ConnectFirst Credit Union

2020 THIRD QUARTER FINANCIAL REPORT

For the nine months ended July 31, 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)	**July 31, 2020**	**October 31, 2019**
ASSETS		
Cash and cash equivalents	80,496	71,874
Investments	726,633	613,127
Loans to members (note 5 and 6)	4,991,567	4,980,596
Foreclosed property (note 6)	5,402	6,738
Other assets	44,556	50,059
Intangible assets	12,550	6,349
Property and equipment	55,716	57,838
Assets held for sale	560	560
Right-of-use asset (note 4)	21,688	-
	5,939,168	**5,787,141**
LIABILITIES		
Members' deposits	4,943,160	4,827,908
Accounts payable and accruals	14,966	17,392
Secured borrowings	430,600	419,115
Deferred tax liability	712	724
Lease liability (note 4)	31,017	-
	5,420,455	**5,265,139**
MEMBERS' EQUITY		
Ownership dividend allocation	-	7,913
Common shares	233,494	217,260
Investment shares	120,329	121,242
Investment share dividends declared	-	5,441
Retained earnings	164,890	170,146
	518,713	**522,002**
	5,939,168	**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 July 31 2020	3 months ended July 31 2019	9 months ended July 31 2020	9 months ended July 31 2019
FINANCIAL INCOME				
Interest on loans to members	43,712	46,107	133,951	135,320
Interest and dividends on investments	810	3,219	6,378	10,366
Unrealized gains/(losses) on interest rate swaps	-	(21)	(43)	33
	44,522	49,305	140,286	145,719
FINANCIAL EXPENSE				
Interest on members' deposits	16,891	20,093	54,357	58,741
Interest on loans payable	2,774	2,095	7,719	5,975
Interest on lease liability	333	-	902	-
	19,998	22,188	62,978	64,716
Financial margin	**24,524**	**27,117**	**77,308**	**81,003**
Charge for loan impairment	3,348	1,717	10,149	3,197
	21,176	25,400	67,159	77,806
Other income (note 8)	5,151	5,426	16,901	16,594
Gross margin	**26,327**	**30,826**	**84,060**	**94,400**
Personnel expenses	15,606	15,313	45,458	44,954
Operating lease expenses	475	1,403	1,507	4,414
Depreciation and amortization	1,915	1,355	5,769	3,917
Other expenses	8,159	8,698	24,494	27,040
	26,155	**26,769**	**77,228**	**80,325**
Income before income taxes	**172**	**4,057**	**6,832**	**14,075**
Income taxes				
Current	510	1,688	3,569	5,065
Deferred (recovery)	(1)	(5)	(12)	28
	509	**1,683**	**3,557**	**5,093**
Net income and comprehensive income	**(337)**	**2,374**	**3,275**	**8,982**

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						8,982		8,982
Transactions with members								
Shares issued to members for cash	39,491							39,491
Shares issued by dividend	7,944	6,112	(7,944)	(6,112)				-
Shares redeemed for cash	(12,722)	(6,507)						(19,229)
Balance July 31, 2019	212,068	121,546	-	-	-	175,006	-	508,620
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						3,275		3,275
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	-	-	-	164,890	-	518,713

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)	NINE MONTHS ENDED July 31, 2020	July 31, 2019
Cash flows from operating activities		
Net Income	3,275	8,982
Adjustments for:		
Interest on loans to members	(133,951)	(135,320)
Interest/dividends on investments	(6,378)	(10,366)
Interest expense	62,978	64,716
Unrealized loss (gain) on interest rate swaps	43	(33)
Depreciation and amortization	5,769	3,917
Charge for loan impairment	10,461	3,532
Current/deferred income tax expense	3,557	5,093
Change in other assets	5,447	6,135
Change in accounts payable	(648)	52,021
Interest received	140,342	146,023
Interest paid	(67,314)	(61,384)
Interest paid on lease liability	(902)	-
Income tax (paid)/refund	(4,552)	4,258
(Decrease) increase in members' deposits	120,490	(121,016)
Increase in loans to members, net of repayments	(20,422)	(103,145)
Proceeds from sale of foreclosed property	1,633	574
Net cash (used in) operating activities	**119,828**	**(136,013)**
Cash flows from financing activities		
Common shares issued for cash	26,348	39,491
Common share redemptions	(18,027)	(12,722)
Investment share redemptions	(6,354)	(6,507)
Advances of secured borrowing	87,532	66,921
Repayment of secured borrowing	(76,047)	(27,655)
Payment of lease liabilities	(1,622)	-
Net cash from financing activities	**11,830**	**59,528**
Cash flows used in investing activities		
Acquisition of investments	(925,272)	(787,841)
Proceeds from sale of investments	810,446	962,273
(Acquisition) of property and equipment, net	(1,183)	(7,212)
(Acquisition) of intangibles, net	(7,027)	(2,182)
Net cash provided by (used in) investing activities	**(123,036)**	**165,038**
Increase in cash and cash equivalents	8,622	88,553
Cash and cash equivalents, beginning of period	71,874	66,085
Cash and cash equivalents, end of period	**80,496**	**154,638**

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, 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 August 27, 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 July 31, 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 July 31, 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 July 31, 2020							
Consumer	442,206	11,775	1,589	455,570	1,317	7,697	449,190
Residential mortgage	2,307,271	118,829	7,090	2,433,190	2,856	1,792	2,434,254
Commercial and agriculture	2,024,899	39,764	46,304	2,110,967	11,447	14,291	2,108,123
Total member loans	4,774,376	170,368	54,983	4,999,727	15,620	23,780	4,991,567

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
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

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

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

Total at November 1, 2019	6,144	3,639	7,509	17,292
Total at July 31, 2020	8,213	4,366	11,201	23,780

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	4,641	
Remeasurement of loss allowance other than stage transfers	2,989	
Derecognitions and maturities	(1,391)	
Loan originations	2,464	8,703
Write-offs		(2,215)
Allowance for expected credit losses, July 31, 2020		23,780

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

Charge for loan impairment as above	8,703
Charge for loan impairment on foreclosed property for the period ended July 31, 2020	1,375
Charge for impairment on investments	283
Recoveries	(212)
Total charge for loan impairment	10,149

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, 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 July 31, 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.

July 31, 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 %	0.72	1.19	0.62	1.34	0.82	0.81
3 month Government of Canada Bond Rate %	0.25	0.73	0.25	0.98	0.25	0.25
Alberta housing price index % change	(6.53)	1.83	8.00	2.51	(14.84)	1.77
Alberta unemployment rate %	9.50	6.67	6.50	4.56	10.36	8.41

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 July 31, 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 $12,098.

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 $14,557.

Foreclosed Property

In the nine-month period ended July 31, 2020, the Credit Union has recognized an additional $1.38 million charge for loan impairment related to foreclosed property. This was based on updated indications of the market value of the property as of July 31, 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.

July 31, 2020

	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Assets					
Investments - amortized cost	-	459,517	-	459,517	459,124
Investments - FVOCI	-	267,509	-	267,509	267,509
Loans	-	5,085,096	-	5,085,096	4,991,567
Total	-	5,812,122	-	5,812,122	5,718,200
Liabilities					
Deposits	-	4,952,753	-	4,952,753	4,943,160
Secured borrowings	-	428,303	-	428,303	430,600
Total	-	5,381,056	-	5,381,056	5,373,760

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

	3 months ended July 31		9 months ended July 31	
	2020	2019	2020	2019
Service charges and other fees	1,841	2,109	5,669	6,265
Foreign exchange gain/loss	(112)	250	588	1,204
Loan prepayment and other fees	951	527	2,391	1,378
Insurance	366	447	1,164	1,232
Credit card fees	84	186	267	612
Wealth management	1,586	1,740	5,280	5,094
Other	435	167	1,542	809
	5,151	5,426	16,901	16,594

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 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.

10. SUBSEQUENT EVENTS

Subsequent to July 31, 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.