2019 FIRST QUARTER FINANCIAL REPORT

For the three months ended
January 31, 2019

(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)	January 31, 2019	October 31, 2018
ASSETS		
Cash and cash equivalents	91,717	66,085
Investments	623,806	663,960
Loans to members	4,921,667	4,854,527
Foreclosed property	326	820
Other assets	43,336	51,164
Intangible assets	3,229	3,286
Property and equipment	59,391	49,978
Assets held for sale	560	560
	5,744,032	**5,690,380**
LIABILITIES		
Members' deposits	4,882,901	4,859,638
Accounts payable and accruals	32,305	19,629
Secured borrowings (note 5)	342,935	329,789
Deferred tax liability	54	-
	5,258,195	**5,209,056**
MEMBERS' EQUITY		
Common shares	193,019	177,355
Investment shares	122,266	121,941
Ownership dividend allocation	-	7,944
Investment share dividends declared	-	6,112
Retained earnings	170,552	167,956
Accumulated other comprehensive income	-	16
	485,837	**481,324**
	5,744,032	**5,690,380**

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)	THREE MONTHS ENDED January 31, 2019	THREE MONTHS ENDED January 31, 2018
FINANCIAL INCOME		
Interest on loans to members	45,355	34,296
Interest and dividends on investments	3,044	1,817
Unrealized gains/(losses) on interest rate swaps	131	(230)
	48,530	35,883
FINANCIAL EXPENSE		
Interest on members' deposits	18,998	12,495
Interest on loans payable	1,865	669
	20,863	13,164
Financial margin	**27,667**	**22,719**
Charge for loan impairment	436	891
	27,231	21,828
Other income	5,477	4,589
Gross margin	**32,708**	**26,417**
Personnel expenses	15,549	11,791
Operating lease expenses	1,670	1,418
Depreciation and amortization	1,301	965
Other expenses	9,414	7,141
	27,934	**21,315**
Income before income taxes	**4,774**	**5,102**
Income taxes		
Current	1,688	1,351
Deferred (recovery)	54	(62)
	1,742	**1,289**
Net income and comprehensive income	**3,032**	**3,813**

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, 2017	122,306	122,395	5,476	6,103	27,576	93,565	1,609	379,030
Acquisition of Legacy	1,343		134		4,771			6,248
Transfer of contributed surplus					(32,347)	32,347		-
Net income						3,813		3,813
Transactions with members								
Shares issued to members for cash	6,350							6,350
Shares issued by dividend	5,610	6,103	(5,610)	(6,103)				-
Shares redeemed for cash	(3,096)	(5,352)						(8,448)
Balance January 31, 2018	132,513	123,146	-	-	-	129,725	1,609	386,993
Balance October 31, 2018	**177,355**	**121,941**	**7,944**	**6,112**	**-**	**167,956**	**16**	**481,324**
Acquisition of Mountain View (note 3)					4,659			4,659
Transfer of contributed surplus (note 3)					(4,659)	4,659		-
Transition to IFRS 9 net of tax of $1,889 (note 5)						(5,111)		(5,111)
Transfer to retained earnings						16	(16)	-
Net income						3,032		3,032
Transactions with members								
Shares issued to members for cash	14,513							14,513
Shares issued by dividend	7,944	6,112	(7,944)	(6,112)				-
Shares redeemed for cash	(6,793)	(5,787)						(12,580)
Balance January 31, 2019	193,019	122,266	-	-	-	170,552	-	485,837

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)	THREE MONTHS ENDED January 31, 2019	THREE MONTHS ENDED January 31, 2018
Cash flows from operating activities		
Net Income	3,032	3,813
Adjustments for:		
Interest on loans to members	(45,355)	(34,296)
Interest/dividends on investments	(3,044)	(1,817)
Interest expense	20,863	13,164
Unrealized loss on interest rate swaps	(131)	230
Depreciation and amortization	1,301	965
Charge for loan impairment	535	934
Current/deferred income tax expense	1,742	1,289
Change in other assets	9,811	(10,728)
Change in accounts payable	11,890	(1,229)
Interest received	49,458	36,425
Interest paid	(17,624)	(11,716)
Income tax paid	(865)	(999)
Increase in members' deposits	20,024	7,320
(Increase) in loans to members, net of repayments	(76,080)	(51,972)
Proceeds from sale of foreclosed property	501	1,537
Net cash (used in) operating activities	**(23,942)**	**(47,080)**
Cash flows from financing activities		
Common shares issued for cash	14,513	6,350
Common share redemptions	(6,793)	(3,096)
Investment share redemptions	(5,787)	(5,352)
Advances of secured borrowing	20,653	-
Repayment of secured borrowing	(7,507)	(4,317)
Net cash from financing activities	**15,079**	**(6,415)**
Cash flows used in investing activities		
Cash acquired on amalgamation	-	1,649
Acquisition of investments	(267,700)	(421,347)
Proceeds from sale of investments	308,193	485,339
Disposition (acquisition) of property and equipment, net	(5,757)	6,130
Acquisition of intangibles, net	(241)	(137)
Net cash provided by investing activities	**34,495**	**71,634**
Increase in cash and cash equivalents	25,632	18,139
Cash and cash equivalents, beginning of period	66,085	19,655
Cash and cash equivalents, end of period	**91,717**	**37,794**

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 three months ended January 31, 2019
($ 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 2018 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 2018 annual financial statements of Connect First, except as described in Note 5.

These condensed consolidated interim financial statements were approved by the Board of Directors on March 5, 2019.

3. BUSINESS COMBINATION

On August 1, 2018, the Credit Union amalgamated with Mountain View Credit Union Ltd. ("Mountain View"). Pursuant to the terms of the amalgamation, all members of Mountain View 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 Mountain View. The financial statements of the Credit Union for the year ended October 31, 2018 reflected the business combination as of August 1, 2018, using preliminary fair values for property and equipment. During the quarter ended January 31, 2019, the estimated fair value of branch premises acquired was finalized, resulting in an increase of $4,659 to property and equipment and contributed surplus. The incremental contributed surplus was transferred to retained earnings.

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

Cash and cash equivalents	2,967
Investments	96,299
Member loans receivable	664,953
Other assets	1,381
Foreclosed property	526
Held for sale assets	560
Property and equipment	24,155
Intangible assets	162
Total assets acquired	791,003
Accounts payable	2,941
Secured borrowings	6,252
Member deposits	712,948
Total liabilities assumed	722,141
Net assets acquired	68,862

The par value of equity shares issued to former members of Mountain View was $28,047. The Credit Union has recognized the excess of the fair value of the net assets acquired over the par value of the equity interests of Connect First as Contributed Surplus in the amount of $40,814, which has been transferred to retained earnings.

4. 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. These significant estimates, assumptions and judgements have been disclosed in note 2 in Connect First's 2018 annual consolidated financial statements. The estimates, assumptions and judgements used in preparation of these interim condensed consolidated financial statements are consistent with the most recent 2018 annual financial statements of Connect First, except as described in Note 5 with respect to the estimation of expected credit losses.

5. CHANGES IN ACCOUNTING POLICIES

IFRS 9 *Financial Instruments*

The Credit Union has adopted IFRS 9 with a date of initial application of November 1, 2018. As permitted under IFRS 9, the Credit Union has elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and financial liabilities at the date of transition were recognized in opening retained earnings on November 1, 2018. Accordingly, the comparative financial information presented for 2018 does not reflect the requirements of IFRS 9.

The key changes to the Credit Union's accounting policies resulting from its adoption of IFRS 9 are summarized below:

A. Recognition, classification and measurement

All financial assets are initially recorded at fair value and subsequently classified as measured at amortized cost, fair value through OCI ("FVOCI"), or fair value through profit and loss ("FVTPL"). Classification of financial assets is based on the business model in which a financial asset is managed, and its contractual cash flow characteristics.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is to hold the asset to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity instrument that is not held for trading, the Credit Union may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

All financial liabilities are initially recorded at fair value and subsequently classified as measured at amortized cost or FVTPL. On initial recognition, the Credit Union may irrevocably designate a financial liability at FVTPL when doing so results in more relevant information, because either:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or
- a group of financial liabilities or financial assets and financial liabilities is managed with its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to key management personnel.

For financial assets classified as measured at FVTPL or designated at FVTPL, changes in fair value are recognized in the consolidated statement of income. For financial assets classified as measured at FVOCI or for financial assets for which an irrevocable election has been made to present subsequent changes in fair value in OCI, changes in fair value are recognized in the consolidated statement of comprehensive income (loss). For financial assets and other financial liabilities measured at amortized cost, interest income and interest expense is calculated using the effective interest method and is recognized in the consolidated statement of income.

Business model assessment

The Credit Union makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the asset is managed and information is provided to management. The information considered includes:

- how the performance of the portfolio is evaluated and reported to management;
- how managers of the business are compensated;
- whether the assets are held for trading purposes;
- the risks that affect the performance of the financial assets held within the business model and how those risks are managed; and

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sale activity.

Contractual cash flow characteristics assessment

In assessing whether the contractual cash flows are solely payments of principal and interest, 'principal' is defined as the fair value of the financial asset on initial recognition and 'interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

The Credit Union considers the contractual terms of the financial asset and whether the asset contains contractual terms that could change the timing or amount of cash flows such that it would not meet the condition of principal and interest. Contractual terms considered in this assessment include contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms, terms that limit the claim to cash flows from specified assets, and features that modify the consideration from time value of money.

Reclassification of financial assets

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Credit Union changes its business model for managing those assets.

B. Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an expected credit loss ("ECL") model. The new impairment model applies to amortized cost financial assets, debt investments at FVOCI, off-balance sheet loan commitments, and financial guarantee contracts.

The new ECL model results in an allowance for credit losses being recorded on financial assets regardless of whether there has been an actual impairment. The ECL model requires the recognition of credit losses based on 12 months of expected losses for performing loans (Stage 1) and the recognition of lifetime expected losses on performing loans that have experienced a significant increase in credit risk since origination (Stage 2) and credit impaired assets (Stage 3).

Assessment of significant increase in credit risk

The assessment of significant increase in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. Factors considered in the assessment include macroeconomic outlook, delinquency and monitoring, and management judgement. The importance and relevance of each specific macroeconomic factor depends on the loan portfolio, characteristics of the financial instruments, and the borrower. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement any gap.

For certain instruments with low credit risk at the reporting date, it is presumed that credit risk has not increased significantly relative to initial recognition. Credit risk is considered to be low if the instrument has a low risk of default and the borrower has the ability to fulfill their contractual obligations both in the short and long term, including periods of adverse changes in the economic or business environment.

Measurement of ECL

ECL is a probability-weighted estimate of credit losses. Credit losses are measured at the present value of all cash shortfalls, which is the difference between the cash flows due in accordance with the contract and the cash flows expected to be received. The measurement of ECL is based primarily on the product of the following variables: probability of default (PD), loss given default (LGD), and exposure at default (EAD).

The PD is an estimate of the likelihood that a loan will not be repaid and will go into default in either a 12-month or lifetime horizon. The LGD is an estimate of the amount that may not be recovered in the event of default. The EAD is an estimate of the outstanding amount of credit exposure at the time a default may occur. These estimates are modelled based on historic data, current market conditions, and reasonable and supportable information about future economic conditions.

The calculation of ECL includes explicit incorporation of forecasted economic conditions. The Credit Union has developed models incorporating specific macroeconomic variables that are relevant to each specific portfolio. Experienced credit judgment is required to incorporate multiple probability-weighted forward-looking scenarios in the determination of the ECL allowance. The allowance is sensitive to changes in economic forecasts and the probability-weight assigned to each forward-looking scenario.

Credit-impaired and restructured financial assets

At each reporting date, the Credit Union assesses whether financial assets measured at amortized cost or FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

If the terms of a financial asset are renegotiated or modified, or a financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and how ECL is measured. If the expected restructuring will not result in de-recognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset. If the expected restructuring will result in de-recognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow of the existing asset at the time of its de-recognition.

Presentation of impairment

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Write-off

Loan and debt securities are written off (either partially or in full) when there is no probable prospect of recovery.

C. Transition impact from adopting IFRS 9

Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings as at November 1, 2018. Accordingly, the information presented for 2018 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2019 under IFRS 9.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- the determination of the business model in which a financial asset is held;
- the designation and revocation of previous designations of certain financial assets and financial liabilities at FVTPL; and
- the designation of certain equity instruments not held for trading at FVOCI.

Classification of financial instruments on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Credit Union's financial assets and liabilities as at November 1, 2018:

Financial assets	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Cash and cash equivalents	Loans and receivables	Amortized cost	66,085	66,085
Investments - term deposits	Held-to-maturity	Amortized cost	35,429	35,429
Alberta Central term deposits:				
- Non-statutory term deposits	Available for sale	FVOCI	182,786	182,786
- Statutory term deposits	Held to maturity	Amortized cost	391,826	391,826
Alberta Central common shares	Available for sale	FVOCI	53,919	53,919
Other assets	Loans and receivables	Amortized cost	31,073	31,073
Loans to members	Loans and receivables	Amortized cost	4,854,527	4,847,527
Total financial assets			5,615,645	5,608,645

Financial liabilities	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Accounts payable and accruals	Other financial liabilities	Amortized cost	19,629	19,629
Member deposits	Other financial liabilities	Amortized cost	4,859,638	4,859,638
Secured borrowings	Other financial liabilities	Amortized cost	329,789	329,789
Total financial liabilities			5,209,056	5,209,056

Reconciliation of closing allowance under IAS 39 to the opening ECL allowance under IFRS 9

	IAS 39 Impairment Allowance October 31, 2018	Transition Adjustment	IFRS 9 Expected Credit Loss November 1, 2018	Stage 1	Stage 2	Stage 3
Loans to members	11,663	7,000	18,663	3,233	6,117	9,282
Investments	-		31	31	-	-
	11,663		18,694	3,264	6,117	9,282

Connect First continues to revise, refine and validate the impairment models and related process controls leading up to the reporting required for the fiscal year ending October 31, 2019.

6. IFRS 15 Revenue from Contracts with Customers

The Credit Union has adopted IFRS 15 with a date of initial application of November 1, 2018, under the modified retrospective approach. Revenue under the scope of IFRS 15 includes those amounts included in other income, with the exception of loan prepayment fees and foreign exchange gains and losses. There were no quantitative adjustments made as a result of the adoption of IFRS 15. Refer to Note 9 for disclosure on the disaggregation of other income.

7. SECURITIZATION

In June 2016, the Credit Union, as part of its program of liquidity, commenced a securitization program pursuant to which the Credit Union entered into asset transfer agreements with a third party to securitize a pool of residential mortgages.

The Credit Union reviews transfer agreements in order to determine whether the transfers of financial assets should result in all or a portion of the transferred mortgages being derecognized from its consolidated statement of financial position. The de-recognition requirements include an assessment of whether the Credit Union's rights to contractual cash flows have expired or have been transferred or whether an obligation has been undertaken by the Credit Union to pay the cash flows collected on the underlying transferred assets over to a third party. The de-recognition requirements also include an assessment of whether substantially all the risks and rewards of ownership have been transferred.

The Credit Union has determined that securitization transactions should be accounted for as secured borrowing as the Credit Union did not transfer substantially all of the risks and rewards of ownership, including principal prepayment, interest rate and credit risk of the mortgages in the securitization transaction. The residential mortgages are categorized as Loans to Members and they are held as security for this secured borrowing. The weighted average interest rate on the secured borrowings is 2.51% and they mature at the same rate as the underlying mortgages.

For the three months ending January 31, 2019, the Credit Union has raised an additional $20,653 in secured borrowings with repayments of $7,507.

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 2018 annual financial statements of Connect First.

January 31, 2019

	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Assets					
Investments - amortized cost	-	454,187	-	454,187	454,187
Investments - FVOCI	-	169,619	-	169,619	169,619
Loans	-	4,899,497	-	4,899,497	4,921,667
Total	-	5,523,303	-	5,523,303	5,545,473
Liabilities					
Deposits	-	4,881,521	-	4,881,521	4,882,901
Secured borrowings	-	339,226	-	339,226	342,935
Total	-	5,220,747	-	5,220,747	5,225,836

October 31, 2018

	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Assets					
Investments - held to maturity	-	480,408	-	480,408	481,174
Investments - available for sale	-	182,786	-	182,786	182,786
Loans	-	4,758,116	-	4,758,116	4,854,527
Total	-	5,421,310	-	5,421,310	5,518,487
Liabilities					
Deposits	-	4,824,930	-	4,824,930	4,859,638
Secured borrowings	-	328,416	-	328,416	329,789
Total	-	5,153,346	-	5,153,346	5,189,427

9. OTHER INCOME

	January 31 2019
Service charges and other fees	1,186
Foreign exchange gain/loss	518
Loan prepayment and other fees	445
Insurance	419
Credit card fees	40
Wealth management	1,682
Other	1,187
	5,477