

2017

FIRST QUARTER FINANCIAL REPORT



MAKING MONEY MAKE A DIFFERENCE

Interim Condensed Consolidated Financial Statements

For the three months ended
January 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> | January 31, 2017 | October 31, 2016 |
|--|-------------------------|-------------------------|
| ASSETS | | |
| Cash and cash equivalents | 34,202 | 49,845 |
| Investments | 511,451 | 522,785 |
| Loans to members | 3,661,433 | 3,652,502 |
| Other assets | 45,779 | 45,419 |
| Intangible assets | 3,812 | 3,754 |
| Property and equipment | 28,433 | 28,835 |
| | 4,285,110 | 4,303,140 |
| LIABILITIES | | |
| Members' deposits | 3,894,397 | 3,908,080 |
| Accounts payable and accruals | 10,243 | 13,309 |
| Secured borrowings | 21,992 | 24,049 |
| Deferred tax liability | 620 | 706 |
| | 3,927,252 | 3,946,144 |
| MEMBERS' EQUITY | | |
| Common shares | 113,721 | 108,796 |
| Investment shares | 123,025 | 120,673 |
| Ownership dividend allocation | - | 4,224 |
| Investment share dividends declared | - | 5,679 |
| Contributed surplus | 27,576 | 27,576 |
| Retained earnings | 92,358 | 88,870 |
| Accumulated other comprehensive income | 1,178 | 1,178 |
| | 357,858 | 356,996 |
| | 4,285,110 | 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) | THREE MONTHS ENDED | |
|--|--------------------|------------------|
| | January 31, 2017 | January 31, 2016 |
| FINANCIAL INCOME | | |
| Interest on loans to members | 32,000 | 31,421 |
| Interest on investments | 1,236 | 1,101 |
| Unrealized (losses) on interest rate swaps | (328) | (95) |
| | <u>32,908</u> | <u>32,427</u> |
| FINANCIAL EXPENSE | | |
| Interest on members' deposits | 11,321 | 11,015 |
| Interest on loans payable | 84 | 1 |
| | <u>11,405</u> | <u>11,016</u> |
| Financial margin | 21,503 | 21,411 |
| Charge for loan impairment | 1,261 | 331 |
| | <u>20,242</u> | <u>21,080</u> |
| Other income | 4,994 | 5,158 |
| Gross margin | 25,236 | 26,238 |
| Personnel expenses | 11,309 | 11,209 |
| Operating lease expenses | 1,496 | 1,461 |
| Depreciation and amortization | 1,041 | 1,071 |
| Other expenses | 6,928 | 7,585 |
| | <u>20,774</u> | <u>21,326</u> |
| Income before income taxes | 4,462 | 4,912 |
| Income taxes | | |
| Current | 1,059 | 977 |
| (Recovery) | (85) | (23) |
| | <u>974</u> | <u>954</u> |
| Net income and comprehensive income | 3,488 | 3,958 |

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 | 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 | | | | | | 3,958 | | 3,958 |
| Transactions with members | | | | | | | | |
| Shares issued to members for cash | 7,730 | 20,044 | | | | | | 27,774 |
| Shares issued by dividend | 3,528 | 4,562 | (3,528) | (4,562) | | | | - |
| Shares redeemed for cash | (3,141) | (4,544) | | | | | | (7,685) |
| BALANCE JANUARY 31, 2016 | 99,868 | 111,277 | - | - | 27,576 | 88,190 | 1,265 | 328,176 |
| Balance October 31, 2016 | 108,796 | 120,673 | 4,224 | 5,679 | 27,576 | 88,870 | 1,178 | 356,996 |
| Net income | | | | | | 3,488 | | 3,488 |
| Transactions with members | | | | | | | | |
| Shares issued to members for cash | 5,152 | | | | | | | 5,152 |
| Shares issued by dividend | 4,224 | 5,679 | (4,224) | (5,679) | | | | - |
| Shares redeemed for cash | (4,451) | (3,327) | | | | | | (7,778) |
| BALANCE JANUARY 31, 2017 | 113,721 | 123,025 | - | - | 27,576 | 92,358 | 1,178 | 357,858 |

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

CONSOLIDATED STATEMENT OF CASH FLOW

(unaudited)

| (\$ Thousands) | THREE MONTHS ENDED | |
|--|---------------------------|-------------------------|
| | January 31, 2017 | January 31, 2016 |
| Cash flows from operating activities | | |
| Net Income | 3,488 | 3,958 |
| Adjustments for: | | |
| Interest on loans to members | (32,000) | (31,421) |
| Interest on investments | (1,236) | (1,101) |
| Interest expense | 11,405 | 11,016 |
| Unrealized loss on interest rate swaps | 328 | 95 |
| Depreciation and amortization | 1,041 | 1,071 |
| Charge for loan impairment | 1,303 | 375 |
| Current/deferred income tax expense | 974 | 954 |
| Change in other assets | (688) | 3,127 |
| Change in accounts payable | (3,393) | (2,695) |
| Interest received | 33,332 | 32,775 |
| Interest paid | (11,878) | (13,090) |
| Income tax paid | (732) | (982) |
| (Decrease) in members' deposits | (13,211) | (79,964) |
| (Increase) decrease in loans to members, net of repayments | (10,681) | 21,225 |
| Proceeds from sale of foreclosed property | 95 | 241 |
| Net cash (used in) operating activities | (21,853) | (54,416) |
| Cash flows from financing activities | | |
| Common shares issued for cash | 5,152 | 7,730 |
| Common share redemptions | (4,451) | (3,141) |
| Investment shares issued for cash | - | 20,044 |
| Investment share redemptions | (3,327) | (4,544) |
| Secured borrowings | (2,057) | - |
| Net cash from (used in) financing activities | (4,683) | 20,089 |
| Cash flows used in investing activities | | |
| Acquisition of investments | (252,307) | (267,157) |
| Proceeds from sale of investments | 263,897 | 280,738 |
| Acquisition of property and equipment, net | (311) | (127) |
| Acquisition of intangibles, net | (386) | (201) |
| Net cash from investing activities | 10,893 | 13,253 |
| (Decrease) in cash and cash equivalents | (15,643) | (21,074) |
| Cash and cash equivalents, beginning of period | 49,845 | 74,807 |
| Cash and cash equivalents, end of period | 34,202 | 53,733 |

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 three months ended January 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 February 28, 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 1.40% and they mature at the same rate as the underlying mortgages.