2020 SECOND QUARTER FINANCIAL REPORT

For the six months ended
April 30, 2020

(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.

Making Money Make a Difference

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(unaudited)

($ Thousands)	**April 30, 2020**	**October 31, 2019**
ASSETS		
Cash and cash equivalents	81,720	71,874
Investments	629,063	613,127
Loans to members (note 5 and 6)	4,963,887	4,980,596
Foreclosed property (note 6)	6,117	6,738
Other assets	45,595	50,059
Intangible assets	10,649	6,349
Property and equipment	56,929	57,838
Assets held for sale	560	560
Right-of-use asset (note 4)	22,234	-
	5,816,754	**5,787,141**
LIABILITIES		
Members' deposits	4,781,749	4,827,908
Accounts payable and accruals	15,661	17,392
Secured borrowings	468,276	419,115
Deferred tax liability	712	724
Lease liability (note 4)	31,528	-
	5,297,926	**5,265,139**
MEMBERS' EQUITY		
Ownership dividend allocation	-	7,913
Common shares	232,898	217,260
Investment shares	120,703	121,242
Investment share dividends declared	-	5,441
Retained earnings	165,227	170,146
	518,828	**522,002**
	5,816,754	**5,787,141**

Subsequent event (note 10)

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 2020**	**3 months ended April 30 2019**	**6 months ended April 30 2020**	**6 months ended April 30 2019**
FINANCIAL INCOME				
Interest on loans to members	43,737	43,858	90,239	89,213
Interest and dividends on investments	3,083	4,103	5,568	7,147
Unrealized gains/(losses) on interest rate swaps	(28)	(77)	(43)	54
	46,792	47,884	95,764	96,414
FINANCIAL EXPENSE				
Interest on members' deposits	17,803	19,650	37,466	38,648
Interest on loans payable	2,534	2,015	4,945	3,880
Interest on lease liability	340	-	569	-
	20,677	21,665	42,980	42,528
Financial margin	**26,115**	**26,219**	**52,784**	**53,886**
Charge for loan impairment	5,176	1,044	6,801	1,480
	20,939	25,175	45,983	52,406
Other income (note 8)	6,312	5,691	11,750	11,168
Gross margin	**27,251**	**30,866**	**57,733**	**63,574**
Personnel expenses	14,608	14,092	29,852	29,641
Operating lease expenses	488	1,341	1,032	3,011
Depreciation and amortization	1,912	1,261	3,854	2,562
Other expenses	8,586	8,928	16,335	18,342
	25,594	**25,622**	**51,073**	**53,556**
Income before income taxes	**1,657**	**5,244**	**6,660**	**10,018**
Income taxes				
Current	1,529	1,689	3,059	3,377
Deferred (recovery)	(7)	(21)	(11)	33
	1,522	**1,668**	**3,048**	**3,410**
Net income and comprehensive income	**135**	**3,576**	**3,612**	**6,608**

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)

($Thousands)	Common shares	Series A-G investment shares	Ownership dividends declared	Investment share dividends declared	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total equity
Balance November 1, 2018	177,355	121,941	7,944	6,112	-	167,956	16	481,324
Acquisition of Mountain View					4,659			4,659
Transfer of contributed surplus					(4,659)	4,659		-
Transition to IFRS 9 net of tax of $2,442						(6,607)		(6,607)
Transfer to retained earnings						16	(16)	-
Net income						6,608		6,608
Transactions with members								
Shares issued to members for cash	30,020							30,020
Shares issued by dividend	7,944	6,112	(7,944)	(6,112)				-
Shares redeemed for cash	(10,132)	(6,245)						(16,377)
Balance April 30, 2019	205,187	121,808	-	-	-	172,632	-	499,627
Balance October 31, 2019	**217,260**	**121,242**	**7,913**	**5,441**	**-**	**170,146**		**522,002**
Transition to IFRS 16 (note 4)						(8,557)		(8,557)
Net and comprehensive income						3,612		3,612
Transactions with members								
Shares issued to members for cash	22,120							22,120
Shares issued by dividend	7,913	5,441	(7,913)	(5,441)		26		26
Shares redeemed for cash	(14,395)	(5,980)						(20,375)
Balance April 30, 2020	232,898	120,703	-	-	-	165,227	-	518,828

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, 2020	April 30, 2019
Cash flows from operating activities		
Net Income	3,612	6,608
Adjustments for:		
Interest on loans to members	(90,239)	(89,213)
Interest/dividends on investments	(5,568)	(7,147)
Interest expense	42,980	42,528
Unrealized loss (gain) on interest rate swaps	43	(54)
Depreciation and amortization	3,854	2,562
Charge for loan impairment	7,002	1,652
Current/deferred income tax expense	3,048	3,410
Change in other assets	4,409	7,728
Change in accounts payable	(7,752)	1,596
Interest received	97,544	98,288
Interest paid	(48,974)	(39,048)
Interest paid on lease liability	(569)	-
Income tax (paid)/refund	3,755	2,433
(Decrease) in members' deposits	(39,596)	(59,748)
Decrease (increase) in loans to members, net of repayments	8,878	(91,846)
Proceeds from sale of foreclosed property	740	511
Net cash (used in) operating activities	**(16,833)**	**(119,740)**
Cash flows from financing activities		
Common shares issued for cash	22,120	30,020
Common share redemptions	(14,395)	(10,132)
Investment share redemptions	(5,980)	(6,245)
Advances of secured borrowing	87,532	20,653
Repayment of secured borrowing	(38,371)	(13,767)
Payment of lease liabilities	(1,111)	-
Net cash from financing activities	**49,795**	**20,529**
Cash flows used in investing activities		
Acquisition of investments	(451,770)	(493,708)
Proceeds from sale of investments	434,807	617,649
Disposition (acquisition) of property and equipment, net	(1,307)	(6,580)
Acquisition of intangibles, net	(4,846)	(1,007)
Net cash provided by (used in) investing activities	**(23,116)**	**116,354**
Increase in cash and cash equivalents	9,846	17,143
Cash and cash equivalents, beginning of period	71,874	66,085
Cash and cash equivalents, end of period	**81,720**	**83,228**

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, 2020
($ 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 2019 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 2019 annual financial statements of Connect First, except as described in Note 4.

These condensed consolidated interim financial statements were approved by the Board of Directors on May 26, 2020.

3. SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Since a determination of some assets and liabilities is dependent upon uncertain future events, the preparation of these financial statements requires the use of estimates and assumptions, which have been made by management using careful judgement. Actual results may differ from these estimates. The estimates, assumptions and judgements used in preparation of these interim condensed consolidated financial statements are consistent with the most recent 2019 annual financial statements of Connect First, and include the measurement of the allowance for loan impairment, the estimate of fair value of foreclosed property, the estimate of fair value of financial instruments measured at fair value, and the estimated fair values of property and equipment acquired through business combinations.

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 period ended April 30, 2020, the Credit Union has included all information available to the date of these financial statements in these estimates. The situation remains fluid and certain impacts continue to remain unknown and may reasonably require adjustment within the next twelve months. Refer to Notes 5 and 6 for further details on these key estimates.

4. CHANGES IN ACCOUNTING POLICIES

IFRS 16 *Leases*

The Credit Union has adopted IFRS 16 Leases (“IFRS 16”) with an effective date of initial application of November 1, 2019. The new standard establishes principles for the recognition, presentation, and measurement of leases for both lessees and lessors. From the perspective of the lessee, the new standard requires the recognition of right-of-use assets and lease liabilities on the statement of financial position for most leases. Lessees will also recognize depreciation expense on lease assets as well as interest expense on lease liabilities in the statement of income and comprehensive income.

The Credit Union adopted IFRS 16 using the modified retrospective approach, whereby the cumulative effect of initial application is recognized in retained earnings at November 1, 2019, with no restatement of comparative information. The Credit Union used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases:

- The exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term; and
- The exemption not to recognize low-value items.

The Credit Union’s transitional adjustment upon the adoption of IFRS 16 is an increase to right-of-use assets and leased liabilities of $23,326 and $32,639 respectively. In addition, previously recognized deferred rent of $756 was eliminated on transition. The resulting adjustment to opening retained earnings was, therefore, $8,557 at November 1, 2019. The adjustment is related primarily to recognition of the Credit Union’s branch and other real estate leases under the new standard.

The key changes to the Credit Union’s accounting policies resulting from its adoption of IFRS 16 are summarized below:

A contract is or contains a lease if there is a right to control the use of an identified asset over a period of time in exchange for consideration. Contracts must meet the following criteria in order to qualify for a lease – the contract has an identified asset, there is a right to obtain the economic benefit from the asset, and there is control of the right to direct the use of the asset.

At inception or on reassessment of a contract that is or contains a lease, the standard requires that the Credit Union allocate consideration in the contract to each lease component, unless an election not to separate is made. The Credit Union has elected to separate the non-lease components from the lease components in the lease contracts. Since these leases are for office/retail space, the non-lease components have been identified as the taxes and operating costs (such as utilities and maintenance) that are billed monthly and sometimes additionally at year end.

Leases are recognized on the statement of financial position as lease assets and lease liabilities. A depreciation charge and interest expense is recognized on the lease assets and lease liabilities through the statement of income and comprehensive income.

Lease liabilities are measured at the present value of the remaining lease payments, discounted using the Credit Union’s incremental borrowing rate. Subsequent to initial measurement, the lease liability is measured at amortized cost using the effective interest rate method.

Lease assets are initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, and an estimate of costs to dismantle and remove the underlying asset where applicable. The lease asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the useful life of the asset or the end of the lease term.

Leases of low-value items or short-term leases are expensed on a straight-line basis over the lease term. These amounts are recorded on the statement of income and comprehensive income as operating lease expenses.

5. MEMBERS’ LOANS

The following table shows the gross carrying amount of loans measured at amortized cost as at April 30, 2020. 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.

	Stage 1	Stage 2	Stage 3	Total	Accrued Interest	Allowance for Credit Losses	Total Net of Allowance
As at April 30, 2020							
Consumer	455,985	12,224	1,307	469,516	1,271	6,171	464,616
Residential mortgage	2,337,013	118,936	7,944	2,463,893	2,972	1,861	2,465,004
Commercial and agriculture	1,946,436	35,487	56,609	2,038,532	9,360	13,625	2,034,267
Total member loans	4,739,434	166,647	65,860	4,971,941	13,603	21,657	4,963,887

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, 2019	925	764	375	2,064
Remeasurements of loss allowance:				
Net remeasurement due to stage transfers	(4)	54	69	119
Remeasurement of loss allowance other than stage transfers	(118)	(47)	(31)	(196)
Derecognitions and maturities	(86)	(41)	(82)	(209)
Loan originations	77	40	11	128
Total remeasurement of loss allowance	(131)	6	(33)	(158)
Write offs	-	-	(45)	(45)
As at April 30, 2020	794	770	297	1,861

Consumer loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at November 1, 2019	3,663	1,656	1,021	6,340
Remeasurements of loss allowance:				
Net remeasurement due to stage transfers	(41)	136	515	610
Remeasurement of loss allowance other than stage transfers	(214)	151	426	363
Derecognitions and maturities	(110)	(118)	(225)	(453)
Loan originations	437	70	186	693
Total remeasurement of loss allowance	72	239	902	1,213
Write offs	(161)	(360)	(861)	(1,382)
As at April 30, 2020	3,574	1,535	1,062	6,171

Commercial and agriculture loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at November 1, 2019	1,556	1,219	6,113	8,888
Remeasurements of loss allowance:				
Net remeasurement due to stage transfers	(87)	356	3,301	3,570
Remeasurement of loss allowance other than stage transfers	623	(19)	413	1,017
Derecognitions and maturities	(112)	(11)	(298)	(421)
Loan originations	304	-	328	632
Total remeasurement of loss allowance	728	326	3,744	4,798
Write offs	(47)	-	(14)	(61)
As at April 30, 2020	2,237	1,545	9,843	13,625

Total at November 1, 2019	6,144	3,639	7,509	17,292
Total at April 30, 2020	6,605	3,850	11,202	21,657

The total allowance for expected credit losses is reconciled as follows:

Opening allowance for impairment		17,292
Charge for loan impairment:		
Net remeasurement due to stage transfers	4,299	
Remeasurement of loss allowance other than stage transfers	1,184	
Derecognitions and maturities	(1,083)	
Loan originations	1,453	5,853
Write-offs		(1,488)
Allowance for expected credit losses, April 30, 2020		21,657

The charge for loan impairment on the statement of comprehensive income is reconciled as follows:

Charge for loan impairment as above	5,853
Charge for loan impairment on foreclosed property at April 30, 2020	1,036
Charge for impairment on investments	41
Recoveries	(129)
Total charge for loan impairment	6,801

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 April 30, 2020:

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 2019 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, 2019. 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 April 30, 2020, the following FLI has been used in the measurement of the ECL, as compared to that used at October 31, 2019. 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, 2020	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
Driver						
3 month BA rate %	0.54	1.78	0.80	2.59	0.54	0.72
3 month Government of Canada Bond Rate %	0.25	1.46	0.50	2.29	0.25	0.45
Alberta housing price index % change	(9.67)	1.90	(1.91)	3.03	(14.39)	1.87
Alberta unemployment rate %	10.00	6.37	9.00	5.26	11.00	8.50

October 31, 2019	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
Driver						
3 month BA rate %	1.52	1.92	2.81	4.03	0.54	0.92
3 month Government of Canada Bond Rate %	1.25	1.65	2.55	3.78	0.25	0.63
Alberta housing price index % change	1.66	1.65	4.50	2.37	- 2.55	0.15
Alberta unemployment rate %	6.40	6.00	4.11	3.75	8.61	8.24

The reported expected credit losses at April 30, 2020 for financial assets in Stage 1 and Stage 2 under the optimistic conditions, with other assumptions held constant, including the application of experienced credit adjustment would be $9,281.

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 be $11,475.

Foreclosed Property

As of April 30, 2020, the Credit Union has recognized an additional $1.03 million charge for loan impairment related to foreclosed property. This was based on updated indications of the market value of the property as of April 30, 2020 under current economic conditions. As the property has not yet sold, there remains uncertainty as to the amount that will ultimately be recovered.

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 2019 annual financial statements of Connect First.

April 30, 2020

	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Assets					
Investments - amortized cost	-	447,563	-	447,563	446,942
Investments - FVOCI	-	182,121	-	182,121	182,121
Loans	-	5,059,729	-	5,059,729	4,963,887
Total	-	5,689,413	-	5,689,413	5,592,950
Liabilities					
Deposits	-	4,795,405	-	4,795,405	4,781,749
Secured borrowings	-	465,600	-	465,600	468,276
Total	-	5,261,005	-	5,261,005	5,250,025

October 31, 2019

	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Assets					
Investments - amortized cost	-	442,849	-	442,849	440,486
Investments - FVOCI	-	172,641	-	172,641	172,641
Loans	-	4,983,413	-	4,983,413	4,980,596
Total	-	5,598,903	-	5,598,903	5,593,723
Liabilities					
Deposits	-	4,822,471	-	4,822,471	4,827,908
Secured borrowings	-	418,898	-	418,898	419,115
Total	-	5,241,369	-	5,241,369	5,247,023

8. OTHER INCOME

	April 30 2020	April 30 2019
Service charges and other fees	3,828	4,156
Foreign exchange gain/loss	700	954
Loan prepayment and other fees	1,440	851
Insurance	798	785
Credit card fees	183	426
Wealth management	3,694	3,354
Other	1,107	642
	11,750	11,168

9. 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 counter-party 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.

10. SUBSEQUENT EVENTS

Subsequent to April 30, 2020, the COVID 19 global pandemic continues to have a significant impact on the global economy. The full effects and duration of the crisis are difficult to predict and remain largely unknown. As disclosed previously in these financial statements, the Credit Union has made estimates related to information known at the date of these financial statements where necessary. The Credit Union continues to closely monitor the economic fallout of the pandemic and the resulting impact on its operations through scenario planning and modelling. Given the uncertainty of this event, it is likely that there will be additional effects in future periods.