



2018 SECOND QUARTER FINANCIAL REPORT

For the six months ended
April 30, 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>	April 30, 2018	October 31, 2017
ASSETS		
Cash and cash equivalents	24,947	19,655
Investments	459,253	552,780
Loans to members	4,016,021	3,851,156
Foreclosed property	663	1,561
Other assets	45,163	48,581
Intangible assets	3,235	3,488
Property and equipment	25,235	22,115
Assets held for sale	-	6,014
	4,574,517	4,505,350
LIABILITIES		
Members' deposits	3,924,761	3,962,527
Accounts payable and accruals	14,370	14,506
Secured borrowings (note 5)	235,641	149,199
Deferred tax liability	35	88
	4,174,807	4,126,320
MEMBERS' EQUITY		
Common shares	140,696	122,306
Investment shares	122,780	122,395
Ownership dividend allocation	-	5,476
Investment share dividends declared	-	6,103
Contributed surplus	-	27,576
Retained earnings	136,218	93,565
Accumulated other comprehensive income	16	1,609
	399,710	379,030
	4,574,517	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)

	3 months ended April 30		6 months ended April 30	
	2018	2017	2018	2017
<i>(\$ Thousands)</i>				
FINANCIAL INCOME				
Interest on loans to members	33,831	31,718	68,127	63,718
Interest and dividends on investments (note 7)	6,302	3,000	8,119	4,236
Unrealized (losses) on interest rate swaps	(21)	(104)	(251)	(432)
	<u>40,112</u>	<u>34,614</u>	<u>75,995</u>	<u>67,522</u>
FINANCIAL EXPENSE				
Interest on members' deposits	12,448	10,753	24,943	22,074
Interest on loans payable	812	66	1,481	150
	<u>13,260</u>	<u>10,819</u>	<u>26,424</u>	<u>22,224</u>
Financial margin	26,852	23,795	49,571	45,298
Charge for loan impairment	1,423	843	2,314	2,104
	<u>25,429</u>	<u>22,952</u>	<u>47,257</u>	<u>43,194</u>
Other income	4,609	3,764	9,198	8,758
Gross margin	30,038	26,716	56,455	51,952
Personnel expenses	12,105	11,546	23,896	22,855
Operating lease expenses	1,428	1,476	2,846	2,972
Depreciation and amortization	939	1,056	1,904	2,097
Other expenses	7,181	7,030	14,322	13,958
	<u>21,653</u>	<u>21,108</u>	<u>42,968</u>	<u>41,882</u>
Income before income taxes	8,385	5,608	13,487	10,070
Income taxes				
Current	1,897	1,059	3,248	2,118
Deferred (recovery)	(5)	(28)	(67)	(113)
	<u>1,892</u>	<u>1,031</u>	<u>3,181</u>	<u>2,005</u>
Net and comprehensive income	6,493	4,577	10,306	8,065

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						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
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		-
Sale of Qtrade shares (note 7)							(1,593)	(1,593)
Net income						10,306		10,306
Transactions with members								
Shares issued to members for cash	15,601							15,601
Shares issued by dividend	5,610	6,103	(5,610)	(6,103)				-
Shares redeemed for cash	(4,164)	(5,718)						(9,882)
Balance April 30, 2018	140,696	122,780	-	-	-	136,218	16	399,710

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

CONSOLIDATED STATEMENT OF CASH FLOW

(unaudited)

	SIX MONTHS ENDED	
<i>(\$ Thousands)</i>	April 30, 2018	April 30, 2017
Cash flows from operating activities		
Net Income	10,306	8,065
Adjustments for:		
Interest on loans to members	(68,127)	(63,718)
Interest/dividends on investments	(8,119)	(4,236)
Interest expense	26,424	22,224
Unrealized loss on interest rate swaps	251	432
Gain on sale of Qtrade shares	(2,319)	-
Depreciation and amortization	1,904	2,097
Charge for loan impairment	2,455	2,203
Current/deferred income tax expense	3,181	2,005
Change in other assets	3,251	3,677
Change in accounts payable	(1,455)	(3,348)
Interest received	76,979	68,400
Interest paid	(26,204)	(24,819)
Income tax (paid)/refund	(1,551)	270
(Decrease) in members' deposits	(109,643)	(57,564)
(Increase) in loans to members, net of repayments	(114,862)	(25,713)
Proceeds from sale of foreclosed property	1,930	95
Net cash (used in) operating activities	(205,599)	(69,930)
Cash flows from financing activities		
Common shares issued for cash	15,601	12,878
Common share redemptions	(4,164)	(6,456)
Investment shares issued for cash	-	-
Investment share redemptions	(5,718)	(3,582)
Advances of secured borrowing	92,449	51,223
Repayment of secured borrowing	(6,007)	(2,107)
Net cash from financing activities	92,161	51,956
Cash flows used in investing activities		
Cash acquired on amalgamation	1,649	-
Acquisition of investments	(709,319)	(556,230)
Proceeds from sale of investments	821,030	575,604
Disposition (acquisition) of property and equipment, net	5,690	(842)
Acquisition of intangibles, net	(320)	(457)
Net cash from investing activities	118,730	18,075
Increase in cash and cash equivalents	5,292	101
Cash and cash equivalents, beginning of period	19,655	49,845
Cash and cash equivalents, end of period	24,947	49,946

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 six months ended April 30, 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.

2018 SECOND QUARTER FINANCIAL REPORT

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 June 5, 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 six months ending April 30, 2018, the Credit Union has raised an additional \$92,449 in secured borrowings with repayments of \$6,007.

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.

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 recognized gain of \$2,319 of which \$1,593 had been recognized in accumulated other comprehensive income ("AOCI") 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 SECOND QUARTER FINANCIAL REPORT

April 30, 2018

	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Assets					
Investments - held to maturity	-	274,090	-	274,090	306,472
Investments - available for sale	-	184,690	-	184,690	152,781
Loans	-	4,005,610	-	4,005,610	4,016,021
Total	-	4,464,390	-	4,464,390	4,475,274
Liabilities					
Deposits	-	3,919,749	-	3,919,749	3,924,761
Secured borrowings	-	235,502	-	235,502	235,641
Total	-	4,155,251	-	4,155,251	4,160,402

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