

Q2

REPORT

2015

ConnectFirst
Credit Union

Interim Condensed Consolidated Financial Statements
For the six months ended
April 30, 2015
(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, 2015 | October 31, 2014 |
|--|------------------|------------------|
| ASSETS | | |
| Cash and cash equivalents | 48,109 | 52,460 |
| Investments | 474,269 | 348,686 |
| Loans to members | 3,371,252 | 2,475,268 |
| Foreclosed property | 391 | - |
| Other assets | 38,586 | 30,779 |
| Intangible assets | 4,552 | 4,068 |
| Property and equipment | 30,185 | 17,802 |
| | 3,967,344 | 2,929,063 |
| LIABILITIES | | |
| Members' deposits | 3,660,877 | 2,714,898 |
| Accounts payable and accruals | 11,721 | 6,361 |
| Provisions | 1,523 | 1,267 |
| Deferred tax liability | 1,369 | 1,242 |
| | 3,675,490 | 2,723,768 |
| MEMBERS' EQUITY | | |
| Common shares | 86,848 | 29,947 |
| Investment shares | 91,578 | 91,736 |
| Ownership dividend allocation | - | 1,657 |
| Investment share dividends declared | - | 4,588 |
| Contributed surplus | 27,576 | - |
| Retained earnings | 84,737 | 76,252 |
| Accumulated other comprehensive income | 1,115 | 1,115 |
| | 291,854 | 205,295 |
| | 3,967,344 | 2,929,063 |

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) | 2015 | | 2014 | |
|---|---------------|---------------|---------------|---------------|
| | 3 Months | 6 Months | 3 Months | 6 Months |
| FINANCIAL INCOME | | | | |
| Interest on loans to members | 31,028 | 62,784 | 23,797 | 47,003 |
| Interest and dividends on investments | 2,976 | 4,337 | 2,951 | 4,013 |
| Unrealized gain (losses) on interest rate swaps | (1,029) | 562 | (581) | (485) |
| | 32,975 | 67,683 | 26,167 | 50,531 |
| FINANCIAL EXPENSE | | | | |
| Interest on members' deposits | 10,950 | 22,093 | 8,273 | 16,774 |
| Interest on loans payable | 1 | 3 | - | 1 |
| | 10,951 | 22,096 | 8,273 | 16,775 |
| Financial Margin | 22,024 | 45,587 | 17,894 | 33,756 |
| Charge for loan impairment | 472 | 628 | 948 | 726 |
| | 21,552 | 44,959 | 16,946 | 33,030 |
| Other income | 4,328 | 9,578 | 2,674 | 6,186 |
| Gross Margin | 25,880 | 54,537 | 19,620 | 39,216 |
| Personnel expenses | 11,250 | 23,774 | 7,851 | 16,725 |
| Operating lease expenses | 1,413 | 2,794 | 1,362 | 2,698 |
| Depreciation and amortization | 1,060 | 2,216 | 924 | 1,899 |
| Other expenses | 7,469 | 15,302 | 5,534 | 10,632 |
| | 21,192 | 44,086 | 15,671 | 31,954 |
| Income before income taxes | 4,688 | 10,451 | 3,949 | 7,262 |
| Income taxes | | | | |
| Current | 920 | 1,840 | 600 | 1,200 |
| Deferred (recovery) | (232) | 126 | (124) | (104) |
| | 688 | 1,966 | 476 | 1,096 |
| Net income and comprehensive income | 4,000 | 8,485 | 3,473 | 6,166 |

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)

Six months ended April 30, 2015 and 2014

(\$ Thousands)

| | Common shares | Series A-F investment shares | Ownership dividends declared | Investment share dividends declared | Retained earnings | Accumulated other comprehensive income | Contributed surplus | Total equity |
|-----------------------------------|---------------|------------------------------|------------------------------|-------------------------------------|-------------------|--|---------------------|----------------|
| BALANCE NOVEMBER 1, 2013 | 27,469 | 90,592 | 2,072 | 4,964 | 72,325 | 737 | - | 198,159 |
| Net income | | | | | 6,166 | | | 6,166 |
| Transactions with members | | | | | | | | |
| Shares issued to members for cash | 308 | | | | | | | 308 |
| Shares issued by dividend | 2,072 | 4,964 | (2,072) | (4,964) | | | | - |
| Shares redeemed for cash | (730) | (3,653) | | | | | | (4,383) |
| BALANCE APRIL 30, 2014 | 29,119 | 91,903 | - | - | 78,491 | 737 | - | 200,250 |
| Balance October 31, 2014 | 29,947 | 91,736 | 1,657 | 4,588 | 76,252 | 1,115 | | 205,295 |
| Acquisition of Chinook (note 2) | 46,532 | | 2,244 | | | | 27,576 | 76,352 |
| Net income | | | | | 8,485 | | | 8,485 |
| Transactions with members | | | | | | | | |
| Shares issued to members for cash | 9,789 | | | | | | | 9,789 |
| Shares issued by dividend | 3,901 | 4,588 | (3,901) | (4,588) | | | | - |
| Shares redeemed for cash | (3,321) | (4,746) | | | | | | (8,067) |
| BALANCE APRIL 30, 2015 | 86,848 | 91,578 | - | - | 84,737 | 1,115 | 27,576 | 291,854 |

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



CONSOLIDATED STATEMENT OF CASH FLOW

(unaudited)

| (\$ Thousands) | SIX MONTHS ENDED | |
|---|-------------------------|-----------------|
| | April 30, 2015 | April 30, 2014 |
| Cash flows from operating activities | | |
| Net Income | 8,485 | 6,166 |
| Adjustments for: | | |
| Interest on loans to members | (62,784) | (47,003) |
| Interest/dividends on investments | (4,337) | (4,013) |
| Interest expense | 22,096 | 16,775 |
| Unrealized loss (gain) on interest rate swaps | (562) | 485 |
| Depreciation and amortization | 2,216 | 1,899 |
| Charge for loan impairment | 800 | 1,004 |
| Current/deferred income tax expense | 1,966 | 1,096 |
| Change in other assets | (4,445) | 337 |
| Change in accounts payable | 1,071 | (1,108) |
| Interest received | 64,220 | 50,254 |
| Interest paid | (20,245) | (18,955) |
| Income tax paid | (1,741) | (1,041) |
| Increase in members' deposits | 172,737 | 57,897 |
| (Increase) in loans to members, net of repayments | (164,709) | (30,416) |
| Proceeds from sale of foreclosed property | 261 | 32 |
| Net cash from operating activities | 15,029 | 33,409 |
| Cash flows from financing activities | | |
| Common shares issued for cash | 9,789 | 308 |
| Common share redemptions | (3,321) | (730) |
| Investment share redemptions | (4,746) | (3,653) |
| Net cash from (used in) financing activities | 1,722 | (4,075) |
| Cash flows used in investing activities | | |
| Cash acquired on amalgamation | 13,476 | |
| Acquisition of investments | (701,090) | (646,939) |
| Proceeds from sale of investments | 667,348 | 632,837 |
| Acquisition of property and equipment, net | (683) | (382) |
| Acquisition of intangibles, net | (153) | (313) |
| Net cash (used for) investing activities | (21,102) | (14,797) |
| Increase (decrease) in cash and cash equivalents | (4,351) | 14,537 |
| Cash and cash equivalents, beginning of period | 52,460 | 10,717 |
| Cash and cash equivalents, end of period | 48,109 | 25,254 |

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, 2015

(\$ 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, 2014, pursuant to the terms of the amalgamation, all members of First Calgary and Chinook exchanged their common shares and investment shares of the predecessor credit unions for shares of Connect First on a one for one basis.

The amalgamation took place to achieve economies of scale for the combined credit union that will drive enhanced profitability and the ability to invest in returns to members, enhance products and services, and support both local communities.

The business combination has been accounted for using the acquisition method, with First Calgary acquiring 100% of the net assets of Chinook.

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

| | |
|----------------------------------|----------------------|
| Cash | 13,476 |
| Investments | 91,598 |
| Other assets | 2,799 |
| Loans | 730,068 |
| Property and equipment | 13,412 |
| Intangible assets | 835 |
| Total assets acquired | <u>852,188</u> |
| Derivative financial liabilities | 634 |
| Accounts payable | 3,812 |
| Deposits | <u>771,390</u> |
| Total liabilities assumed | <u>775,836</u> |
| Net assets acquired | <u>76,352</u> |

The above figures are preliminary and are subject to change.

The par value of equity shares issued to former members of Chinook was \$48,776. 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 \$27,576.



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 First Calgary's 2014 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 2014 annual financial statements of First Calgary.

These condensed consolidated interim financial statements were approved by the Board of Directors on May 26, 2015.

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 1 in First Calgary's 2014 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 2014 annual financial statements of First Calgary.

4. COMPARATIVE FIGURES

The comparative figures as at April 30, 2014 , October 31, 2014 and for the three and six month periods ended April 30,2014 represent those of First Calgary, prior to amalgamation.

5. INVESTMENT INCOME

On March 13, 2015, the Credit Union received a patronage distribution of \$1,255 from Credit Union Central of Alberta. This distribution has been recorded in interest and dividends on investments in the statement of income and comprehensive income.





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