

2017

THIRD QUARTER FINANCIAL REPORT



MAKING MONEY MAKE A DIFFERENCE

Interim Condensed Consolidated Financial Statements

For the nine months ended
July 31, 2017
(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>	July 31, 2017	October 31, 2016
ASSETS		
Cash and cash equivalents	36,365	49,845
Investments	551,327	522,785
Loans to members	3,683,617	3,652,502
Foreclosed property	1,567	-
Other assets	54,640	45,419
Intangible assets	3,443	3,754
Property and equipment	28,164	28,835
	4,359,123	4,303,140
LIABILITIES		
Members' deposits	3,900,113	3,908,080
Accounts payable and accruals	16,383	13,309
Secured borrowings	68,946	24,049
Deferred tax liability	613	706
	3,986,055	3,946,144
MEMBERS' EQUITY		
Common shares	120,622	108,796
Investment shares	122,466	120,673
Ownership dividend allocation	-	4,224
Investment share dividends declared	-	5,679
Contributed surplus	27,576	27,576
Retained earnings	100,791	88,870
Accumulated other comprehensive income	1,613	1,178
	373,068	356,996
	4,359,123	4,303,140

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)	2017		2016	
	3 months	9 months	3 months	9 months
FINANCIAL INCOME				
Interest on loans to members	31,633	95,351	30,679	92,310
Interest and dividends on investments	1,285	5,521	1,227	4,770
Unrealized gains (losses) on interest rate swaps	(512)	(944)	20	(810)
	32,406	99,928	31,926	96,270
FINANCIAL EXPENSE				
Interest on members' deposits	10,917	32,991	10,848	32,261
Interest on loans payable	244	394	22	23
	11,161	33,385	10,870	32,284
Financial margin	21,245	66,543	21,056	63,986
Charge for loan impairment	432	2,536	627	1,586
	20,813	64,007	20,429	62,400
Other income	4,826	13,584	4,258	14,415
Gross margin	25,639	77,591	24,687	76,815
Personnel expenses	10,986	33,841	11,229	33,748
Operating lease expenses	1,349	4,321	1,486	4,399
Depreciation and amortization	1,074	3,171	1,103	3,231
Other expenses	7,447	21,405	7,430	22,883
	20,856	62,738	21,248	64,261
Income before income taxes	4,783	14,853	3,439	12,554
Income taxes				
Current	1,060	3,178	976	2,929
Deferred (recovery)	(133)	(246)	5	(194)
	927	2,932	981	2,735
Net income	3,856	11,921	2,458	9,819
Change in unrealized gains on available for sale investments	435	435	-	-
Comprehensive income	4,291	12,356	2,458	9,819

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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, 2015	91,751	91,215	3,528	4,562	27,576	84,232	1,265	304,129
Net income						9,819		9,819
Transactions with members								
Shares issued to members for cash	18,782	30,000						48,782
Shares issued by dividend	3,528	4,562	(3,528)	(4,562)				-
Shares redeemed for cash	(6,485)	(4,845)						(11,330)
BALANCE JULY 31, 2016	107,576	120,932	-	-	27,576	94,051	1,265	351,400
Balance October 31, 2016	108,796	120,673	4,224	5,679	27,576	88,870	1,178	356,996
Net income						11,921		11,921
Change 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

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

(unaudited)

(\$ Thousands)	NINE MONTHS ENDED	
	July 31, 2017	July 31, 2016
Cash flows from operating activities		
Net Income	11,921	9,819
Adjustments for:		
Interest on loans to members	(95,351)	(92,310)
Interest / dividends on investments	(5,521)	(4,770)
Interest expense	33,385	32,284
Unrealized loss on interest rate swaps	944	810
Depreciation and amortization	3,171	3,231
Charge for loan impairment	2,668	1,711
Current/deferred income tax expense	2,932	2,735
Change in other assets	(10,165)	3,775
Change in accounts payable	191	(315)
Interest received	100,853	99,085
Interest paid	(35,633)	(35,169)
Income tax (paid)	(295)	(1,350)
Increase (decrease) in members' deposits	(5,720)	56,992
(Increase) in loans to members, net of repayments	(35,418)	(106,889)
Proceeds from sale of foreclosed property	317	913
Net cash (used in) operating activities	(31,721)	(29,448)
Cash flows from financing activities		
Common shares issued for cash	15,479	18,782
Common share redemptions	(7,877)	(6,485)
Investment shares issued for cash	-	30,000
Investment share redemptions	(3,886)	(4,845)
Secured borrowings	44,897	24,809
Net cash from financing activities	48,613	62,261
Cash flows used in investing activities		
Acquisition of investments	(851,827)	(965,633)
Proceeds from sale of investments	823,644	906,998
Acquisition of property and equipment, net	(1,487)	(644)
Acquisition of intangibles, net	(702)	(349)
Net cash (used in) investing activities	(30,372)	(59,628)
(Decrease) in cash and cash equivalents	(13,480)	(26,815)
Cash and cash equivalents, beginning of period	49,845	74,807
Cash and cash equivalents, end of period	36,365	47,992

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 nine months ended July 31, 2017

(\$ 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 2016 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 2016 annual financial statements of Connect First.

These condensed consolidated interim financial statements were approved by the Board of Directors on August 29, 2017.

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 2016 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 2016 annual financial statements of Connect First.

4. 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 1.42% and they mature at the same rate as the underlying mortgages. The Credit Union has securitized an additional \$51.4 million in the nine months ending July 31, 2017.