



connectFirst
credit union

2021 THIRD QUARTER FINANCIAL REPORT

**For the three and nine months ended
July 31, 2021**

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(unaudited)

<i>(\$ Thousands)</i>	July 31, 2021	October 31, 2020
ASSETS		
Cash and cash equivalents	71,205	72,785
Investments	551,922	725,313
Loans to members (note 4 and 5)	5,317,362	5,014,343
Foreclosed property	4,269	5,413
Other assets	35,940	41,529
Intangible assets	13,787	13,625
Property and equipment	52,532	55,171
Right-of-use asset	19,650	21,142
Deferred tax asset	5,998	4,849
	6,072,665	5,954,170
LIABILITIES		
Members' deposits	5,150,753	4,991,483
Accounts payable and accruals	51,575	17,615
Lease liability	28,903	30,500
Secured borrowings	277,668	387,823
	5,508,899	5,427,421
MEMBERS' EQUITY		
Common shares	244,822	238,477
Investment shares	144,934	120,123
Ownership dividend allocation	-	4,999
Investment share dividends declared	-	4,192
Retained earnings	174,010	158,958
	563,766	526,749
	6,072,665	5,954,170

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

2021 THIRD QUARTER FINANCIAL REPORT

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

(unaudited)

	3 months ended July 31		9 months ended July 31	
	2021	2020	2021	2020
<i>(\$ Thousands)</i>				
FINANCIAL INCOME				
Interest on loans to members	44,238	43,712	130,587	133,951
Interest and dividends on investments	544	810	3,029	6,378
Unrealized gains/(losses) on interest rate swaps	(163)	-	(163)	(43)
	<u>44,619</u>	<u>44,522</u>	<u>133,453</u>	<u>140,286</u>
FINANCIAL EXPENSE				
Interest on members' deposits	9,415	16,891	34,229	54,357
Interest on loans payable	2,123	2,774	7,069	7,719
Interest on lease liability	296	333	938	902
	<u>11,834</u>	<u>19,998</u>	<u>42,236</u>	<u>62,978</u>
Financial margin	32,785	24,524	91,217	77,308
Charge for loan impairment	1,879	3,348	5,238	10,149
	<u>30,906</u>	<u>21,176</u>	<u>85,979</u>	<u>67,159</u>
Other income (note 7)	5,549	5,151	16,339	16,901
Gross margin	36,455	26,327	102,318	84,060
Personnel expenses	15,257	15,606	47,368	45,458
Operating lease expenses	761	475	1,756	1,507
Depreciation and amortization	2,065	1,915	6,193	5,769
Other expenses	11,981	8,159	30,651	24,494
	<u>30,064</u>	<u>26,155</u>	<u>85,968</u>	<u>77,228</u>
Income before income taxes	6,391	172	16,350	6,832
Income taxes				
Current	1,224	510	2,447	3,569
Deferred (recovery)	(40)	(1)	(1,149)	(882)
	<u>1,184</u>	<u>509</u>	<u>1,298</u>	<u>2,687</u>
Net income and comprehensive income	5,207	(337)	15,052	4,145

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

<i>(\$Thousands)</i>	Common shares	Series A-G investment shares	Ownership dividends declared	Investment share dividends declared	Retained earnings	Total equity
Balance November 1, 2019	217,260	121,242	7,913	5,441	170,146	522,002
Transition to IFRS 16 net of tax of \$2,142					(6,415)	(6,415)
Net income					4,145	4,145
Transactions with members						
Shares issued to members for cash	26,348					26,348
Shares issued by dividend	7,913	5,441	(7,913)	(5,441)	26	26
Shares redeemed for cash	(18,027)	(6,354)				(24,381)
Balance July 31, 2020	233,494	120,329	-	-	167,902	521,725
Balance October 31, 2020	238,477	120,123	4,999	4,192	158,958	526,749
Net and comprehensive income					15,052	15,052
Transactions with members						
Shares issued to members for cash	25,091	26,707				51,798
Shares issued by dividend	4,999	4,192	(4,999)	(4,192)		-
Shares redeemed for cash	(23,745)	(6,088)				(29,833)
Balance July 31, 2021	244,822	144,934	-	-	174,010	563,766

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

(unaudited)

	NINE MONTHS ENDED	
(\$ Thousands)	July 31, 2021	July 31, 2020
Cash flows from operating activities		
Net Income	15,052	4,145
Adjustments for:		
Interest on loans to members	(130,587)	(133,951)
Interest/dividends on investments	(3,029)	(6,378)
Interest expense	42,236	62,978
Unrealized loss on interest rate swaps	163	43
Depreciation and amortization	6,193	5,769
Charge for loan impairment	5,674	10,461
Current/deferred income tax expense	1,298	2,687
Change in other assets	5,426	5,447
Change in accounts payable	20,916	(648)
Interest received	135,349	140,342
Interest paid	(56,180)	(67,314)
Interest paid on lease liability	(938)	(902)
Income tax refund	10,597	(4,552)
Increase (decrease) in members' deposits	174,152	120,490
Decrease (increase) in loans to members, net of repayments	(309,417)	(20,422)
Proceeds from sale of foreclosed property	73	1,633
Net cash (used in) operating activities	(83,022)	119,828
Cash flows from financing activities		
Common shares issued for cash	25,091	26,348
Common share redemptions	(23,745)	(18,027)
Investment shares issued for cash	26,707	
Investment share redemptions	(6,088)	(6,354)
Advances of secured borrowing	30,650	87,532
Repayment of secured borrowing	(140,805)	(76,047)
Payment of lease liabilities	(1,721)	(1,622)
Net cash from (used in) financing activities	(89,911)	11,830
Cash flows used in investing activities		
Acquisition of investments	(779,685)	(925,272)
Proceeds from sale of investments	953,138	810,446
Acquisition of property and equipment, net	(536)	(1,183)
Acquisition of intangibles, net	(1,564)	(7,027)
Net cash provided by (used in) investing activities	171,353	(123,036)
Increase/(decrease) in cash and cash equivalents	(1,580)	8,622
Cash and cash equivalents, beginning of period	72,785	71,874
Cash and cash equivalents, end of period	71,205	80,496

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited)

For the nine months ended July 31, 2021

(\$ 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. 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 2020 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 2020 annual financial statements of Connect First.

These condensed consolidated interim financial statements were approved by the Board of Directors on August 31, 2021.

3. 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 July 31, 2021, 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 4 and 5 for further details.

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4. MEMBERS' LOANS

The following table shows the gross carrying amount of loans measured at amortized cost as at July 31, 2021. 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 5.

	Stage 1	Stage 2	Stage 3	Total	Accrued Interest	Allowance for Credit Losses	Total Net of Allowance
As at July 31, 2021							
Consumer	414,064	17,918	1,261	433,244	1,088	6,334	427,998
Residential mortgage	2,325,759	96,480	3,974	2,426,213	2,346	1,714	2,426,844
Commercial and agriculture	2,388,296	29,182	55,484	2,472,961	12,050	22,491	2,462,520
Total member loans	5,128,119	143,580	60,719	5,332,418	15,484	30,539	5,317,362

	Stage 1	Stage 2	Stage 3	Total	Accrued Interest	Allowance for Credit Losses	Total Net of Allowance
As at October 31, 2020							
Consumer	422,234	10,647	1,731	434,612	1,080	6,996	428,696
Residential mortgage	2,325,590	102,617	6,664	2,434,872	2,731	1,959	2,435,644
Commercial and agriculture	2,072,113	17,726	67,533	2,157,372	13,468	20,836	2,150,004
Total member loans	4,819,937	130,990	75,928	5,026,856	17,278	29,791	5,014,343

5. 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, 2019	925	764	375	2,064
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	(1)	23	44	66
Remeasurement of loss allowance other than stage transfers	(136)	(36)	(34)	(206)
Derecognitions and maturities	(119)	(57)	(88)	(264)
Loan originations	96	70	11	177
Total remeasurement of loss allowance	(160)	-	(67)	(227)
Write offs	-	-	(45)	(45)
As at July 31, 2020	765	764	263	1,792
As at November 1, 2020	915	829	215	1,959
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	(8)	(43)	26	(25)
Remeasurement of loss allowance other than stage transfers	(40)	(70)	53	(57)
Derecognitions and maturities	(89)	(65)	(81)	(235)
Loan originations	158	53	-	211
Total remeasurement of loss allowance	21	(125)	(2)	(106)
Write offs	(32)	-	(107)	(139)
As at July 31, 2021	904	704	106	1,714

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Consumer loans	Stage 1	Stage 2	Stage 3	Total
As at November 1, 2019	3,663	1,656	1,021	6,340
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	(27)	403	526	902
Remeasurement of loss allowance other than stage transfers	927	358	672	1,957
Derecognitions and maturities	(259)	(132)	(231)	(622)
Loan originations	881	140	208	1,229
Total remeasurement of loss allowance	1,522	769	1,175	3,466
Write offs	(444)	(485)	(1,180)	(2,109)
As at July 31, 2020	4,741	1,940	1,016	7,697
As at November 1, 2020	4,304	1,733	959	6,996
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	(137)	277	468	608
Remeasurement of loss allowance other than stage transfers	(908)	13	554	(341)
Derecognitions and maturities	(344)	(141)	(289)	(774)
Loan originations	976	204	33	1,213
Total remeasurement of loss allowance	(413)	353	766	706
Write offs	(246)	(264)	(858)	(1,368)
As at July 31, 2021	3,645	1,822	867	6,334

Commercial and agriculture loans	Stage 1	Stage 2	Stage 3	Total
As at November 1, 2019	1,556	1,219	6,113	8,888
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	(6)	488	3,191	3,673
Remeasurement of loss allowance other than stage transfers	735	6	497	1,238
Derecognitions and maturities	(153)	(53)	(299)	(505)
Loan originations	622	2	434	1,058
Total remeasurement of loss allowance	1,198	443	3,823	5,464
Write offs	(47)	-	(14)	(61)
As at July 31, 2020	2,707	1,662	9,922	14,291
As at November 1, 2020	3,527	998	16,311	20,836
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	(20)	508	(488)	-
Remeasurement of loss allowance other than stage transfers	(1,398)	(46)	4,391	2,947
Derecognitions and maturities	(544)	(222)	(3,043)	(3,809)
Loan originations	745	9	3,513	4,267
Total remeasurement of loss allowance	(1,217)	249	4,373	3,405
Write offs	(5)	(22)	(1,723)	(1,750)
As at July 31, 2021	2,305	1,225	18,961	22,491
Totals at July 31, 2020	8,213	4,366	11,201	23,780
Totals at July 31, 2021	6,854	3,751	19,934	30,539

The total allowance for expected credit losses is reconciled as follows:		
	July 2021	July 2020
November 1 allowance for expected credit losses	29,791	17,292
Charge for loan impairment:		
Net remeasurement due to stage transfers	583	4,641
Remeasurement of loss allowance other than stage transfers	2,549	2,989
Derecognitions and maturities	(4,818)	(1,391)
Loan originations	5,691	2,464
Write-offs	(3,257)	(2,215)
Allowance for expected credit losses, July 31	30,539	23,780
The charge for loan impairment on the statement of comprehensive income is reconciled as follows:		
Charge for loan impairment as above	4,005	8,703
Charge for loan impairment on foreclosed property at July 31	1,438	1,375
Charge for impairment on investments	123	283
Recoveries	(328)	(212)
Total charge for loan impairment	5,238	10,149

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As previously disclosed in Note 3, 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 July 31, 2021:

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 2020 annual financial statements. Due to the ongoing pandemic, the Credit Union has implemented programs to allow for the deferral of payments on loans to members in certain circumstances. With respect to delinquencies, the judgements used related to SICR remain consistent with those at October 31, 2020. With respect to those loans where the member has taken advantage of the loan payment deferral programs, the Credit Union has assessed whether this is indicative of a SICR, including consideration on whether this is indicative of a short-term change or an increase in the risk the member will default over the life of the loan.

Forward Looking Information (“FLI”)

As of July 31, 2021, the following FLI has been used in the measurement of the ECL, as compared to that used at October 31, 2020. 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.

Base case scenario

July 31, 2021

	Next 3 months	Next 6 months	Next 9 months	Next 12 months	Remaining forecast period
Driver					
3 month BA rate %	0.32	0.33	0.39	0.40	1.12
3 month Government of Canada Bond Rate %	0.20	0.20	0.25	0.25	0.94
Alberta housing price index % change	0.18	0.30	0.29	0.29	1.14
Alberta unemployment rate %	8.51	8.14	7.74	7.49	6.53

**Alternative scenario
pessimistic**

	Next 3 months	Next 6 months	Next 9 months	Next 12 months	Remaining forecast period
Driver					
3 month BA rate %	0.26	0.26	0.27	0.32	0.59
3 month Government of Canada Bond Rate %	0.08	0.09	0.08	0.12	0.33
Alberta housing price index % change	(2.17)	(0.49)	0.53	0.12	0.15
Alberta unemployment rate %	9.08	8.62	8.32	8.15	7.40

**Alternative scenario
optimistic**

	Next 3 months	Next 6 months	Next 9 months	Next 12 months	Remaining forecast period
Driver					
3 month BA rate %	0.42	0.58	0.83	1.09	2.21
3 month Government of Canada Bond Rate %	0.35	0.50	0.75	1.00	2.10
Alberta housing price index % change	0.83	1.03	0.53	0.53	2.09
Alberta unemployment rate %	8.00	7.58	7.19	6.80	5.63

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The reported expected credit losses at July 31, 2021 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 \$373.

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 \$536.

Base case scenario

October 31, 2020

	Next 3 months	Next 6 months	Next 9 months	Next 12 months	Remaining forecast period
Driver					
3 month BA rate %	0.33	0.35	0.36	0.33	1.11
3 month Government of Canada Bond Rate %	0.25	0.25	0.25	0.25	0.73
Alberta housing price index % change	(0.21)	0.38	0.38	0.37	1.46
Alberta unemployment rate %	10.90	10.20	9.60	9.10	7.35

**Alternative scenario
pessimistic**

	Next 3 months	Next 6 months	Next 9 months	Next 12 months	Remaining forecast period
Driver					
3 month BA rate %	0.50	0.71	0.69	0.67	0.79
3 month Government of Canada Bond Rate %	0.25	0.25	0.25	0.25	0.33
Alberta housing price index % change	(3.56)	(0.95)	0.71	0.49	0.12
Alberta unemployment rate %	12.57	14.30	11.92	10.36	8.41

**Alternative scenario
optimistic**

	Next 3 months	Next 6 months	Next 9 months	Next 12 months	Remaining forecast period
Driver					
3 month BA rate %	0.50	0.50	0.90	1.06	2.36
3 month Government of Canada Bond Rate %	0.30	0.30	0.50	0.75	1.97
Alberta housing price index % change	7.49	1.50	1.58	1.60	2.42
Alberta unemployment rate %	9.50	8.50	7.70	7.00	5.34

The reported expected credit losses at October 31, 2020 for loans in Stage 1 and Stage 2 under the optimistic macroeconomic conditions, with other assumptions held constant, would decrease by approximately \$0.7 million.

The reported expected credit losses for loans in Stage 1 and Stage 2 under the pessimistic macroeconomic conditions, with other assumptions held constant, would increase by approximately \$1.4 million.

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Foreclosed Property

In the nine-month period ended July 31, 2021, the Credit Union has recognized \$1.3 million in additional charges for loan impairment related to the large commercial foreclosed property. As the property has not yet sold, there remains uncertainty as to the amount that will ultimately be recovered.

6. 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 2020 annual financial statements of Connect First.

July 31, 2021

	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Assets					
Investments - amortized cost	-	552,018	-	552,018	492,380
Investments - FVOCI	-	59,542	-	59,542	59,542
Loans	-	5,325,124	-	5,325,124	5,317,362
Total	-	5,936,684	-	5,936,684	5,869,284
Liabilities					
Deposits	-	5,143,448	-	5,143,448	5,150,753
Secured borrowings	-	273,876	-	273,876	277,668
Total	-	5,417,324	-	5,417,324	5,428,421

October 31, 2020

	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Assets					
Investments - amortized cost	-	483,741	-	483,741	466,143
Investments - FVOCI	-	259,170	-	259,170	259,170
Loans	-	5,097,926	-	5,097,926	5,014,343
Total	-	5,840,837	-	5,840,837	5,739,656
Liabilities					
Deposits	-	4,993,898	-	4,993,898	4,991,483
Secured borrowings	-	395,999	-	395,999	387,823
Total	-	5,389,897	-	5,389,897	5,379,306

7. OTHER INCOME

	9 months ended July 31	
	2021	2020
Service charges and other fees	4,350	5,669
Foreign exchange gain/loss	172	588
Loan prepayment and other fees	3,466	2,391
Insurance	1,102	1,164
Credit card fees	343	267
Wealth management	5,978	5,280
Other	928	1,542
	16,339	16,901

8. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS**Credit risk**

Credit risk is the potential for loss due to the failure of a borrower or counterparty to meet its financial or contractual obligations. Overall monitoring and processes have changed and will continue to change due to COVID-19. This has and will include changes to our current processes to ensure that the overall portfolio will be protected and will continue to support our members to find their optimal credit solutions. The stages of our loan book will be affected by COVID-19 and adjusted as we progress through the pandemic.

Market risk

Market risk arises due to the risk of financial loss from movements in market prices that impact the value of the assets and liabilities of the Credit Union. Interest rate risk and foreign exchange risk are the primary market risks that can impact interest margin as well as equity. The resulting impact from COVID-19 to the Credit Union's margin has been and will continue to be monitored consistently, with scenario and stress testing being adopted as a required tactic and adjusting responses as the current economic conditions unfold.

Liquidity risk

Liquidity risk is the risk that arises from the Credit Union's potential inability to meet both expected and unexpected current and future cash flow needs without impacting daily operations or the financial condition of the organization. The Credit Union has a strong liquidity base, is active in the securitization market, and has a well-established contingency liquidity plan to access if required through the COVID-19 situation.

Capital management

The Credit Union is well capitalized and has the ability to maintain the required capital buffers through the COVID-19 period.