



## **2021 FIRST QUARTER FINANCIAL REPORT**

**For the three months ended  
January 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.

**Making Money Make a Difference**

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

(unaudited)

<i>(\$ Thousands)</i>	January 31, 2021	October 31, 2020
<b>ASSETS</b>		
Cash and cash equivalents	61,498	72,785
Investments	677,632	725,313
Loans to members (note 4 and 5)	5,047,295	5,014,343
Foreclosed properties	5,233	5,413
Other assets	40,617	41,529
Intangible assets	14,105	13,625
Property and equipment	54,188	55,171
Right of use assets	20,596	21,142
Deferred tax asset	4,849	4,849
	<u>5,926,013</u>	<u>5,954,170</u>
<b>LIABILITIES</b>		
Members' deposits	5,002,060	4,991,483
Accounts payable and accruals	29,862	17,615
Lease liabilities	29,975	30,500
Secured borrowings	339,987	387,823
	<u>5,401,884</u>	<u>5,427,421</u>
<b>MEMBERS' EQUITY</b>		
Common shares	242,394	238,477
Investment shares	117,964	120,123
Ownership dividend allocation	-	4,999
Investment share dividends declared	-	4,192
Retained earnings	163,771	158,958
	<u>524,129</u>	<u>526,749</u>
	<u>5,926,013</u>	<u>5,954,170</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	
	2021	2020
<i>(\$ Thousands)</i>		
<b>FINANCIAL INCOME</b>		
Interest on loans to members	44,140	46,502
Investment income	630	2,485
Unrealized gains/(losses) on interest rate swaps	-	(15)
	44,770	48,972
<b>FINANCIAL EXPENSE</b>		
Interest on members' deposits	13,726	19,663
Interest on loans payable	2,670	2,411
Interest on lease liability	323	229
	16,719	22,303
<b>Financial margin</b>	<b>28,051</b>	<b>26,669</b>
Charge for loan impairment	1,548	1,625
	26,503	25,044
Other income (note 7)	5,251	5,438
<b>Gross margin</b>	<b>31,754</b>	<b>30,482</b>
Personnel expenses	15,649	15,244
Operating lease expenses	506	544
Depreciation and amortization	2,188	1,942
Other expenses	8,598	7,749
	26,941	25,479
Income before income taxes	<b>4,813</b>	<b>5,003</b>
Income taxes		
Current	-	1,530
Deferred (recovery)	-	(4)
	-	1,526
<b>Net income and comprehensive income</b>	<b>4,813</b>	<b>3,477</b>

*The accompanying Notes to the Condensed Consolidated Interim 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
<b>Balance November 1, 2019</b>	217,260	121,242	7,913	5,441	170,146	522,002
Transition to IFRS 16					(8,557)	(8,557)
Net and comprehensive income					3,477	3,477
<b>Transactions with members</b>						
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)
<b>Balance January 31, 2020</b>	231,137	120,892	-	-	165,092	517,121
<b>Balance October 31, 2020</b>	<b>238,477</b>	<b>120,123</b>	<b>4,999</b>	<b>4,192</b>	<b>158,958</b>	<b>526,749</b>
Net and comprehensive income					4,813	4,813
<b>Transactions with members</b>						
Shares issued to members for cash	9,205					9,205
Shares issued by dividend	4,999	4,192	(4,999)	(4,192)		-
Shares redeemed for cash	(10,287)	(6,351)				(16,638)
<b>Balance January 31, 2021</b>	242,394	117,964	-	-	163,771	524,129

*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, 2021	January 31, 2020
<b>Cash flows from operating activities</b>		
Net Income	4,813	3,477
Adjustments for:		
Interest on loans to members	(44,140)	(46,502)
Interest/dividends on investments	(630)	(2,485)
Interest expense	16,719	22,303
Unrealized loss on interest rate swaps	-	15
Depreciation and amortization	2,188	1,942
Charge for loan impairment	1,666	1,740
Current/deferred income tax expense	-	1,526
Change in other assets	912	751
Change in accounts payable	9,955	(2,121)
Interest received	47,625	51,380
Interest paid	(21,329)	(26,129)
Income tax (paid)/refund	2,292	(1,825)
Increase (decrease) in members' deposits	15,187	(102,076)
Decrease (increase) in loans to members, net of repayments	(37,375)	41,589
Proceeds from sale of foreclosed property	13	477
<b>Net cash (used in) operating activities</b>	<b>(2,104)</b>	<b>(55,938)</b>
<b>Cash flows from financing activities</b>		
Common shares issued for cash	9,205	13,057
Common share redemptions	(10,287)	(7,093)
Investment share redemptions	(6,351)	(5,791)
Advances of secured borrowing	-	48,726
Repayment of secured borrowing	(47,836)	(22,444)
Payment of lease liabilities	(525)	(606)
<b>Net cash from (used in) financing activities</b>	<b>(55,794)</b>	<b>25,849</b>
<b>Cash flows from investing activities</b>		
Acquisition of investments	(417,003)	(230,086)
Proceeds from sale of investments	464,753	275,694
Disposition (acquisition) of property and equipment, net	561	(747)
Acquisition of intangibles, net	(1,700)	(1,482)
<b>Net cash from investing activities</b>	<b>46,611</b>	<b>43,379</b>
Increase in cash and cash equivalents	(11,287)	13,290
Cash and cash equivalents, beginning of period	72,785	71,874
<b>Cash and cash equivalents, end of period</b>	<b>61,498</b>	<b>85,164</b>

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, 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 March 2, 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 January 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.

#### 4. MEMBERS' LOANS

The following table shows the gross carrying amount of loans measured at amortized cost as at January 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
<b>As at January 31, 2021</b>							
Consumer	405,848	15,338	1,352	422,537	1,072	7,510	416,099
Residential mortgage	2,303,627	98,898	6,796	2,409,320	2,638	2,220	2,409,738
Commercial and agriculture	2,148,049	39,080	44,832	2,231,961	10,645	21,149	2,221,458
<b>Total member loans</b>	<b>4,857,523</b>	<b>153,316</b>	<b>52,980</b>	<b>5,063,819</b>	<b>14,355</b>	<b>30,879</b>	<b>5,047,295</b>
<b>As at October 31, 2020</b>							
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
<b>Total member loans</b>	<b>4,819,937</b>	<b>130,990</b>	<b>75,928</b>	<b>5,026,856</b>	<b>17,278</b>	<b>29,791</b>	<b>5,014,343</b>

#### 5. ALLOWANCE FOR EXPECTED CREDIT LOSSES

The tables below represent the allowance for expected credit losses by category and stage:

<b>Residential mortgages</b>	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
<b>Total remeasurement of loss allowance</b>	<b>(30)</b>	<b>(40)</b>	<b>(34)</b>	<b>(104)</b>
Write offs	-	-	-	-
As at January 31, 2020	895	724	341	1,960
As at November 1, 2020	915	829	215	1,959
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	(3)	55	(56)	(4)
Remeasurement of loss allowance other than stage transfers	254	(2)	16	268
Derecognitions and maturities	(22)	(33)	(71)	(126)
Loan originations	29	96	74	199
<b>Total remeasurement of loss allowance</b>	<b>258</b>	<b>116</b>	<b>(37)</b>	<b>337</b>
Write offs	-	-	(76)	(76)
As at January 31, 2021	1,173	945	102	2,220

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<b>Consumer loans</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
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
As at November 1, 2020	4,304	1,733	959	6,996
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	(47)	53	329	335
Remeasurement of loss allowance other than stage transfers	297	135	174	606
Derecognitions and maturities	(127)	(55)	(150)	(332)
Loan originations	350	40	13	403
Total remeasurement of loss allowance	473	173	366	1,012
Write offs	(1)	(101)	(396)	(498)
As at January 31, 2021	4,776	1,805	929	7,510

<b>Commercial and agriculture loans</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
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
As at November 1, 2020	3,527	998	16,311	20,836
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	79	1,187	(1,124)	142
Remeasurement of loss allowance other than stage transfers	(582)	139	436	(7)
Derecognitions and maturities	(226)	(1)	(274)	(501)
Loan originations	422	9	260	691
Total remeasurement of loss allowance	(307)	1,334	(702)	325
Write offs	-	(10)	(2)	(12)
As at January 31, 2021	3,220	2,322	15,607	21,149
Totals at January 31, 2020	5,887	3,958	8,166	18,011
Totals at January 31, 2021	9,169	5,072	16,638	30,879

The total allowance for expected credit losses is reconciled as follows:		
	<b>January 2021</b>	<b>January 2020</b>
November 1 allowance for expected credit losses	29,791	17,292
Charge for loan impairment:		
Net remeasurement due to stage transfers	473	1,234
Remeasurement of loss allowance other than stage transfers	867	149
Derecognitions and maturities	(959)	(549)
Loan originations	1,293	688
Write-offs	(586)	(803)
Allowance for expected credit losses, January 31	30,879	18,011
The charge for loan impairment on the statement of comprehensive income is reconciled as follows:		
Charge for loan impairment as above	1,674	1,522
Charge for loan impairment on foreclosed property at January 31	5	217
Charge for impairment on investments	(35)	(34)
Recoveries	(96)	(80)
Total charge for loan impairment	1,548	1,625

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 January 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 January 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.

<b>Base case scenario</b>					
<b>January 31, 2021</b>					
	Next 3 months	Next 6 months	Next 9 months	Next 12 months	Remaining forecast period
<b>Driver</b>					
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
<b>Alternative scenario pessimistic</b>					
	Next 3 months	Next 6 months	Next 9 months	Next 12 months	Remaining forecast period
<b>Driver</b>					
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

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<b>Alternative scenario optimistic</b>					
	Next 3 months	Next 6 months	Next 9 months	Next 12 months	Remaining forecast period
<b>Driver</b>					
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 January 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 \$747.

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 \$1,412.

<b>Base case scenario</b>					
<b>October 31, 2020</b>					
	Next 3 months	Next 6 months	Next 9 months	Next 12 months	Remaining forecast period
<b>Driver</b>					
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

<b>Alternative scenario pessimistic</b>					
	Next 3 months	Next 6 months	Next 9 months	Next 12 months	Remaining forecast period
<b>Driver</b>					
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

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	Alternative scenario optimistic				Remaining forecast period
	Next 3 months	Next 6 months	Next 9 months	Next 12 months	
<b>Driver</b>					
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 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 be \$13,310.

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 \$15,469.

Foreclosed Property

In the three-month period ended January 31, 2021, the Credit Union has not recognized any 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.

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**January 31, 2021**

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total fair value</b>	<b>Carrying amount</b>
<b>Assets</b>					
Investments - amortized cost	-	464,972	-	464,972	464,683
Investments - FVOCI	-	212,949	-	212,949	212,949
Loans	-	5,119,254	-	5,119,254	5,047,295
<b>Total</b>	-	<b>5,797,175</b>	-	<b>5,797,175</b>	<b>5,724,927</b>
<b>Liabilities</b>					
Deposits	-	5,001,667	-	5,001,667	5,002,060
Secured borrowings	-	338,006	-	338,006	339,987
<b>Total</b>	-	<b>5,339,673</b>	-	<b>5,339,673</b>	<b>5,342,047</b>

**October 31, 2020**

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total fair value</b>	<b>Carrying amount</b>
<b>Assets</b>					
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
<b>Total</b>	-	<b>5,840,837</b>	-	<b>5,840,837</b>	<b>5,739,656</b>
<b>Liabilities</b>					
Deposits	-	4,993,898	-	4,993,898	4,991,483
Secured borrowings	-	395,999	-	395,999	387,823
<b>Total</b>	-	<b>5,389,897</b>	-	<b>5,389,897</b>	<b>5,379,306</b>

**7. OTHER INCOME**

	<b>3 months ended January 31</b>	
	<b>2021</b>	<b>2020</b>
Service charges and other fees	1,490	1,962
Foreign exchange gain/loss	239	312
Loan prepayment and other fees	914	568
Insurance	360	447
Credit card fees	109	95
Wealth management	1,647	1,666
Other	492	388
	5,251	5,438

**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.