>76,674</b>	<b>72,443</b>

*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, 2023**

(\$ Thousands)

### **1. REPORTING ENTITY**

Connect First Credit Union Ltd. (“Connect First” or the “Credit Union”) operates a network of credit union branches in the City of Calgary and central and southern Alberta. The registered office is located at 200, 2850 Sunridge Blvd., Calgary, Alberta, T1Y 6G2.

### **2. BUSINESS COMBINATION**

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

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

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

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

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

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

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

### 3. BASIS OF PREPARATION

The condensed consolidated interim financial statements of the Credit Union have been prepared by management in accordance with International Accounting Standard 34 Interim Financial Reporting and do not include all of the information required for full annual financial statements and should be read in conjunction with Connect First's 2022 audited annual consolidated financial statements. The accounting policies, methods of computation and presentation of these interim condensed consolidated financial statements are consistent with the most recent 2022 annual financial statements of Connect First.

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

These condensed consolidated interim financial statements were approved by the Board of Directors on March 14, 2023.

#### 4. SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

The preparation of the interim condensed consolidated financial statements in conformity with IFRS required management to make estimates, judgments and assumptions that affected the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the statement of financial position date and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of estimates included the measurement of the allowance for loan impairment, deferred tax assets and liabilities, the estimate of fair value of foreclosed property, valuation of leased assets and liabilities, the useful lives of property and equipment, and intangibles, and the estimate of fair value of financial instruments measured at fair value, and the fair value of assets and liabilities acquired in a business combination. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates have been recognized in the period in which the estimates are revised and in any future periods affected.

#### 5. INVESTMENTS

	As at January 31, 2023	As at October 31, 2022
Investments - term deposits and other debt securities	66,605	61,210
Alberta Central term deposits		
- Non-statutory term deposits	17,005	28,688
- Statutory term deposits	524,825	524,488
Alberta Central common shares	65,037	65,037
	<u>673,472</u>	<u>679,423</u>

#### 6. MEMBERS' LOANS

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

	Stage 1	Stage 2	Stage 3	Total	Accrued Interest	Allowance for Credit Losses	Total Net of Allowance
<b>As at January 31, 2023</b>							
Consumer	623,774	32,029	2,398	658,201	1,737	9,041	650,897
Residential mortgage	2,741,857	82,640	2,310	2,826,807	3,814	1,722	2,828,899
Commercial and agriculture	2,784,983	24,444	54,962	2,864,389	13,294	23,277	2,854,406
Total member loans	<u>6,150,614</u>	<u>139,113</u>	<u>59,670</u>	<u>6,349,397</u>	<u>18,845</u>	<u>34,040</u>	<u>6,334,202</u>
<b>As at October 31, 2022</b>							
Consumer	610,584	33,812	2,165	646,561	1,582	8,165	639,978
Residential mortgage	2,741,093	84,991	1,854	2,827,938	3,514	1,753	2,829,699
Commercial and agriculture	2,798,144	16,811	56,132	2,871,087	14,738	19,848	2,865,977
Total member loans	<u>6,149,821</u>	<u>135,614</u>	<u>60,151</u>	<u>6,345,586</u>	<u>19,834</u>	<u>29,766</u>	<u>6,335,654</u>

**7. ALLOWANCE FOR EXPECTED CREDIT LOSSES**

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

<b>Residential mortgages</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
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
As at November 1, 2022	948	573	232	1,753
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	(4)	28	(24)	-
Remeasurement of loss allowance other than stage transfers	(9)	4	7	2
Derecognitions and maturities	(13)	(16)	(38)	(67)
Loan originations	26	8	-	34
Total remeasurement of loss allowance	-	24	(55)	(31)
Write offs	-	-	-	-
As at January 31, 2023	948	597	177	1,722
<b>Consumer loans</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
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
As at November 1, 2022	3,823	3,157	1,185	8,165
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	67	40	(107)	-
Remeasurement of loss allowance other than stage transfers	169	437	639	1,245
Derecognitions and maturities	292	(50)	(54)	188
Loan originations	237	28	4	269
Total remeasurement of loss allowance	765	455	482	1,702
Write offs	-	(399)	(427)	(826)
As at January 31, 2023	4,588	3,213	1,240	9,041

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<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, 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
As at November 1, 2022	3,961	964	14,923	19,848
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	87	(7)	(80)	-
Remeasurement of loss allowance other than stage transfers	295	110	4,198	4,603
Derecognitions and maturities	(139)	(4)	(8)	(151)
Loan originations	202	-	1	203
Total remeasurement of loss allowance	445	99	4,111	4,655
Write offs	-	-	(1,226)	(1,226)
As at January 31, 2023	4,406	1,063	17,808	23,277
Totals at January 31, 2022	6,874	2,287	20,170	29,331
Totals at January 31, 2023	9,942	4,873	19,225	34,040

The total allowance for expected credit losses is reconciled as follows:		
	<b>January 2023</b>	<b>January 2022</b>
November 1 allowance for expected credit losses	29,766	30,175
Charge for loan impairment:		
Net remeasurement due to stage transfers	-	321
Remeasurement of loss allowance other than stage transfers	5,850	419
Derecognitions and maturities	(30)	(1,391)
Loan originations	506	1,217
Write-offs	(2,052)	(1,410)
Allowance for expected credit losses, January 31	34,040	29,331
The charge for loan impairment on the statement of comprehensive income is reconciled as follows:		
Charge for loan impairment as above	6,326	566
Charge for loan impairment on foreclosed property at January 31	-	-
Charge for impairment on investments	14	(172)
Recoveries	(131)	(90)
Total charge for loan impairment	6,209	304

As previously disclosed in Note 4, the measurement of the allowance for expected credit losses as well as foreclosed property involved the use of significant judgements, estimates and assumptions. The Credit Union has applied judgment, including consideration of these factors in the assessment of any underlying credit deterioration, and considered both qualitative and quantitative information. Specifically, the Credit Union considered the following:

Significant Increase in Credit Risk (“SICR”)

The judgments related to whether or not there was a SICR resulted in loans moving between stages and, therefore, being subject to different ECL models, as disclosed in the 2022 annual financial statements. With respect to delinquencies, the judgements used related to SICR have remained consistent with those at October 31, 2022.

Forward Looking Information (“FLI”)

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

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January 31, 2023	Base case scenario		Alternative scenario optimistic		Alternative scenario pessimistic	
	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
	<b>Driver</b>					
3 month BA rate %	4.36	3.02	5.40	4.83	1.41	1.76
3 month Government of Canada Bond Rate %	3.90	2.57	5.00	4.46	0.85	1.22
Alberta housing price index % change	(0.87)	1.14	2.96	1.93	(2.69)	0.15
Alberta unemployment rate %	5.60	5.27	4.33	4.42	8.30	7.30

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

The reported expected credit losses at January 31, 2023 for financial assets in Stage 1 and Stage 2 under the optimistic macroeconomic conditions, with other assumptions held constant, including the application of experienced credit adjustment decreased by approximately \$1.1 million (2022 – \$0.32 million).

The reported expected credit losses for financial assets in Stage 1 and Stage 2 under the pessimistic macroeconomic conditions, with other assumptions held constant, including the application of experienced credit adjustment increased by approximately \$1.9 million (2022 - \$0.56 million).

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

	Base case scenario				
	Next 3 months	Next 6 months	Next 9 months	Next 12 months	Remaining forecast period
	<b>Driver</b>				
3 month BA rate %	4.69	4.61	4.47	4.36	3.02
3 month Government of Canada Bond Rate %	4.20	4.10	4.00	3.90	2.57
Alberta housing price index % change	(0.49)	(0.39)	(0.17)	0.19	1.14
Alberta unemployment rate %	5.60	5.70	5.60	5.60	5.27

	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 %	1.87	1.70	1.42	1.41	1.76
3 month Government of Canada Bond Rate %	1.30	1.10	0.85	0.85	1.22
Alberta housing price index % change	(2.17)	(0.49)	(0.16)	0.12	0.15
Alberta unemployment rate %	7.20	8.40	8.80	8.30	7.30

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	Alternative scenario optimistic				Remaining forecast period
	Next 3 months	Next 6 months	Next 9 months	Next 12 months	
<b>Driver</b>					
3 month BA rate %	5.24	5.56	5.71	5.40	4.83
3 month Government of Canada Bond Rate %	4.80	5.10	5.30	5.00	4.46
Alberta housing price index % change	0.83	1.03	0.53	0.53	1.93
Alberta unemployment rate %	4.89	4.41	4.30	4.33	4.42

Foreclosed Property

In the three-month period ended January 31, 2023, the Credit Union has not foreclosed on any additional properties. Settlement has been received from insurance for one of the residential properties moved into foreclosure in 2022.

**8. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The amounts set out in the table below represent the fair values of the Credit Union's financial instruments. The valuations and assumptions are consistent with the most recent 2022 annual financial statements of Connect First.

**January 31, 2023**

	Level 1	Level 2	Level 3	Total fair value	Carrying amount
<b>Assets</b>					
Investments - amortized cost	-	582,481	-	582,481	591,429
Investments - FVOCI	-	82,043	-	82,043	82,043
Loans	-	6,023,833	-	6,023,833	6,334,202
Derivatives	-	3,436	-	3,436	3,436
Total	-	6,691,793	-	6,691,793	7,011,110
<b>Liabilities</b>					
Deposits	-	6,028,125	-	6,028,125	6,052,219
Secured borrowings	-	419,150	-	419,150	471,583
Total	-	6,447,275	-	6,447,275	6,523,802

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October 31, 2022

	Level 1	Level 2	Level 3	Total fair value	Carrying amount
<b>Assets</b>					
Investments - amortized cost	-	576,885	-	576,885	585,698
Investments - FVOCI	-	93,725	-	93,725	93,725
Loans	-	6,017,221	-	6,017,221	6,335,654
Derivatives	-	3,901	-	3,901	3,901
Total	-	6,691,732	-	6,691,732	7,018,978
<b>Liabilities</b>					
Deposits	-	5,979,665	-	5,979,665	6,025,747
Secured borrowings	-	448,614	-	448,614	479,887
Total	-	6,428,279	-	6,428,279	6,505,634

**9. OTHER INCOME**

	<b>3 months ended January 31</b>	
	<b>2023</b>	<b>2022</b>
Service charges and other fees	1,754	1,575
Foreign exchange gain/loss	317	272
Loan prepayment and other fees	544	1,037
Insurance	376	534
Credit card fees	99	125
Wealth management	2,007	2,108
Other	748	541
	<u>5,845</u>	<u>6,192</u>

**10. OTHER EXPENSES**

	<b>3 months ended January 31</b>	
	<b>2023</b>	<b>2022</b>
Advertising	683	1,553
Technology	3,891	3,359
Member security and deposit insurance premium	1,089	1,043
Professional fees	936	982
Stationary, telephone, postage, courier	342	626
Financial planning	23	56
ATM/POS operations	453	422
Board expenses	154	130
Lending costs	559	638
Charitable donations/community investment	85	78
Occupancy	1,152	1,080
Other	1,648	1,495
	<u>11,015</u>	<u>11,462</u>