



ConnectFirst

Credit Union

2018 FIRST QUARTER FINANCIAL REPORT

For the three months ended
January 31, 2018

(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, 2018	October 31, 2017
ASSETS		
Cash and cash equivalents	37,794	19,655
Investments	507,446	552,780
Loans to members	3,954,302	3,851,156
Foreclosed property	1,109	1,561
Other assets	59,163	48,581
Intangible assets	3,365	3,488
Property and equipment	25,421	22,115
Assets held for sale	-	6,014
	4,588,600	4,505,350
LIABILITIES		
Members' deposits	4,042,953	3,962,527
Accounts payable and accruals	13,731	14,506
Secured borrowings	144,882	149,199
Deferred tax liability	41	88
	4,201,607	4,126,320
MEMBERS' EQUITY		
Common shares	132,513	122,306
Investment shares	123,146	122,395
Ownership dividend allocation	-	5,476
Investment share dividends declared	-	6,103
Contributed surplus	-	27,576
Retained earnings	129,725	93,565
Accumulated other comprehensive income	1,609	1,609
	386,993	379,030
	4,588,600	4,505,350

The accompanying Notes to the Condensed Consolidated 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, 2018	January 31, 2017
FINANCIAL INCOME		
Interest on loans to members	34,296	32,000
Interest and dividends on investments	1,817	1,236
Unrealized (losses) on interest rate swaps	(230)	(328)
	<u>35,883</u>	<u>32,908</u>
FINANCIAL EXPENSE		
Interest on members' deposits	12,495	11,321
Interest on loans payable	669	84
	<u>13,164</u>	<u>11,405</u>
Financial margin	22,719	21,503
Charge for loan impairment	891	1,261
	<u>21,828</u>	<u>20,242</u>
Other income	4,589	4,994
Gross margin	26,417	25,236
Personnel expenses	11,791	11,309
Operating lease expenses	1,418	1,496
Depreciation and amortization	965	1,041
Other expenses	7,141	6,928
	<u>21,315</u>	<u>20,774</u>
Income before income taxes	<u>5,102</u>	<u>4,462</u>
Income taxes		
Current	1,351	1,059
Deferred (recovery)	(62)	(85)
	<u>1,289</u>	<u>974</u>
Net income and comprehensive income	<u>3,813</u>	<u>3,488</u>

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-G investment shares	Ownership dividends declared	Investment share dividends declared	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total equity
Balance November 1, 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
Balance October 31, 2017	122,306	122,395	5,476	6,103	27,576	93,565	1,609	379,030
Acquisition of Legacy (note 2)	1,343		134		4,771			6,248
Transfer of contributed surplus					(32,347)	32,347		-
Net income						3,813		3,813
Transactions with members								
Shares issued to members for cash	6,350							6,350
Shares issued by dividend	5,610	6,103	(5,610)	(6,103)				-
Shares redeemed for cash	(3,096)	(5,352)						(8,448)
Balance January 31, 2018	132,513	123,146	-	-	-	129,725	1,609	386,993

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

CONSOLIDATED STATEMENT OF CASH FLOW

(unaudited)

(\$ Thousands)	THREE MONTHS ENDED	
	January 31, 2018	January 31, 2017
Cash flows from operating activities		
Net Income	3,813	3,488
Adjustments for:		
Interest on loans to members	(34,296)	(32,000)
Interest on investments	(1,817)	(1,236)
Interest expense	13,164	11,405
Unrealized loss on interest rate swaps	230	328
Depreciation and amortization	965	1,041
Charge for loan impairment	934	1,303
Current/deferred income tax expense	1,289	974
Change in other assets	(10,728)	(688)
Change in accounts payable	(1,229)	(3,393)
Interest received	36,425	33,332
Interest paid	(11,716)	(11,878)
Income tax (paid)	(999)	(732)
Increase (decrease) in members' deposits	7,320	(13,211)
(Increase) in loans to members, net of repayments	(51,972)	(10,681)
Proceeds from sale of foreclosed property	1,537	95
Net cash (used in) operating activities	(47,080)	(21,853)
Cash flows from financing activities		
Common shares issued for cash	6,350	5,152
Common share redemptions	(3,096)	(4,451)
Investment share redemptions	(5,352)	(3,327)
Repayment of secured borrowings	(4,317)	(2,057)
Net cash (used in) financing activities	(6,415)	(4,683)
Cash flows used in investing activities		
Cash acquired on amalgamation	1,649	-
Acquisition of investments	(421,347)	(252,307)
Proceeds from sale of investments	485,339	263,897
Disposition (acquisition) of property and equipment, net	6,130	(311)
Acquisition of intangibles, net	(137)	(386)
Net cash from investing activities	71,634	10,893
Increase (decrease) in cash and cash equivalents	18,139	(15,643)
Cash and cash equivalents, beginning of period	19,655	49,845
Cash and cash equivalents, end of period	37,794	34,202

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 three months ended January 31, 2018

(\$ 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. BUSINESS COMBINATION

On November 1, 2017, the Credit Union amalgamated with Legacy Savings and Credit Union Ltd. ("Legacy"). Pursuant to the terms of the amalgamation, all members of Legacy exchanged their common shares for shares of Connect First on a one for one basis.

Legacy operates two branches in the City of Calgary. The amalgamation will allow Connect First to create a presence in the greater downtown area without an outlay of capital and be a further visible representation of the Credit Union's regionally focused merger model. Legacy members will gain from a larger range of products and services, innovative technology offerings, and receive extended support through Connect First's Member Care Centre.

The business combination has been accounted for using the acquisition method, with the Credit Union acquiring 100% of the net assets of Legacy.

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

Cash and cash equivalents	1,649
Investments	18,298
Member loans receivable	53,864
Other assets	84
Property and equipment	4,052
Intangible assets	75
Total assets acquired	<u>78,022</u>
Accounts payable and accrued liabilities	102
Deferred income taxes	15
Member deposits	<u>71,657</u>
Total liabilities assumed	<u>71,774</u>
Net assets acquired	6,248

The above figures are preliminary and are subject to change.

The par value of equity shares issued to former members of Legacy was \$1,477. 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 \$4,771.

During the quarter ended January 31, 2018 the Credit Union transferred the balance of contributed surplus to Retained Earnings.

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 2017 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 2017 annual financial statements of Connect First.

These condensed consolidated interim financial statements were approved by the Board of Directors on March 6, 2018.

4. 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 2017 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 2017 annual financial statements of Connect First.

5. 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 2.03% and they mature at the same rate as the underlying mortgages.

6. ASSETS HELD FOR SALE

The sale of the Credit Union's administration building at 510 - 16th Ave. NE Calgary, AB was completed on November 4, 2017 for cash consideration of \$6,500 and a recognized gain of \$486. The gain has been recorded in other expenses.