



ConnectFirst
Credit Union

2016

SECOND QUARTER
FINANCIAL REPORT

MAKING MONEY
MAKE A DIFFERENCE

2016 SECOND QUARTER FINANCIAL REPORT

Interim Condensed Consolidated Financial Statements

For the six months ended
April 30, 2016
(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)

<i>(\$ Thousands)</i>	April 30, 2016	October 31, 2015
ASSETS		
Cash and cash equivalents	46,093	74,807
Investments	540,290	503,993
Loans to members	3,437,934	3,472,423
Foreclosed property	309	658
Other assets	46,250	46,466
Intangible assets	4,274	4,621
Property and equipment	29,873	30,981
	4,105,023	4,133,949
LIABILITIES		
Members' deposits	3,746,742	3,818,048
Accounts payable and accruals	9,506	10,230
Deferred tax liability	1,343	1,542
	3,757,591	3,829,820
MEMBERS' EQUITY		
Common shares	106,045	91,751
Investment shares	120,953	91,215
Ownership dividend allocation	-	3,528
Investment share dividends declared	-	4,562
Contributed surplus	27,576	27,576
Retained earnings	91,593	84,232
Accumulated other comprehensive income	1,265	1,265
	347,432	304,129
	4,105,023	4,133,949

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)	2016		2015	
	3 months	6 months	3 months	6 months
FINANCIAL INCOME				
Interest on loans to members	30,210	61,631	31,028	62,784
Interest on investments	2,442	3,543	2,976	4,337
Unrealized gain (losses) on interest rate swaps	(735)	(830)	(1,029)	562
	31,917	64,344	32,975	67,683
FINANCIAL EXPENSE				
Interest on members' deposits	10,398	21,413	10,950	22,093
Interest on loans payable	-	1	1	3
	10,398	21,414	10,951	22,096
Financial margin	21,519	42,930	22,024	45,587
Charge for loan impairment	628	959	472	628
	20,891	41,971	21,552	44,959
Other income	4,999	10,157	4,328	9,578
Gross margin	25,890	52,128	25,880	54,537
Personnel expenses	11,310	22,519	11,250	23,774
Operating lease expenses	1,452	2,913	1,413	2,794
Depreciation and amortization	1,057	2,128	1,060	2,216
Other expenses	7,868	15,453	7,469	15,302
	21,687	43,013	21,192	44,086
Income before income taxes	4,203	9,115	4,688	10,451
Income taxes				
Current	976	1,953	920	1,840
Deferred (recovery)	(176)	(199)	(232)	126
	800	1,754	688	1,966
Net income and comprehensive income	3,403	7,361	4,000	8,485

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)

<i>(\$ Thousands)</i>	Common shares	Investment shares	Ownership dividends declared	Investment share dividends declared	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total equity
BALANCE NOVEMBER 1, 2014	76,479	91,736	3,901	4,588	27,576	76,252	1,115	281,647
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	-	-	27,576	84,737	1,115	291,854
Balance October 31, 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

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, 2016	April 30, 2015
Cash flows from operating activities		
Net Income	7,361	8,485
Adjustments for:		
Interest on loans to members	(61,631)	(62,784)
Interest on investments	(3,543)	(4,337)
Interest expense	21,414	22,096
Unrealized loss (gain) on interest rate swaps	830	(562)
Depreciation and amortization	2,128	2,216
Charge for loan impairment	1,049	800
Current/deferred income tax expense	1,754	1,966
Change in other assets	(614)	(4,445)
Change in accounts payable	(2,059)	1,071
Interest received	66,490	64,220
Interest paid	(25,096)	(20,245)
Income tax paid	(618)	(1,741)
Increase (decrease) in members' deposits	(67,625)	172,737
(Increase) decrease in loans to members, net of repayments	32,821	(164,709)
Proceeds from sale of foreclosed property	583	261
Net cash from (used in) operating activities	(26,756)	15,029
Cash flows from financing activities		
Common shares issued for cash	15,475	9,789
Common share redemptions	(4,709)	(3,321)
Investment shares issued for cash	29,822	-
Investment share redemptions	(4,646)	(4,746)
Net cash from financing activities	35,942	1,722
Cash flows used in investing activities		
Cash acquired on amalgamation with Chinook	-	13,476
Acquisition of investments	(583,249)	(701,090)
Proceeds from sale of investments	546,022	667,348
Acquisition of property and equipment, net	(440)	(683)
Acquisition of intangibles, net	(233)	(153)
Net cash (used in) investing activities	(37,900)	(21,102)
(Decrease) in cash and cash equivalents	(28,714)	(4,351)
Cash and cash equivalents, beginning of period	74,807	52,460
Cash and cash equivalents, end of period	46,093	48,109

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, 2016

(\$ 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 2015 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 2015 annual financial statements of Connect First.

These condensed consolidated interim financial statements were approved by the Board of Directors on May 25, 2016.

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 2015 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 2015 annual financial statements of Connect First.

4. SHARE CAPITAL

\$29.8 million of Investment Shares Series G were sold in the six months ended April 30, 2016, with an additional \$0.2 million sold subsequent to the quarter end, for a total of \$30.0 million.

The Investment Shares were sold with a guaranteed dividend rate of 5.0% in the first year. The payment will be made in December 2016 through the issuance of additional Series G Investment Shares.

Series G Investment Shares were issued for consideration of \$1 per share and have the following characteristics:

- i) no par value;
- ii) no voting rights;
- iii) transferable under limited circumstances;
- iv) callable at the discretion of the Credit Union upon 5 years written notice;
- v) dividends are non-cumulative and rank ahead of ownership dividend on common shares. They are also subject to the Credit Union's dividend policy which can be changed at the discretion of the Board of Directors; and
- vi) redemptions are permitted in the Credit Union's redemption policy, as approved by the Board of Directors, which is subject to change at their discretion. Redemptions are also subject to the limits outlined in the Act.

Series G Investment Shares represent "at risk" capital and are not guaranteed by CUDGC.