

2017

FIRST QUARTER FINANCIAL REPORT



MAKING MONEY MAKE A DIFFERENCE

Interim Condensed Consolidated Financial Statements

For the three months ended
January 31, 2017
(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)

<i>(\$ Thousands)</i>	January 31, 2017	October 31, 2016
ASSETS		
Cash and cash equivalents	34,202	49,845
Investments	511,451	522,785
Loans to members	3,661,433	3,652,502
Other assets	45,779	45,419
Intangible assets	3,812	3,754
Property and equipment	28,433	28,835
	4,285,110	4,303,140
LIABILITIES		
Members' deposits	3,894,397	3,908,080
Accounts payable and accruals	10,243	13,309
Secured borrowings	21,992	24,049
Deferred tax liability	620	706
	3,927,252	3,946,144
MEMBERS' EQUITY		
Common shares	113,721	108,796
Investment shares	123,025	120,673
Ownership dividend allocation	-	4,224
Investment share dividends declared	-	5,679
Contributed surplus	27,576	27,576
Retained earnings	92,358	88,870
Accumulated other comprehensive income	1,178	1,178
	357,858	356,996
	4,285,110	4,303,140

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)

(\$ Thousands)	THREE MONTHS ENDED	
	January 31, 2017	January 31, 2016
FINANCIAL INCOME		
Interest on loans to members	32,000	31,421
Interest on investments	1,236	1,101
Unrealized (losses) on interest rate swaps	(328)	(95)
	<u>32,908</u>	<u>32,427</u>
FINANCIAL EXPENSE		
Interest on members' deposits	11,321	11,015
Interest on loans payable	84	1
	<u>11,405</u>	<u>11,016</u>
Financial margin	21,503	21,411
Charge for loan impairment	1,261	331
	<u>20,242</u>	<u>21,080</u>
Other income	4,994	5,158
Gross margin	25,236	26,238
Personnel expenses	11,309	11,209
Operating lease expenses	1,496	1,461
Depreciation and amortization	1,041	1,071
Other expenses	6,928	7,585
	<u>20,774</u>	<u>21,326</u>
Income before income taxes	4,462	4,912
Income taxes		
Current	1,059	977
(Recovery)	(85)	(23)
	<u>974</u>	<u>954</u>
Net income and comprehensive income	3,488	3,958

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	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total equity
BALANCE NOVEMBER 1, 2015	91,751	91,215	3,528	4,562	27,576	84,232	1,265	304,129
Net income						3,958		3,958
Transactions with members								
Shares issued to members for cash	7,730	20,044						27,774
Shares issued by dividend	3,528	4,562	(3,528)	(4,562)				-
Shares redeemed for cash	(3,141)	(4,544)						(7,685)
BALANCE JANUARY 31, 2016	99,868	111,277	-	-	27,576	88,190	1,265	328,176
Balance October 31, 2016	108,796	120,673	4,224	5,679	27,576	88,870	1,178	356,996
Net income						3,488		3,488
Transactions with members								
Shares issued to members for cash	5,152							5,152
Shares issued by dividend	4,224	5,679	(4,224)	(5,679)				-
Shares redeemed for cash	(4,451)	(3,327)						(7,778)
BALANCE JANUARY 31, 2017	113,721	123,025	-	-	27,576	92,358	1,178	357,858

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

CONSOLIDATED STATEMENT OF CASH FLOW

(unaudited)

(\$ Thousands)	THREE MONTHS ENDED	
	January 31, 2017	January 31, 2016
Cash flows from operating activities		
Net Income	3,488	3,958
Adjustments for:		
Interest on loans to members	(32,000)	(31,421)
Interest on investments	(1,236)	(1,101)
Interest expense	11,405	11,016
Unrealized loss on interest rate swaps	328	95
Depreciation and amortization	1,041	1,071
Charge for loan impairment	1,303	375
Current/deferred income tax expense	974	954
Change in other assets	(688)	3,127
Change in accounts payable	(3,393)	(2,695)
Interest received	33,332	32,775
Interest paid	(11,878)	(13,090)
Income tax paid	(732)	(982)
(Decrease) in members' deposits	(13,211)	(79,964)
(Increase) decrease in loans to members, net of repayments	(10,681)	21,225
Proceeds from sale of foreclosed property	95	241
Net cash (used in) operating activities	(21,853)	(54,416)
Cash flows from financing activities		
Common shares issued for cash	5,152	7,730
Common share redemptions	(4,451)	(3,141)
Investment shares issued for cash	-	20,044
Investment share redemptions	(3,327)	(4,544)
Secured borrowings	(2,057)	-
Net cash from (used in) financing activities	(4,683)	20,089
Cash flows used in investing activities		
Acquisition of investments	(252,307)	(267,157)
Proceeds from sale of investments	263,897	280,738
Acquisition of property and equipment, net	(311)	(127)
Acquisition of intangibles, net	(386)	(201)
Net cash from investing activities	10,893	13,253
(Decrease) in cash and cash equivalents	(15,643)	(21,074)
Cash and cash equivalents, beginning of period	49,845	74,807
Cash and cash equivalents, end of period	34,202	53,733

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, 2017

(\$ Thousands)

1. REPORTING ENTITY

Connect First Credit Union Ltd. ("Connect First" or the "Credit Union") was formed on November 1, 2014 when First Calgary Financial Credit Union Limited ("First Calgary") amalgamated with Chinook Credit Union Ltd. ("Chinook") pursuant to the Credit Union Act of the Province of Alberta. Connect First operates a network of Credit Union branches in the City of Calgary and southern Alberta. The registered office is located at 200, 510 – 16 Avenue NE, Calgary, Alberta, T2E 1K4.

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 2016 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 2016 annual financial statements of Connect First.

These condensed consolidated interim financial statements were approved by the Board of Directors on February 28, 2017.

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 2016 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 2016 annual financial statements of Connect First.

4. 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 1.40% and they mature at the same rate as the underlying mortgages.