



ConnectFirst
Credit Union

2016

THIRD QUARTER FINANCIAL REPORT

MAKING MONEY
MAKE A DIFFERENCE

2016 THIRD QUARTER FINANCIAL REPORT

Interim Condensed Consolidated Financial Statements

For the nine months ended
July 31, 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)

(\$ Thousands)	July 31, 2016	October 31, 2015
ASSETS		
Cash and cash equivalents	47,992	74,807
Investments	562,181	503,993
Loans to members	3,575,789	3,472,423
Foreclosed property	-	658
Other assets	41,881	46,466
Intangible assets	4,014	4,621
Property and equipment	29,350	30,981
	4,261,207	4,133,949
LIABILITIES		
Members' deposits	3,872,156	3,818,048
Accounts payable and accruals	11,597	10,230
Secured borrowings	24,809	-
Deferred tax liability	1,245	1,542
	3,909,807	3,829,820
MEMBERS' EQUITY		
Common shares	107,576	91,751
Investment shares	120,932	91,215
Ownership dividend allocation	-	3,528
Investment share dividends declared	-	4,562
Contributed surplus	27,576	27,576
Retained earnings	94,051	84,232
Accumulated other comprehensive income	1,265	1,265
	351,400	304,129
	4,261,207	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	9 months	3 months	9 months
FINANCIAL INCOME				
Interest on loans to members	30,679	92,310	31,402	94,186
Interest on investments	1,227	4,770	1,242	5,579
Unrealized gain (losses) on interest rate swaps	20	(810)	349	911
	31,926	96,270	32,993	100,676
FINANCIAL EXPENSE				
Interest on members' deposits	10,848	32,261	11,301	33,394
Interest on loans payable	22	23	1	4
	10,870	32,284	11,302	33,398
Financial margin	21,056	63,986	21,691	67,278
Charge for loan impairment	627	1,586	1,231	1,859
	20,429	62,400	20,460	65,419
Other income	4,258	14,415	5,580	15,158
Gross margin	24,687	76,815	26,040	80,577
Personnel expenses	11,229	33,748	10,827	34,601
Operating lease expenses	1,486	4,399	1,500	4,294
Depreciation and amortization	1,103	3,231	931	3,147
Other expenses	7,430	22,883	8,046	23,348
	21,248	64,261	21,304	65,390
Income before income taxes	3,439	12,554	4,736	15,187
Income taxes				
Current	976	2,929	920	2,760
Deferred (recovery)	5	(194)	79	205
	981	2,735	999	2,965
Net income	2,458	9,819	3,737	12,222
Change in unrealized gains on available for sale investments	-	-	152	152
Comprehensive income	2,458	9,819	3,889	12,374

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

(\$ Thousands)	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						12,222		12,222
Changes in unrealized gains on available for sale investments (net of income tax of \$44)							152	152
Transactions with members								
Shares issued to members for cash	13,099							13,099
Shares issued by dividend	3,901	4,588	(3,901)	(4,588)				-
Shares redeemed for cash	(4,160)	(4,919)						(9,079)
BALANCE JULY 31, 2015	89,319	91,405	-	-	27,576	88,474	1,267	298,041
Balance October 31, 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

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

CONSOLIDATED STATEMENT OF CASH FLOW

(unaudited)

(\$ Thousands)	NINE MONTHS ENDED	
	July 31, 2016	July 31, 2015
Cash flows from operating activities		
Net Income	9,819	12,222
Adjustments for:		
Interest on loans to members	(92,310)	(94,186)
Interest on investments	(4,770)	(5,579)
Interest expense	32,284	33,398
Unrealized loss (gain) on interest rate swaps	810	(911)
Depreciation and amortization	3,231	3,147
Charge for loan impairment	1,711	2,080
Current/deferred income tax expense	2,735	2,965
Change in other assets	3,775	(14,319)
Change in accounts payable	(315)	(3,854)
Change in secured borrowings	24,809	-
Interest received	99,085	95,548
Interest paid	(35,169)	(29,266)
Income tax paid	(1,350)	(2,197)
Increase in members' deposits	56,992	337,878
(Increase) in loans to members, net of repayments	(106,889)	(187,387)
Proceeds from sale of foreclosed property	913	674
Net cash from (used in) operating activities	(4,639)	150,213
Cash flows from financing activities		
Common shares issued for cash	18,782	13,099
Common share redemptions	(6,485)	(4,160)
Investment shares issued for cash	30,000	-
Investment share redemptions	(4,845)	(4,919)
Net cash from financing activities	37,452	4,020
Cash flows used in investing activities		
Cash acquired on amalgamation with Chinook	-	13,476
Acquisition of investments	(965,633)	(1,085,257)
Proceeds from sale of investments	906,998	926,624
Acquisition of property and equipment, net	(644)	(1,836)
Acquisition of intangibles, net	(349)	(441)
Net cash (used in) investing activities	(59,628)	(147,434)
Increase (decrease) in cash and cash equivalents	(26,815)	6,799
Cash and cash equivalents, beginning of period	74,807	52,460
Cash and cash equivalents, end of period	47,992	59,259

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, 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 August 23, 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. SECURITIZATION

During the three-month period ended July 31, 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 derecognition 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 derecognition requirements also include an assessment of whether substantially all the risks and rewards of ownership have been transferred.

The Credit Union has determined that an amount of \$24,809 raised from 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.

5. SHARE CAPITAL

\$30.0 million of Investment Shares Series G were sold in the nine months ended July 31, 2016.

The Investment Shares were sold with a stated 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.