



2020 FIRST QUARTER FINANCIAL REPORT

**For the three months ended
January 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)

<i>(\$ Thousands)</i>	January 31, 2020	October 31, 2019
ASSETS		
Cash and cash equivalents	85,164	71,874
Investments	567,593	613,127
Loans to members (note 5)	4,935,017	4,980,596
Foreclosed property	6,097	6,738
Other assets	49,285	50,059
Intangible assets	7,540	6,349
Property and equipment	57,480	57,838
Assets held for sale	560	560
Right-of-use asset (note 4)	22,780	-
	<u>5,731,516</u>	<u>5,787,141</u>
LIABILITIES		
Members' deposits	4,722,006	4,827,908
Accounts payable and accruals	14,239	17,392
Secured borrowings	445,397	419,115
Deferred tax liability	720	724
Lease liability (note 4)	32,033	-
	<u>5,214,395</u>	<u>5,265,139</u>
MEMBERS' EQUITY		
Common shares	231,137	217,260
Investment shares	120,892	121,242
Ownership dividend allocation	-	7,913
Investment share dividends declared	-	5,441
Retained earnings	165,092	170,146
	<u>517,121</u>	<u>522,002</u>
	<u>5,731,516</u>	<u>5,787,141</u>

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

(unaudited)

	3 months ended January 31	
(\$ Thousands)	2020	2019
FINANCIAL INCOME		
Interest on loans to members	46,502	45,355
Interest and dividends on investments	2,485	3,044
Unrealized gains/(losses) on interest rate swaps	(15)	131
	48,972	48,530
FINANCIAL EXPENSE		
Interest on members' deposits	19,663	18,998
Interest on loans payable	2,411	1,865
Interest on lease liability	229	-
	22,303	20,863
Financial margin	26,669	27,667
Charge for loan impairment	1,625	436
	25,044	27,231
Other income (note 8)	5,438	5,477
Gross margin	30,482	32,708
Personnel expenses	15,244	15,549
Operating lease expenses	544	1,670
Depreciation and amortization	1,942	1,301
Other expenses	7,749	9,414
	25,479	27,934
Income before income taxes	5,003	4,774
Income taxes		
Current	1,530	1,688
Deferred (recovery)	(4)	54
	1,526	1,742
Net income and comprehensive income	3,477	3,032

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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	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	(450)		4,209
Transfer of contributed surplus					(4,659)	4,659		-
Transition to IFRS 9 net of tax of \$1,889						(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	-	-	-	170,102	-	485,387
Balance October 31, 2019	217,260	121,242	7,913	5,441	-	169,696		521,552
Transition to IFRS 16 (note 4)						(8,557)		(8,557)
Net and comprehensive income						3,477		3,477
Transactions with members								
Shares issued to members for cash	13,057							13,057
Shares issued by dividend	7,913	5,441	(7,913)	(5,441)		26		26
Shares redeemed for cash	(7,093)	(5,791)						(12,884)
Balance January 31, 2020	231,137	120,892	-	-	-	164,642	-	516,671

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW (unaudited)

	THREE MONTHS ENDED	
(\$ Thousands)	January 31, 2020	January 31, 2019
Cash flows from operating activities		
Net Income	3,477	3,032
Adjustments for:		
Interest on loans to members	(46,502)	(45,355)
Interest/dividends on investments	(2,485)	(3,044)
Interest expense	22,303	20,863
Unrealized loss (gain) on interest rate swaps	15	(131)
Depreciation and amortization	1,942	1,301
Charge for loan impairment	1,740	535
Current/deferred income tax expense	1,526	1,742
Change in other assets	751	9,811
Change in accounts payable	(2,121)	11,890
Interest received	51,380	49,458
Interest paid	(25,900)	(17,624)
Interest paid on lease liability	(229)	-
Income tax (paid)/refund	(1,825)	(865)
Increase (decrease) in members' deposits	(102,076)	20,024
Decrease (increase) in loans to members, net of repayments	41,589	(76,080)
Proceeds from sale of foreclosed property	477	501
Net cash (used in) operating activities	(55,938)	(23,942)
Cash flows from financing activities		
Common shares issued for cash	13,057	14,513
Common share redemptions	(7,093)	(6,793)
Investment share redemptions	(5,791)	(5,787)
Advances of secured borrowing	48,726	20,653
Repayment of secured borrowing	(22,444)	(7,507)
Payment of lease liabilities	(606)	-
Net cash from financing activities	25,849	15,079
Cash flows used in investing activities		
Acquisition of investments	(230,086)	(267,700)
Proceeds from sale of investments	275,694	308,193
Acquisition of property and equipment, net	(747)	(5,757)
Acquisition of intangibles, net	(1,482)	(241)
Net cash provided by investing activities	43,379	34,495
Increase in cash and cash equivalents	13,290	25,632
Cash and cash equivalents, beginning of period	71,874	66,085
Cash and cash equivalents, end of period	85,164	91,717

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited)

For the three months ended January 31, 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 March 3, 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. These significant estimates, assumptions and judgements have been disclosed in note 2 in Connect First’s 2019 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 2019 annual financial statements of Connect First.

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 January 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.

	Stage 1	Stage 2	Stage 3	Total	Accrued Interest	Allowance for Credit Losses	Total Net of Allowance
As at January 31, 2020							
Consumer	448,507	10,798	1,441	460,746	965	5,889	455,822
Residential mortgage	2,347,567	116,208	6,302	2,470,077	2,751	1,960	2,470,868
Commercial and agriculture	1,917,230	54,103	39,025	2,010,358	8,131	10,162	2,008,327
Total member loans	4,713,304	181,109	46,768	4,941,181	11,847	18,011	4,935,017

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	(19)	13	13	7
Remeasurement of loss allowance other than stage transfers	(17)	(30)	20	(27)
Derecognitions and maturities	(50)	(25)	(67)	(142)
Loan originations	56	2	-	58
Total remeasurement of loss allowance	(30)	(40)	(34)	(104)
Write offs	-	-	-	-
As at January 31, 2020	895	724	341	1,960
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	(26)	(29)	407	352
Remeasurement of loss allowance other than stage transfers	(207)	72	214	79
Derecognitions and maturities	(115)	(46)	(179)	(340)
Loan originations	184	23	41	248
Total remeasurement of loss allowance	(164)	20	483	339
Write offs	-	(181)	(609)	(790)
As at January 31, 2020	3,499	1,495	895	5,889
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	(84)	579	380	875
Remeasurement of loss allowance other than stage transfers	(13)	(59)	169	97
Derecognitions and maturities	(36)	-	(31)	(67)
Loan originations	70	-	312	382
Total remeasurement of loss allowance	(63)	520	830	1,287
Write offs	-	-	(13)	(13)
As at January 31, 2020	1,493	1,739	6,930	10,162

2020 FIRST QUARTER FINANCIAL REPORT

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	1,234	
Remeasurement of loss allowance other than stage transfers	149	
Derecognitions and maturities	(549)	
Loan originations	688	1,522
Write-offs		(803)
Allowance for expected credit losses, January 31, 2020		18,011
The charge for loan impairment on the statement of comprehensive income is reconciled as follows:		
Charge for loan impairment as above	1,522	
Charge for loan impairment on foreclosed property at January 31, 2020	217	
Charge for impairment on investments	(34)	
Recoveries	(80)	
Total charge for loan impairment	1,625	

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.

2020 FIRST QUARTER FINANCIAL REPORT

January 31, 2020

	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Assets					
Investments - amortized cost	-	446,439	-	446,439	445,170
Investments - FVOCI	-	122,423	-	122,423	122,423
Loans	-	4,902,289	-	4,902,289	4,935,017
Total	-	5,471,151	-	5,471,151	5,502,610
Liabilities					
Deposits	-	4,711,836	-	4,711,836	4,722,006
Secured borrowings	-	427,366	-	427,366	445,397
Total	-	5,139,202	-	5,139,202	5,167,403

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

	January 31	January 31
	2020	2019
Service charges and other fees	1,889	2,029
Foreign exchange gain/loss	312	518
Loan prepayment and other fees	568	444
Insurance	521	482
Credit card fees	95	188
Wealth management	1,666	1,688
Other	387	128
	<u>5,438</u>	<u>5,477</u>