



2018 THIRD QUARTER FINANCIAL REPORT

**For the nine months ended
July 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>	July 31, 2018	October 31, 2017
ASSETS		
Cash and cash equivalents	45,852	19,655
Investments	624,827	552,780
Loans to members	4,067,593	3,851,156
Foreclosed property	4	1,561
Other assets	46,895	48,581
Intangible assets	3,013	3,488
Property and equipment	25,496	22,115
Assets held for sale	-	6,014
	<u>4,813,680</u>	<u>4,505,350</u>
LIABILITIES		
Members' deposits	4,164,987	3,962,527
Accounts payable and accruals	15,828	14,506
Secured borrowings (note 5)	227,458	149,199
Deferred tax liability	27	88
	<u>4,408,300</u>	<u>4,126,320</u>
MEMBERS' EQUITY		
Common shares	144,136	122,306
Investment shares	122,231	122,395
Ownership dividend allocation	-	5,476
Investment share dividends declared	-	6,103
Contributed surplus	-	27,576
Retained earnings	138,997	93,565
Accumulated other comprehensive income	16	1,609
	<u>405,380</u>	<u>379,030</u>
	<u>4,813,680</u>	<u>4,505,350</u>

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)

	Three months ended July 31		Nine months ended July 31	
	2018	2017	2018	2017
<i>(\$ Thousands)</i>				
FINANCIAL INCOME				
Interest on loans to members	36,225	31,633	104,352	95,351
Interest and dividends on investments (note 7)	1,961	1,285	10,080	5,521
Unrealized (losses) on interest rate swaps	(30)	(512)	(281)	(944)
	<u>38,156</u>	<u>32,406</u>	<u>114,151</u>	<u>99,928</u>
FINANCIAL EXPENSE				
Interest on members' deposits	13,667	10,917	38,610	32,991
Interest on loans payable	1,188	244	2,669	394
	<u>14,855</u>	<u>11,161</u>	<u>41,279</u>	<u>33,385</u>
Financial margin	23,301	21,245	72,872	66,543
Charge for loan impairment	664	432	2,978	2,536
	<u>22,637</u>	<u>20,813</u>	<u>69,894</u>	<u>64,007</u>
Other income	4,932	4,826	14,130	13,584
Gross margin	27,569	25,639	84,024	77,591
Personnel expenses	12,533	10,986	36,429	33,841
Operating lease expenses	1,448	1,349	4,294	4,321
Depreciation and amortization	899	1,074	2,803	3,171
Other expenses	8,567	7,447	22,889	21,405
	<u>23,447</u>	<u>20,856</u>	<u>66,415</u>	<u>62,738</u>
Income before income taxes	<u>4,122</u>	<u>4,783</u>	<u>17,609</u>	<u>14,853</u>
Income taxes				
Current	1,351	1,060	4,599	3,178
Deferred (recovery)	(9)	(133)	(76)	(246)
	<u>1,342</u>	<u>927</u>	<u>4,523</u>	<u>2,932</u>
Net income	2,780	3,856	13,086	11,921
Change in unrealized gains on available for sale investments	-	435	-	435
Comprehensive income	2,780	4,291	13,086	12,356

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

(\$Thousands)	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						11,921		11,921
Changes in unrealized gain on available for sale investments (net of income tax of \$153)							435	435
Transactions with members								
Shares issued to members for cash	15,479	-						15,479
Shares issued by dividend	4,224	5,679	(4,224)	(5,679)				-
Shares redeemed for cash	(7,877)	(3,886)						(11,763)
Balance July 31, 2017	120,622	122,466	-	-	27,576	100,791	1,613	373,068
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 (note 2)					(32,347)	32,347		-
Sale of Qtrade shares (note 7)							(1,593)	(1,593)
Net income						13,086		13,086
Transactions with members								
Shares issued to members for cash	22,642							22,642
Shares issued by dividend	5,610	6,103	(5,610)	(6,103)				-
Shares redeemed for cash	(7,766)	(6,267)						(14,033)
Balance July 31, 2018	144,136	122,231	-	-	-	138,998	16	405,380

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

CONSOLIDATED STATEMENT OF CASH FLOW

(unaudited)

(\$ Thousands)	NINE MONTHS ENDED	
	July 31, 2018	July 31, 2017
Cash flows from operating activities		
Net Income	13,086	11,921
Adjustments for:		
Interest on loans to members	(104,352)	(95,351)
Interest/dividends on investments	(10,080)	(5,521)
Interest expense	41,279	33,385
Unrealized loss on interest rate swaps	281	944
Depreciation and amortization	2,803	3,171
Charge for loan impairment	3,206	2,668
Current/deferred income tax expense	4,523	2,932
Change in other assets	1,489	(10,165)
Change in accounts payable	(441)	191
Interest received	111,712	100,853
Interest paid	(40,017)	(35,633)
Income tax paid	(2,457)	(295)
Increase (decrease) in members' deposits	129,541	(5,720)
(Increase) in loans to members, net of repayments	(165,841)	(35,418)
Proceeds from sale of foreclosed property	2,305	317
Net cash (used in) operating activities	(12,963)	(31,721)
Cash flows from financing activities		
Common shares issued for cash	22,642	15,479
Common share redemptions	(7,766)	(7,877)
Investment share redemptions	(6,267)	(3,886)
Advances of secured borrowing	92,449	51,223
Repayment of secured borrowing	(14,190)	(6,326)
Net cash from financing activities	86,868	48,613
Cash flows used in investing activities		
Cash acquired on amalgamation	1,649	-
Acquisition of investments	(1,141,501)	(851,827)
Proceeds from sale of investments	1,087,712	823,644
Disposition (acquisition) of property and equipment, net	4,804	(1,487)
Acquisition of intangibles, net	(372)	(702)
Net cash (used in) investing activities	(47,708)	(30,372)
Increase (decrease) in cash and cash equivalents	26,197	(13,480)
Cash and cash equivalents, beginning of period	19,655	49,845
Cash and cash equivalents, end of period	45,852	36,365

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, 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 August 28, 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.

For the nine months ending July 31, 2018, the Credit Union has raised an additional \$92,449 in secured borrowings with repayments of \$14,190.

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 as a reduction of other expenses.

7. SALE OF QTRADE SHARES

Effective April 1, 2018, QTrade Financial Group ("QTrade") and Credential Asset Management merged to form Aviso Wealth. As a result of this transaction, the Credit Union's common shares of QTrade were redeemed for cash proceeds of \$2,999 and a realized gain of \$2,319 was recorded, of which \$1,593 had been recognized in accumulated other comprehensive income ("AOCI") as an unrealized gain, net of tax of \$480. The balances in AOCI were recognized in income during the quarter. The gain has been recorded in investment revenue.

8. 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 2017 annual financial statements of Connect First.

2018 THIRD QUARTER FINANCIAL REPORT

July 31, 2018

	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Assets					
Investments - held to maturity	-	324,888	-	324,888	324,484
Investments - available for sale	-	299,594	-	299,594	300,343
Loans	-	4,042,354	-	4,042,354	4,067,593
Total	-	4,666,836	-	4,666,836	4,692,420
Liabilities					
Deposits	-	4,159,284	-	4,159,284	4,164,987
Secured borrowings	-	219,987	-	219,987	227,458
Total	-	4,379,271	-	4,379,271	4,392,445

October 31, 2017

	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Assets					
Investments - held to maturity	-	286,877	-	286,877	287,366
Investments - available for sale	-	262,660	2,754	265,414	265,414
Loans	-	3,852,499	-	3,852,499	3,851,156
Total	-	4,402,036	2,754	4,404,790	4,403,936
Liabilities					
Deposits	-	3,961,235	-	3,961,235	3,962,527
Secured borrowings	-	149,549	-	149,549	149,199
Total	-	4,110,784	-	4,110,784	4,111,726

9. SUBSEQUENT EVENT

Subsequent to quarter end, on August 1, 2018 the Credit Union amalgamated with Mountain View Credit Union Ltd. ("Mountain View"). Pursuant to the terms of the amalgamation, all members of Mountain View exchanged their common shares for shares of Connect First on a one for one basis for total consideration of \$28,047.

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

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Mountain View operates 13 retail branches across central Alberta. The amalgamation will allow Connect First to be a further visible representation of the Credit Union's regionally focused merger model. New economies of scale will drive enhanced profitability and the ability to invest in returns to members, enhance products and services, and support local communities. The credit union will be able to share resources across a larger asset base, expand lending opportunities, and retain a diversified, well managed portfolio of assets.

At the date of these financial statements, the fair values of the assets and liabilities acquired has not yet been finalized. The carrying amount of total assets acquired is \$789,074, and the carrying amount of net assets acquired is \$68,842.