



connectFirst
credit union

2022 THIRD QUARTER FINANCIAL REPORT

**For the nine months ended
July 31, 2022**

(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.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (unaudited)

	July 31, 2022	October 31, 2021
<i>(\$ Thousands)</i>		
ASSETS		
Cash and cash equivalents	20,548	53,171
Investments	683,742	632,524
Loans to members (note 5 and 6)	6,281,879	5,473,345
Foreclosed property (note 6)	1,760	3,457
Other assets	48,235	36,693
Intangible assets	12,750	13,198
Property and equipment	51,487	53,234
Right-of-use asset	19,292	19,156
Deferred tax asset	1,351	1,711
	7,121,044	6,286,489
LIABILITIES		
Members' deposits	6,016,389	5,348,931
Accounts payable and accruals	23,709	31,936
Lease liabilities	28,053	28,272
Secured borrowings	412,067	292,105
	6,480,218	5,701,244
MEMBERS' EQUITY		
Common shares	286,099	246,524
Investment shares	153,586	157,688
Ownership dividend allocation	-	7,137
Investment share dividends declared	-	4,497
Contributed surplus (note 2)	6,687	-
Retained earnings	194,454	169,399
	640,826	585,245
	7,121,044	6,286,489

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

2022 THIRD QUARTER FINANCIAL REPORT

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME
(unaudited)

	3 months ended July 31		9 months ended July 31	
	2022	2021	2022	2021
(\$ Thousands)				
FINANCIAL INCOME				
Interest on loans to members	54,802	44,238	149,513	130,587
Interest and dividends on investments	2,368	544	5,502	3,029
Unrealized gains/(losses) on interest rate swaps	(494)	(163)	1,705	(163)
	56,676	44,619	156,720	133,453
FINANCIAL EXPENSE				
Interest on members' deposits	15,448	9,415	33,747	34,229
Interest on loans payable	868	2,123	4,157	7,069
Interest on lease liability	276	296	870	938
	16,592	11,834	38,774	42,236
Financial margin	40,084	32,785	117,946	91,217
Charge for loan impairment	3,790	1,879	4,534	5,238
	36,294	30,906	113,412	85,979
Other income (note 8)	5,868	5,549	18,615	16,339
Gross margin	42,162	36,455	132,027	102,318
Personnel expenses	18,832	15,257	53,868	47,368
Operating lease expenses	648	761	1,959	1,756
Depreciation and amortization	2,257	2,065	6,744	6,193
Other expenses (note 9)	13,961	11,981	39,100	30,651
	35,698	30,064	101,671	85,968
Income before income taxes	6,464	6,391	30,356	16,350
Income taxes				
Current	1,623	1,224	4,870	2,447
Deferred (recovery)	(91)	(40)	447	(1,149)
	1,532	1,184	5,317	1,298
Net income and comprehensive income	4,932	5,207	25,039	15,052

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)

<i>(\$Thousands)</i>	Common shares	Series A-H investment shares	Ownership dividends declared	Investment share dividends declared	Contributed surplus	Retained earnings	Total equity
Balance November 1, 2020	238,477	120,123	4,999	4,192	-	158,958	526,749
Net income						15,052	15,052
Transactions with members							
Shares issued to members for cash	25,091	26,707					51,798
Shares issued by dividend	4,999	4,192	(4,999)	(4,192)			-
Shares redeemed for cash	(23,745)	(6,088)					(29,833)
Balance July 31, 2021	244,822	144,934	-	-	-	174,010	563,766
Balance October 31, 2021	246,524	157,688	7,137	4,497	-	169,399	585,245
Acquisition of Spark (note 2)	5,096				6,687		11,783
Net and comprehensive income						25,039	25,039
Transactions with members							
Shares issued to members for cash	47,880						47,880
Shares issued by dividend	7,137	4,497	(7,137)	(4,497)		16	16
Shares redeemed for cash	(20,538)	(8,599)					(29,137)
Balance July 31, 2022	286,099	153,586	-	-	6,687	194,454	640,826

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW (unaudited)

	NINE MONTHS ENDED	
	July 31, 2022	July 31, 2021
<i>(\$ Thousands)</i>		
Cash flows from operating activities		
Net Income	25,039	15,052
Adjustments for:		
Interest on loans to members	(149,513)	(130,587)
Interest/dividends on investments	(5,502)	(3,029)
Interest expense	38,774	42,236
Unrealized gain on interest rate swaps	(1,705)	163
Depreciation and amortization	6,744	6,193
Charge for loan impairment	5,249	5,674
Current/deferred income tax expense	5,317	1,298
Change in other assets	(9,729)	5,426
Change in accounts payable	(16,427)	20,916
Interest received	155,023	135,349
Interest paid	(35,234)	(57,118)
Income tax (paid) refund	(91)	10,597
Increase in members' deposits	464,902	174,152
(Increase) in loans to members, net of repayments	(651,002)	(309,417)
Proceeds from sale of foreclosed property	6,460	73
Net cash (used in) operating activities	(161,695)	(83,022)
Cash flows from financing activities		
Common shares issued for cash	47,880	25,091
Common share redemptions	(20,538)	(23,745)
Investment shares issued for cash	-	26,707
Investment share redemptions	(8,599)	(6,088)
Advances of secured borrowing	264,027	30,650
Repayment of secured borrowing	(144,065)	(140,805)
Payment of lease liabilities	(2,208)	(1,721)
Net cash from (used in) financing activities	136,497	(89,911)
Cash flows used in investing activities		
Cash acquired on amalgamation	218	-
Acquisition of investments	(1,297,663)	(779,685)
Proceeds from sale of investments	1,292,495	953,138
Acquisition of property and equipment, net	(1,143)	(536)
Acquisition of intangibles, net	(1,332)	(1,564)
Net cash provided by (used in) investing activities	(7,425)	171,353
(Decrease) in cash and cash equivalents	(32,623)	(1,580)
Cash and cash equivalents, beginning of period	53,171	72,785
Cash and cash equivalents, end of period	20,548	71,205

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, 2022

(\$ 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. BUSINESS COMBINATION

On November 1, 2021, the Credit Union amalgamated with Spark The Energy Credit Union Ltd. (“Spark”). Pursuant to the terms of the amalgamation, all members of Spark exchanged their common shares for shares of Connect First on a one for one basis.

The business combination will be accounted for using the acquisition method, with the Credit Union acquiring 100% of the net assets of Spark.

Spark operates two branches, one in the city of Calgary and one in Fort Saskatchewan. The amalgamation will allow Connect First to serve a larger membership base and be a further visible representation of the Credit Union’s strategy and direction. Spark members will gain from a larger range of products and services, innovative technology offerings, and receive extended support through Connect First’s Member Connection Centre.

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

Cash and cash equivalents	218
Income taxes receivable	87
Investments	45,745
Member loans receivable	167,857
Other assets	140
Derivative financial assets	85
Property and equipment	138
Intangible assets	56
Right-of-use assets	241
Total assets acquired	<u>214,567</u>
Member deposits	199,016
Loans payable and lines of credit	3,221
Accounts payable and accrued liabilities	214
Lease liabilities	248
Derivative financial liabilities	85
Total liabilities assumed	<u>202,784</u>
Net assets acquired	11,783

The above figures are preliminary and are subject to change.

The par value of equity shares issued to former members of Spark was \$5,096. 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 \$6,687.

3. 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 2021 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 2021 annual financial statements of Connect First.

These condensed consolidated interim financial statements were approved by the Board of Directors on September 6, 2022.

4. 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.

5. MEMBERS' LOANS

The following table shows the gross carrying amount of loans measured at amortized cost as at July 31, 2022. 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 July 31, 2022							
Consumer	597,266	21,400	2,553	621,219	1,430	6,553	616,096
Residential mortgage	2,745,231	75,859	1,619	2,822,709	3,235	1,838	2,824,106
Commercial and agriculture	2,798,837	25,620	15,445	2,839,902	12,203	10,428	2,841,677
Total member loans	6,141,334	122,879	19,617	6,283,830	16,868	18,819	6,281,879
	Stage 1	Stage 2	Stage 3	Total	Accrued Interest	Allowance for Credit Losses	Total Net of Allowance
As at October 31, 2021							
Consumer	434,149	17,270	1,568	452,987	911	5,217	448,681
Residential mortgage	2,382,414	92,917	3,750	2,479,081	2,728	1,777	2,480,032
Commercial and agriculture	2,484,124	17,327	52,672	2,554,123	13,690	23,181	2,544,632
Total member loans	5,300,687	127,514	57,990	5,486,191	17,329	30,175	5,473,345

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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, 2020	915	829	215	1,959
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	(8)	(43)	26	(25)
Remeasurement of loss allowance other than stage transfers	(40)	(70)	53	(57)
Derecognitions and maturities	(89)	(65)	(81)	(235)
Loan originations	158	53	-	211
Total remeasurement of loss allowance	21	(125)	(2)	(106)
Write offs	(32)	-	(107)	(139)
As at July 31, 2021	904	704	106	1,714
As at November 1, 2021	974	680	193	1,847
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	351	(301)	(50)	-
Remeasurement of loss allowance other than stage transfers	(462)	316	51	(95)
Derecognitions and maturities	(115)	(78)	(65)	(258)
Loan originations	307	71	-	378
Total remeasurement of loss allowance	81	8	(64)	25
Write offs	-	(7)	(27)	(34)
As at July 31, 2022	1,055	681	102	1,838

Consumer loans	Stage 1	Stage 2	Stage 3	Total
As at November 1, 2020	4,304	1,733	959	6,996
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	(137)	277	468	608
Remeasurement of loss allowance other than stage transfers	(908)	13	554	(341)
Derecognitions and maturities	(344)	(141)	(289)	(774)
Loan originations	976	204	33	1,213
Total remeasurement of loss allowance	(413)	353	766	706
Write offs	(246)	(264)	(858)	(1,368)
As at July 31, 2021	3,645	1,822	867	6,334
As at November 1, 2021	3,017	1,566	899	5,482
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	507	(421)	(86)	-
Remeasurement of loss allowance other than stage transfers	(778)	688	1,021	931
Derecognitions and maturities	(329)	(104)	(114)	(547)
Loan originations	1,570	136	135	1,841
Total remeasurement of loss allowance	970	299	956	2,225
Write offs	(476)	(148)	(530)	(1,154)
As at July 31, 2022	3,511	1,717	1,325	6,553

Commercial and agriculture loans	Stage 1	Stage 2	Stage 3	Total
As at November 1, 2020	3,527	998	16,311	20,836
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	(20)	508	(488)	-
Remeasurement of loss allowance other than stage transfers	(1,398)	(46)	4,391	2,947
Derecognitions and maturities	(544)	(222)	(3,043)	(3,809)
Loan originations	745	9	3,513	4,267
Total remeasurement of loss allowance	(1,217)	249	4,373	3,405
Write offs	(5)	(22)	(1,723)	(1,750)
As at July 31, 2021	2,305	1,225	18,961	22,491
As at November 1, 2021	2,699	799	19,690	23,188
Remeasurement of loss allowance:				
Net remeasurement due to stage transfers	688	(435)	(253)	-
Remeasurement of loss allowance other than stage transfers	(424)	298	2,130	2,004
Derecognitions and maturities	(280)	(19)	(34)	(333)
Loan originations	1,253	175	-	1,428
Total remeasurement of loss allowance	1,237	19	1,843	3,099
Write offs	(20)	(91)	(15,748)	(15,859)
As at July 31, 2022	3,916	727	5,785	10,428

Totals at July 31, 2021	6,854	3,751	19,934	30,539
Totals at July 31, 2022	8,482	3,125	7,212	18,819

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The total allowance for expected credit losses is reconciled as follows:		
	July 2022	July 2021
November 1 allowance for expected credit losses	30,517	29,791
Charge for loan impairment:		
Net remeasurement due to stage transfers	-	583
Remeasurement of loss allowance other than stage transfers	2,840	2,549
Derecognitions and maturities	(1,138)	(4,818)
Loan originations	3,647	5,691
Write-offs	(17,047)	(3,257)
Allowance for expected credit losses, July 31	18,819	30,539
The charge for loan impairment on the statement of comprehensive income is reconciled as follows:		
Charge for loan impairment as above	5,349	4,005
Charge for loan impairment on foreclosed property at July 31	-	1,438
Charge for impairment on investments	(380)	123
Recoveries	(435)	(328)
Total charge for loan impairment	4,534	5,238

As previously disclosed in Note 4, the measurement of the allowance for expected credit losses as well as foreclosed property involves the use of significant judgements, estimates and assumptions. The Credit Union has considered the following in making these estimates at July 31, 2022:

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 2021 annual financial statements. With respect to delinquencies, the judgements used related to SICR remain consistent with those at October 31, 2021.

Forward Looking Information (“FLI”)

As of July 31, 2022, the following FLI has been used in the measurement of the ECL, as compared to that used at October 31, 2021.

July 31, 2022	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 %	3.22	2.81	4.91	4.85	1.32	1.66
3 month Government of Canada Bond Rate %	2.75	2.36	4.50	4.48	0.75	1.12
Alberta housing price index % change	0.61	1.00	3.66	1.00	(2.01)	0.15
Alberta unemployment rate %	5.20	4.97	4.61	4.39	7.63	7.23

October 31, 2021	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 %	0.51	1.43	1.10	2.25	0.32	0.60
3 month Government of Canada Bond Rate %	0.35	1.20	1.00	2.10	0.12	0.33
Alberta housing price index % change	1.07	1.14	2.96	2.09	(2.01)	0.15
Alberta unemployment rate %	7.01	6.39	6.48	5.61	8.15	7.40

The reported expected credit losses at July 31, 2022 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 \$0.7 million (2021 – \$0.3 million).

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 \$2.3 million (2021 - \$0.6 million).

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Shown below are the quarterly future looking indicators for the next 12 months.

Base case scenario

	Next 3 months	Next 6 months	Next 9 months	Next 12 months	Remaining forecast period
Driver					
3 month BA rate %	2.67	2.89	3.06	3.22	2.81
3 month Government of Canada Bond Rate %	2.20	2.40	2.55	2.75	2.36
Alberta housing price index % change	0.30	0.21	0.06	0.04	1.00
Alberta unemployment rate %	5.20	5.10	5.10	5.20	4.97

Alternative scenario pessimistic

	Next 3 months	Next 6 months	Next 9 months	Next 12 months	Remaining forecast period
Driver					
3 month BA rate %	1.75	1.57	1.35	1.32	1.66
3 month Government of Canada Bond Rate %	1.20	1.00	0.75	0.75	1.12
Alberta housing price index % change	(2.17)	(0.49)	0.53	0.12	0.15
Alberta unemployment rate %	8.17	8.40	7.77	7.63	7.23

Alternative scenario optimistic

	Next 3 months	Next 6 months	Next 9 months	Next 12 months	Remaining forecast period
Driver					
3 month BA rate %	3.17	4.11	4.46	4.91	4.85
3 month Government of Canada Bond Rate %	2.75	3.67	4.00	4.50	4.48
Alberta housing price index % change	1.30	1.21	1.06	0.04	1.00
Alberta unemployment rate %	4.62	4.46	4.52	4.61	4.39

Foreclosed Property

In the nine-month period ended July 31, 2022, the Credit Union has sold the large commercial property that was originally moved into foreclosure in fiscal 2019. The remaining foreclosed property balance relates to four small residential loans and one commercial loan that has been foreclosed on in the process of realizing on the Credit Union's security.

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 2021 annual financial statements of Connect First.

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July 31, 2022

	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Assets					
Investments - amortized cost	-	558,679	-	558,679	554,720
Investments - FVOCI	-	129,022	-	129,022	129,022
Loans	-	6,099,978	-	6,099,978	6,281,879
Other assets	-	44,169	-	44,169	48,235
Total	-	6,831,848	-	6,831,848	7,013,856
Liabilities					
Deposits	-	5,993,099	-	5,993,099	6,016,389
Secured borrowings	-	387,400	-	387,400	412,067
Total	-	6,380,499	-	6,380,499	6,428,456

October 31, 2021

	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Assets					
Investments - amortized cost	-	514,426	-	514,426	511,981
Investments - FVOCI	-	120,543	-	120,543	120,543
Loans	-	5,531,163	-	5,531,163	5,473,345
Total	-	6,166,132	-	6,166,132	6,105,869
Liabilities					
Deposits	-	5,355,605	-	5,355,605	5,348,931
Secured borrowings	-	292,884	-	292,884	292,105
Total	-	5,648,489	-	5,648,489	5,641,036

8. OTHER INCOME

	9 months ended July 31	
	2022	2021
Service charges and other fees	4,825	4,350
Foreign exchange gain/loss	1,060	172
Loan prepayment and other fees	2,803	3,466
Insurance	1,603	1,102
Credit card fees	478	343
Wealth management	6,844	5,978
Other	1,002	928
	18,615	16,339

9. OTHER EXPENSES

	9 months ended July 31	
	2022	2021
Advertising	4,730	5,277
Technology	10,696	9,024
Member security and deposit insurance premium	3,154	2,883
Professional fees	3,601	1,548
Stationary, telephone, postage, courier	1,510	1,573
Financial planning	135	106
ATM/POS operations	1,237	1,177
Board expenses	570	488
Lending costs	1,716	701
Charitable donations/community investment	304	128
Occupancy	5,682	2,888
Other	5,765	5,858
	<u>39,100</u>	<u>31,651</u>