

2017

SECOND QUARTER FINANCIAL REPORT



MAKING MONEY MAKE A DIFFERENCE

Interim Condensed Consolidated Financial Statements

For the six months ended
April 30, 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)

(\$ Thousands)	April 30, 2017	October 31, 2016
ASSETS		
Cash and cash equivalents	49,946	49,845
Investments	503,059	522,785
Loans to members	3,675,824	3,652,502
Other assets	41,310	45,419
Intangible assets	3,539	3,754
Property and equipment	28,252	28,835
	4,301,930	4,303,140
LIABILITIES		
Members' deposits	3,847,922	3,908,080
Accounts payable and accruals	12,349	13,309
Secured borrowings	73,165	24,049
Deferred tax liability	593	706
	3,934,029	3,946,144
MEMBERS' EQUITY		
Common shares	119,442	108,796
Investment shares	122,770	120,673
Ownership dividend allocation	-	4,224
Investment share dividends declared	-	5,679
Contributed surplus	27,576	27,576
Retained earnings	96,935	88,870
Accumulated other comprehensive income	1,178	1,178
	367,901	356,996
	4,301,930	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)	2017		2016	
	3 months	6 months	3 months	6 months
FINANCIAL INCOME				
Interest on loans to members	31,718	63,718	30,210	61,631
Interest and dividends on investments	3,000	4,236	2,442	3,543
Unrealized (losses) on interest rate swaps	(104)	(432)	(735)	(830)
	34,614	67,522	31,917	64,344
FINANCIAL EXPENSE				
Interest on members' deposits	10,753	22,074	10,398	21,413
Interest on loans payable	66	150	-	1
	10,819	22,224	10,398	21,414
Financial margin	23,795	45,298	21,519	42,930
Charge for loan impairment	843	2,104	628	959
	22,952	43,194	20,891	41,971
Other income	3,764	8,758	4,999	10,157
Gross margin	26,716	51,952	25,890	52,128
Personnel expenses	11,546	22,855	11,310	22,519
Operating lease expenses	1,476	2,972	1,452	2,913
Depreciation and amortization	1,056	2,097	1,057	2,128
Other expenses	7,030	13,958	7,868	15,453
	21,108	41,882	21,687	43,013
Income before income taxes	5,608	10,070	4,203	9,115
Income taxes				
Current	1,059	2,118	976	1,953
Deferred (recovery)	(28)	(113)	(176)	(199)
	1,031	2,005	800	1,754
Net and comprehensive income	4,577	8,065	3,403	7,361

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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, 2015	91,751	91,215	3,528	4,562	27,576	84,232	1,265	304,129
Net income						7,361		7,361
Transactions with members								
Shares issued to members for cash	15,475	29,822						45,297
Shares issued by dividend	3,528	4,562	(3,528)	(4,562)				-
Shares redeemed for cash	(4,709)	(4,646)						(9,355)
BALANCE APRIL 30, 2016	106,045	120,953	-	-	27,576	91,593	1,265	347,432
Balance October 31, 2016	108,796	120,673	4,224	5,679	27,576	88,870	1,178	356,996
Net income						8,065		8,065
Transactions with members								
Shares issued to members for cash	12,878	-						12,878
Shares issued by dividend	4,224	5,679	(4,224)	(5,679)				-
Shares redeemed for cash	(6,456)	(3,582)						(10,038)
BALANCE APRIL 30, 2017	119,442	122,770	-	-	27,576	96,935	1,178	367,901

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

(unaudited)

(\$ Thousands)	SIX MONTHS ENDED	
	April 30, 2017	April 30, 2016
Cash flows from operating activities		
Net Income	8,065	7,361
Adjustments for:		
Interest on loans to members	(63,718)	(61,631)
Interest / dividends on investments	(4,236)	(3,543)
Interest expense	22,224	21,414
Unrealized loss on interest rate swaps	432	830
Depreciation and amortization	2,097	2,128
Charge for loan impairment	2,203	1,049
Current/deferred income tax expense	2,005	1,754
Change in other assets	3,677	(614)
Change in accounts payable	(3,348)	(2,059)
Interest received	68,400	66,490
Interest paid	(24,819)	(25,096)
Income tax (paid) / refund	270	(618)
(Decrease) in members' deposits	(57,564)	(67,625)
(Increase) decrease in loans to members, net of repayments	(25,713)	32,821
Proceeds from sale of foreclosed property	95	583
Net cash (used in) operating activities	(69,930)	(26,756)
Cash flows from financing activities		
Common shares issued for cash	12,878	15,475
Common share redemptions	(6,456)	(4,709)
Investment shares issued for cash	-	29,822
Investment share redemptions	(3,582)	(4,646)
Secured borrowings	49,116	-
Net cash from financing activities	51,956	35,942
Cash flows used in investing activities		
Acquisition of investments	(556,230)	(583,249)
Proceeds from sale of investments	575,604	546,022
Acquisition of property and equipment, net	(842)	(440)
Acquisition of intangibles, net	(457)	(233)
Net cash from (used in) investing activities	18,075	(37,900)
Increase (decrease) in cash and cash equivalents	101	(28,714)
Cash and cash equivalents, beginning of period	49,845	74,807
Cash and cash equivalents, end of period	49,946	46,093

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 six months ended April 30, 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 May 30, 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 1.42% and they mature at the same rate as the underlying mortgages.