Management's Discussion & Analysis

for the year ending October 31, 2015

Connect First Credit Union

Chinook FINANCIAL

first calgary FINANCIAL

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CONNECT FIRST CREDIT UNION LTD.

ABOUT US

At Connect First Credit Union, our mission in the financial services industry is: "Making Money make a Difference". As a credit union, we believe banking is about more than money – it's about positively impacting the lives of those around us. We know that wealth and wellness are connected; when personal wealth grows, it helps our members live healthy and bright futures. We are here to impact lives for the better; and when someone struggles, we are here to reach out; to give a helping hand. We invest in our people; in their success, in their growth, in their potential. Because when our members and communities succeed, their credit union succeeds.

Connect First Credit Union is the ninth largest Canadian credit union, offering members an extensive range of financial services and products. With over $5 billion in assets under administration, we believe local banking is a cornerstone of every vibrant community. Through our two regional divisions, Chinook Financial and First Calgary Financial, we serve more than 100,000 members across 27 branches in 14 southern Alberta communities.

We employ more than 600 Albertans and are proud to be recognized as one of Canada's Most Admired Corporate Cultures, a Top Employer in Alberta and one of Canada's Best Managed Companies.

We think big, act local, take charge, and make banking easy. More than just words, we stay true to our cooperative principles and make genuine and lasting contributions to the financial success and viability of the communities we live, work and thrive in.

Learn more at ConnectFirstCU.com, ChinookFinancial.com and FirstCalgary.com.

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A division of ConnectFirst Credit Union

MAKING MONEY MAKE A DIFFERENCE

NOTE REGARDING FORWARD-LOOKING INFORMATION

This annual report contains forward-looking statements about the operations, objectives and expected financial performance of Connect First Credit Union Ltd. ("Connect First" or "the Credit Union"). These statements are subject to risks and uncertainties. Actual results may differ depending on a number of factors, including but not limited to legislative or regulatory changes, interest rates and general economic conditions in Alberta and Canada. These issues should be given careful consideration and readers should not place undue reliance on Connect First's forward-looking statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) provides additional commentary and information on the results of operations and financial condition of Connect First for the year ended October 31, 2015. The MD&A is an integral part of the annual report and should be read in conjunction with the consolidated financial statements.

Like the financial statements, the MD&A gives the Credit Union the opportunity to demonstrate its accountability to members for effective stewardship of resources and for meeting strategic objectives. The financial statements reflect what happened, while the MD&A explains why these changes occurred.

By providing a balanced discussion of operational results, financial condition and future prospects, the MD&A lets members look at Connect First through the eyes of management. The MD&A compares the 2015 audited financial statements of Connect First with the unaudited financial statements for the sum of the two independent operations of First Calgary Financial and Chinook Credit Union for 2011-2014. Management believes that these comparative figures provide the most meaningful year-over-year comparison of financial performance.

The following discussion and analysis is the responsibility of management and is as of December 8th, 2015.

2015 – A YEAR IN REVIEW

FINANCIAL RESULTS SUMMARY

Total Assets	Income Before Tax
$4.1 billion	**$18.9 million**
Loans To Members	**Employees**
$3.5 billion	**618**
Deposits From Members	**2015 Common Share Dividend**
$3.8 billion	**4.2%**

During its inaugural year, Connect First successfully amalgamated the operations of First Calgary Financial and Chinook Financial. Together, our newly created credit union has created cost efficiencies, developed new growth opportunities for the credit union, and continue to provide outstanding member service. By amalgamating our operations, we are committed to be the financial institution of choice for Calgary and Southern Alberta both now and in the decades to come.

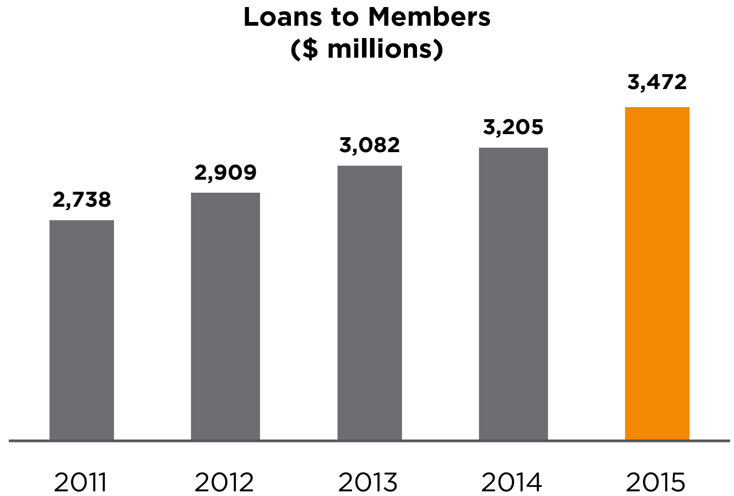
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Total assets of the Credit Union increased $351 million or 9.3% over the previous year.

Total loans to members increased $267 million or 8.3% is from a year ago.

Loans to members comprise four categories that reflect the demand for credit within Southern Alberta. These categories are:

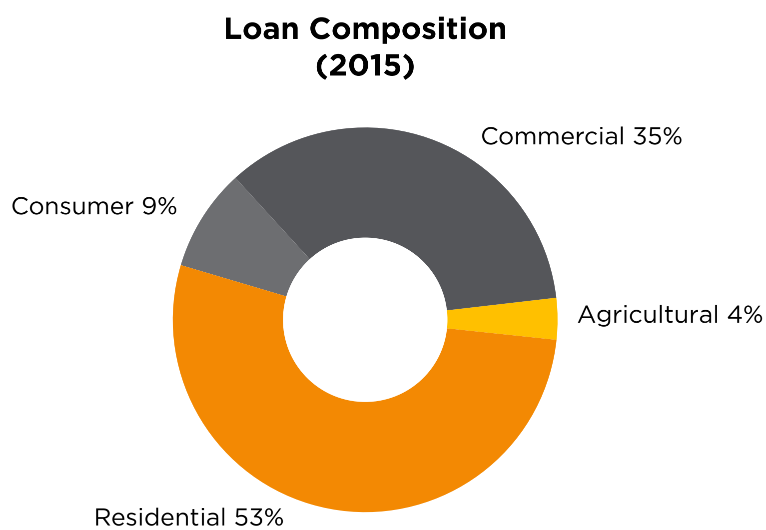
- Residential mortgages,
- Consumer loans,
- Commercial and small business lending, and
- Agricultural lending



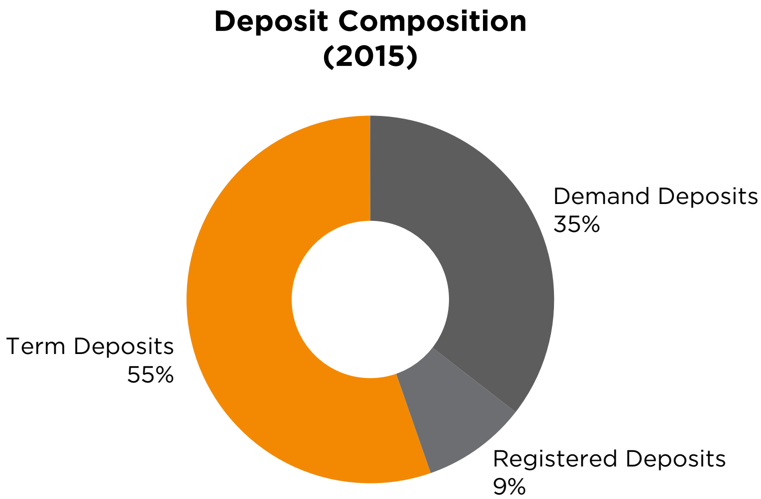
Residential mortgages have surpassed $1.83 billion during fiscal 2015 and represent 53% of the overall loan portfolio at year end. During fiscal 2015, residential mortgages grew by $74 million, representing an increase of 4.2% over the previous year. With mortgage rates trending at historical lows, many individuals are taking the opportunity to lock in their mortgages at these reduced rates. We continue to expect growth in this area during fiscal 2016 as we strengthen relationships with our members and develop new relationships with prospective members.

Connect First continued to have strong performance in consumer loans in 2015. During 2015, consumer loans have increased by $54 million or 22.2% from the year prior. Our consumer loan portfolio now comprises 9% of our total loan portfolio and is made up primarily of dealer finance loans and individual member loans such as lines of credits. Consumer loan quality continues to be high, with non-performing loans as a percentage of portfolio remaining low at 0.15%.

Commercial loan growth during fiscal 2015 was 11.7% or $127 million above one year ago. Commercial loans comprised 35% of the total loan portfolio in 2015, compared to 34% during 2014.

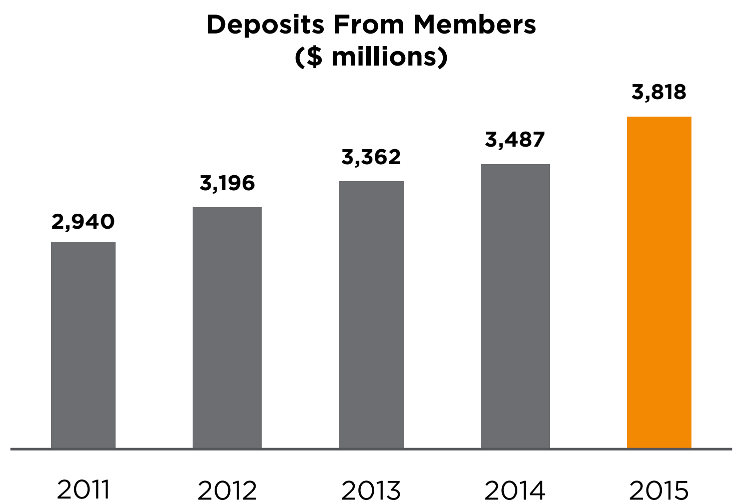


Significant growth was achieved in the highly competitive agricultural sector. Agricultural loans increased 10.9% from 2014 reaching $122 million. Agricultural loans now comprise 4% of our total loan portfolio.



We continue to have a stable deposit base, with more than half of member deposits, 55% of the deposit portfolio, or $2.10 billion, in term deposits. Demand deposits comprise 35% or $1.35 billion, of the total deposit portfolio along with 9% or $349 million represented by registered deposits.

Member deposits were up $331 million from one year ago, or 9.5%. The increase in member deposits was primarily in term and demand deposits which grew by $264 million and $75 million respectively. Registered deposits, including RESPs declined during the year by $9 million. Management expects that total deposits will continue to increase during fiscal 2016 despite the challenging economic environment. The Credit Union Deposit Guarantee Corporation (CUDGC) guarantees all deposits held with Connect First, including accrued interest.



Member equity increased by $21 million, or 7.3% in 2015. By increasing member equity through profits, capital is increased to support future growth in the Credit Union and members are rewarded through strong common share and investment share dividends. In 2015, Connect First declared a 4.2% common share dividend, resulting in $3.5 million returned to our members. Dividends on investment shares were 5% for each investment series, resulting in a total investment share dividend of $4.6 million.

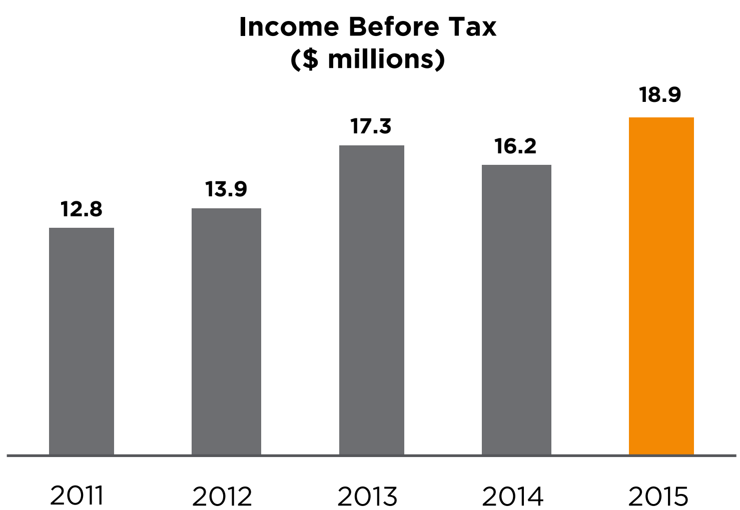
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Financial margin represents the difference between the income we earn on loans and the interest we pay on deposits. In recent years, as interest rates have continued to decrease, this difference, or “spread”, between loan interest revenue and deposit interest expense has tightened and has caused decreasing financial margins across financial institutions. Fiscal 2015 saw the continuation of this low interest rate environment and was further challenged from two reductions in the prime banking rate. For 2015, financial margin was $88 million, consistent with the value from 2014 of $88 million. However, financial margin as a percentage of average assets has dropped to 2.2% in fiscal 2015 from 2.4% in 2014 due to an increasing asset base and relatively static financial margin. It is the expectation of management that the current interest environment will continue through fiscal 2016.

Non-interest revenue, which includes banking fees, mutual-fund sales fees, foreign-exchange services and insurance-related services, was $19.2 million in 2015, up from $18.3 million in 2014. The increase in non-interest revenue from the previous year was primarily due to increases in insurance related services and continued growth in our wealth management portfolio. Increasing non-interest revenue in fiscal 2016 will be a key strategic initiative to help offset the decline in financial margin.

In the first year of operations, the Credit Union actively managed its expenses within budget. While greater efficiencies from the amalgamation will occur in later years, the reduction in expenses from the previous year was due to a decrease in personnel expenses and a reduction in the funds allocated toward advertising. Managed expenses for fiscal 2015 were $85.6 million, or 1.8% less than one year ago.

Income before income taxes rose to $18.9 million in fiscal 2015, representing an increase of 16.3% above fiscal 2014. Comprehensive income after income taxes was $14.3 million compared to $12.9 million in 2014.



PERFORMANCE TARGETS AND RESULTS

Connect First has established a number of key objectives for growth and performance targets for each year. Below are the 2015 results achieved compared to 2015 target, as well as our targets for the upcoming year.

LOAN GROWTH

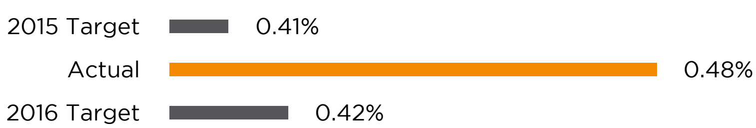
Net growth in total loans.

DEPOSIT GROWTH

Net growth in total deposits.

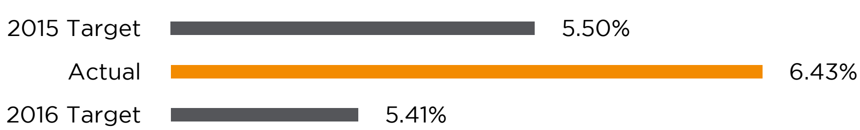
RETURN ON AVERAGE ASSETS

Income before income taxes divided by average assets represented as a percentage value.



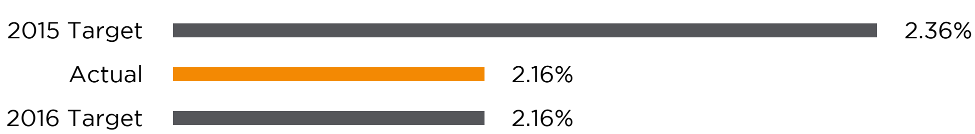
RETURN ON AVERAGE EQUITY

Income before income taxes divided by average equity represented as a percentage value.



OPERATING EXPENSE RATIO

Managed expenses divided by average assets, represented as a percentage value.



FIVE YEAR FINANCIAL HISTORY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		COMBINED PERFORMANCE			
($ Thousands)	**2015**	**2014**	**2013**	**2012**	**2011**
ASSETS					
Cash and cash equivalents	74,807	65,936	23,852	18,991	18,818
Investments	503,993	440,284	474,188	483,337	383,756
Loans to members	3,472,423	3,205,336	3,082,070	2,909,139	2,737,775
Foreclosed property	658	–	49	697	4,226
Other assets	46,466	33,588	27,531	16,478	19,412
Intangible assets	4,621	4,903	5,399	5,758	4,721
Property and equipment	30,981	33,058	35,406	34,951	32,124
	4,133,949	**3,783,105**	**3,648,495**	**3,469,351**	**3,200,832**
LIABILITIES					
Members' deposits	3,818,048	3,486,922	3,362,465	3,195,637	2,940,291
Accounts payable and accruals	10,230	11,440	13,589	15,401	13,995
Deferred tax liability	1,542	1,242	1,496	1,780	2,434
	3,829,820	**3,499,604**	**3,377,550**	**3,212,818**	**2,956,720**
MEMBERS' EQUITY					
Common shares	91,751	76,478	71,818	66,176	60,210
Investment shares	91,215	91,736	90,592	88,943	87,265
Ownership dividend allocation	3,528	3,901	3,128	4,062	3,311
Investment share dividends declared	4,562	4,588	4,964	4,644	4,548
Contributed surplus	27,576	–	–	–	–
Retained earnings	84,232	105,683	99,706	92,708	88,778
Accumulated other comprehensive income	1,265	1,115	737	–	–
	304,129	**283,501**	**270,945**	**256,533**	**244,112**
	4,133,949	**3,783,105**	**3,648,495**	**3,469,351**	**3,200,832**

* The figures listed above represent Connect First audited financial results for 2015, along with the unaudited financial statements for the sum of the two independent operations of First Calgary Financial and Chinook Credit Union for 2011-2014.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		COMBINED PERFORMANCE			
($ Thousands)	**2015**	**2014**	**2013**	**2012**	**2011**
FINANCIAL INCOME					
Interest on loans to members	126,188	123,992	123,979	127,748	132,266
Interest and dividends on investments	6,787	7,730	12,558	5,316	4,392
Unrealized gain (losses) on interest rate swaps	382	(638)	(2,091)	(5,047)	(569)
	133,357	131,084	134,446	128,017	136,089
FINANCIAL EXPENSE					
Interest on members' deposits	45,006	42,831	41,734	42,530	49,015
Interest on loans payable	5	11	23	12	25
	45,011	42,842	41,757	42,542	49,040
FINANCIAL MARGIN	**88,346**	**88,242**	**92,689**	**85,475**	**87,049**
Charge for loan impairment	3,117	3,171	4,774	3,820	8,454
	85,229	85,071	87,915	81,655	78,595
Other income	19,202	18,276	17,300	17,756	19,244
GROSS MARGIN	**104,431**	**103,347**	**105,215**	**99,411**	**97,839**
Personnel expenses	44,990	45,126	46,128	44,175	41,608
Operating lease expenses	5,759	6,267	6,083	5,707	5,478
Depreciation and amortization	4,253	4,919	4,973	5,287	5,821
Other expenses	30,551	30,796	30,703	30,387	32,169
	85,553	**87,108**	**87,887**	**85,556**	**85,076**
INCOME BEFORE INCOME TAXES	**18,878**	**16,239**	**17,328**	**13,855**	**12,763**
Patronage allocation	–	–	–	3,100	2,200
Income taxes					
Current	4,443	3,902	4,262	3,084	2,734
Future	300	(220)	(285)	(687)	(722)
	4,743	3,682	3,977	2,397	2,012
NET INCOME	**14,135**	**12,557**	**13,351**	**8,358**	**8,551**
Change in unrealized gains on available for sale investments (net of income tax)	150	378	737	–	–
COMPREHENSIVE INCOME	**14,285**	**12,935**	**14,088**	**8,358**	**8,551**

* The figures listed above represent Connect First audited financial results for 2015, along with the unaudited financial statements for the sum of the two independent operations of First Calgary Financial and Chinook Credit Union for 2011-2014.

CAPITAL MANAGEMENT

Connect First is committed to maintaining a strong and stable capital position that meets the requirements of its members and regulators, while supporting the Credit Union's vision of growth. The Credit Union has a diversified capital base consisting of retained earnings, common shares, and investment shares. During 2015, retained earnings grew by $6.1 million, or 5.8% as a result of a strong and profitable first year of integrated operations. Total regulatory capital held by the Credit Union increased 7.2% on the year, ending at $298.8 million.

The Credit Union Deposit Guarantee Corporation (CUDGC), which regulates Alberta credit unions, has established new regulatory capital targets. These minimum supervisory capital targets, expressed as capital as a percentage of risk weighted assets, will increase to 11.5% for 2016.

Through its balanced approach to capital growth, Connect First has maintained a capital to risk-weighted assets ratio of 12.5%, while experiencing positive asset growth in 2015. The Credit Union will continue to strengthen its capital position in 2016, maintaining a solid base for sustainable growth, and ensuring sufficient capital buffer against unexpected negative developments or economic downturn.

ECONOMIC OUTLOOK

After years of near record growth, the Alberta economy has transitioned into a period of reduced economic activity. Following the drop in commodity prices in 2014, Alberta's economic engine, the oil and gas sector, has responded by cutting capital investment, reducing expenses, and employment layoffs. Due in part to these challenges, the Bank of Canada has lowered the overnight rate twice during 2015 in an effort to shore up a flagging national economy. The impact of these rate cuts have been felt in a further compressed interest margin for financial institutions and additional competition in the financial services sector as competitors aggressively market products and waive fees in an attempt to make up lost margin with increased volume. The impact of the Bank of Canada fiscal stimulation and increased competition has resulted in a challenging operational environment.

As of October 31, 2015 Alberta's unemployment rate has increased 2.2% from the same time last year, to 6.6% overall. The increased unemployment rate is primarily a result of layoffs experienced in the energy sector. A continued lack of comparable employment alternatives in other industries may eventually cause individuals to look outside the province for related work.

Alberta's second largest industry, the agricultural sector, has helped support the provincial economy despite the less than ideal weather conditions this season. Crop yields have been below those in recent years, but has been better than initially expected. Cattle prices have continued to remain high due to a strong demand for beef.

Despite the economic headwinds, economic activity continues at a subdued pace in the province. The lower Canadian dollar has provided a helpful boost to other industries, helping to partially offset the full impact of the decline in commodity prices. The forestry industry in Alberta in particular, stands to benefit from the lower Canadian dollar, especially as the US housing market continues to grow. The depressed exchange rate also has the potential to benefit the province through increased tourism from the United States and to boost Canadian exports in the manufacturing sector.

Management expects that the current low interest rate environment will continue through fiscal 2016. As commodity prices remain subdued, the Credit Union will continue to actively monitor our risk exposure. We will continue to monitor our loan portfolio, track delinquency and work with our members through this difficult economic time.

LEGISLATIVE AND POLICY DEVELOPMENTS

The Canadian federal government has recently implemented increased minimum down payment requirements for consumers purchasing a home with less than a 20% down payment. Prior to the announcement, the minimum down payment required was 5% of the purchase price of a home up to $1,000,000. Following the release, the minimum down payment has been adjusted for homes purchased for more than $500,000. The new requirement will be a minimum 5% down payment on the first $500,000 and 10% on the remaining balance up to $1,000,000. The policy change is set for implementation in February 2016 and is expected to have the largest impact upon first time home buyers in urban markets.

The Foreign Account Tax Compliance Act (FATCA) is a United States tax law that requires all American citizens to report their financial accounts held with international financial institutions outside of the United States. This disclosure is to improve tax compliance of US citizens with foreign assets and offshore accounts. Additionally, FATCA will require all non-US financial institutions to report names, addresses, account balances, receipts and withdrawals to the Internal Revenue Service. Connect First is compliant with FATCA reporting requirements.

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, including loans to members. IFRS 9 also includes new general hedge accounting requirements. It carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39.

IFRS 9 is effective for the Credit Union's fiscal year beginning on November 1, 2018, with early adoption permitted. The Credit Union is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

The Credit Union constantly monitors the upcoming changes to legislation and policy developments. Management strives to minimize the impact to member service from the adoption of the aforementioned changes.

BUSINESS MODEL

Connect First serves more than 100,000 members through 27 branches in 14 communities across Southern Alberta, under the Chinook Financial and First Calgary Financial brands.

Our business model is different than other credit unions. We consolidate our back office activities to improve efficiency, while keeping our member-facing operations local. Each member-facing region retains the local autonomy necessary to meet the needs of its members and is supported by our broad and experienced corporate office. With expertise ranging from Treasury and asset and liability management to Risk & Compliance, Accounting and Administration, Human Resources, Brand and Stakeholder Relations, Information Technology support, we support our member facing employees so they can focus on what matters – serving our members and communities.

Consolidated back office support and expertise in:

- Treasury and ALM
- Technology
- Risk Management
- Brand and Stakeholder Relations
- Human Resources
- Accounting and Administration

Our operations are designed to allow local credit unions who join us in partnership to retain a local identity and greater autonomy, while accessing the full benefits of Canada's ninth largest credit union. In an amalgamation with Connect First, members continue to see their local brand and deal with the same friendly staff that they did prior to any partnership. Members experience no interruption in banking services and their account numbers and cheque information remain the same. With minimal disruption to members, this model provides the flexibility to serve members locally, while driving efficiency through shared corporate functions.

Having completed the integration of its legacy credit unions in 2015, Connect First enters 2016 with a new focus, its new strategy and long-term vision.

STRATEGY

At Connect First, we are embarking on a 10-year journey to become Alberta's neighbourhood credit union.

In our existing regions, our strategy is to provide members with a locally delivered experience in each of the neighbourhoods and communities we operate. Understanding that no member experience fits all, our approach is to leverage the flexibility of our business model to customize the member experience in each region to meet the needs of the members in that market.

To expand geographically, we will pursue partnership and amalgamation opportunities with like-minded credit unions across the province.

At each step in implementing this strategy, Management has developed clear targets and a rigorous oversight structure to ensure business activity aligns with our long-term vision and is delivering clear value for both our members and communities.

At Connect First, our mission is “Making Money make a Difference” for our employees and for our communities. Our vision and strategy create a clear path forward for our organization that honors this commitment and represents an investment in the future that will provide sustainable long-term growth for the Credit Union and its members.

RISK MANAGEMENT

Connect First has made a strong commitment to managing risk strategically with the objectives of protecting and increasing stakeholder value. We use a proactive program of enterprise risk management, to enable decision making through the consistent identification of risk inherent in our strategies, activities, assets and operations.

We manage our risk through a combination of strong corporate governance and enterprise risk management programs. Risk management processes are embedded within all major functions of our business as a means to identify, assess and proactively manage and monitor our risks. Through these processes, we establish reasonable assurance of achieving our objectives despite uncertainties in the environment which we operate.

The categories of key risk affecting Connect First are strategic, financial, operational and compliance. We have established a risk profile to assess our risk levels, trends are reviewed and actions implemented on a quarterly basis. This framework includes appropriate tolerances, risk reporting and board and management risk polices to effectively manage and monitor risk. Management reports quarterly to the board through the Risk Committee on our risk profile and compliance with risk policies.

Our approach to managing strategic, financial and operational risks is outlined in the following sections.

MATERIAL RISKS

STRATEGIC RISK

Strategic risk is the risk that Connect First is not able to implement appropriate business strategies or plans, or to effectively allocate resources. In addition, this risk may also arise from an inability to adapt to changes in the business environment. Effectively managing strategic risk results in good business decisions and effective execution which enables us to successfully implement our strategies. This results in better financial and community returns for our efforts and enables us to successfully seize upon opportunities. In order to ensure the successful implementation of our business strategy we perform a comprehensive internal and external analysis of our three year planning cycle. During this review we also validate new and emerging opportunities that conform to our business strategy.

FINANCIAL RISK

The inherent nature and scope of our operations exposes us to financial risks. When managed effectively with strong governance and sound financial practices, which are consistent with strategic objectives, this risk exposure can be reduced and reasonable opportunities may be realized. Financial risks are managed continuously through our Internal Capital Adequacy Assessment Process (ICAAP) where each of the following risks are measured, tracked, and mitigated to the extent necessary for the organization to avoid significant exposure.

LIQUIDITY RISK

Liquidity risk is the risk of having insufficient liquid financial resources to meet either the Credit Union's cash and funding requirements or statutory liquidity requirements, or both. The acceptable amount of risk is defined by policies approved by the board of directors and monitored by the Audit and Finance Committee and Risk Committee.

We manage liquidity by monitoring and managing cash flows and the concentration of assets and liabilities according to approved policies. Our Treasury department manages day-to-day liquidity within these policies and reports monthly to management's Asset and Liability Committee to ensure policy compliance. Management provides quarterly reporting on these matters to the Audit and Finance Committee.

Connect First continues to maintain liquidity levels well above the regulatory minimum. This has allowed us to continue to grow our balance sheet by funding loans and making investments while maintaining a core of liquid assets.

CREDIT RISK

Credit risk is the potential for loss due to the failure of a borrower or counter-party to meet its financial or contractual obligations. Connect First has a diverse loan portfolio consisting of commercial, agricultural, residential, and consumer loans. As these loan balances make up the vast majority of the Credit Union's asset base, credit risk is a substantial component in the risk profile of the Credit Union and is dealt with in the ICAAP.

We report on loan performance on a monthly basis and conduct regular reviews of the effectiveness of our credit risk policies and the quality of our loan portfolio. In the event of a credit deterioration, credit management procedures are applied to ensure that we maximize our recovery while assisting our members to find their optimal credit solutions.

MARKET RISK

Market risk arises from changes in interest or foreign-exchange rates that affect margin as well as equity. The balance sheet of Connect First is comprised mostly of interest rate sensitive assets and liabilities. The degree of interest rate sensitivity will depend on the rate of interest, the term of the asset and liability, as well as the characteristics that would be matched between the assets and the liabilities. Managed effectively, market risk provides us the opportunity to realize financial investment gain on our loan and deposit portfolios. Our objective is to earn an acceptable return on these portfolios, within the parameters of acceptable risk, while meeting member needs. Policies approved by the board and monitored by the Audit and Finance Committee and the Risk Committee.

We manage market risk by developing and implementing asset and liability management policies. These policies define acceptable market risk limits caused by changes in the volume, mix, maturity and quality, and interest and exchange rate sensitivity of assets and liabilities.

Our Treasury department manages day-to-day market risk within approved policies and reports monthly to management's Asset and Liability Committee to ensure policy compliance. Management provides quarterly reports on these matters to the Audit and Finance Committee and Risk Committee.

OPERATIONAL RISK

Operational risk can arise during the performance of business functions or processes. Exposure to this risk can result from deficiencies or breakdowns in internal control, and processes, technology failures, human error, dishonesty and natural disasters.

We manage operational risk through the maintenance of an effective internal control environment including, governance, education, communication, policies, and procedures. Our success depends on the abilities, experience and engagement of our employees.

Virtually all aspects of our business and operations use technology and information to create and support operations, competitive products and delivery channels and other business developments. The key risks are associated with the operational availability, integrity, confidentiality and security of our information, systems and infrastructure. These risk are actively managed through enterprise-wide technology risk assessment and information security management programs using industry best practices.

Management reports to the Audit and Finance Committee and to the Board on a quarterly basis. Internal audit staff attends all Audit and Finance Committee meetings to report on their activities and findings related to operational risk and management's representations and responses to the enterprise-wide risk management program and overall control environment.

INDEPENDENT AUDITORS' REPORT

To the Members of Connect First Credit Union Ltd.

We have audited the accompanying consolidated financial statements of Connect First Credit Union Ltd., which comprise the consolidated statement of financial position as at October 31, 2015, the consolidated statements of comprehensive income, members' equity and cash flow for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Connect First Credit Union Ltd. as at October 31, 2015 and its consolidated financial performance and its consolidated cash flow for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants
December 8, 2015
Calgary, Canada

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

($ Thousands)	Notes	YEARS ENDED October 31, 2015	October 31, 2014
ASSETS			
Cash and cash equivalents		74,807	52,460
Investments	**6**	503,993	348,686
Loans to members	**7**	3,472,423	2,475,268
Foreclosed property		658	–
Other assets	**8**	46,466	30,779
Intangible assets	**9**	4,621	4,068
Property and equipment	**9**	30,981	17,802
		4,133,949	**2,929,063**
LIABILITIES			
Members' deposits	**10**	3,818,048	2,714,898
Accounts payable and accruals		10,230	7,628
Deferred tax liability	**16**	1,542	1,242
		3,829,820	**2,723,768**
MEMBERS' EQUITY			
Common shares	**13**	91,751	29,947
Investment shares	**13**	91,215	91,736
Ownership dividend allocation	**12**	3,528	1,657
Investment share dividends declared	**13**	4,562	4,588
Contributed surplus	**1**	27,576	–
Retained earnings		84,232	76,252
Accumulated other comprehensive income		1,265	1,115
		304,129	**205,295**
		4,133,949	**2,929,063**

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

On behalf of the Board:

Ron Gibson
Board Chair

Kevin Van Koughnett
Chair, Audit Committee

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

($ Thousands)	Notes	YEARS ENDED October 31, 2015	October 31, 2014
FINANCIAL INCOME			
Interest on loans to members	**21**	126,188	95,473
Interest and dividends on investments	**23**	6,787	6,369
Unrealized gain (losses) on interest rate swaps	**21**	382	(638)
		133,357	101,204
FINANCIAL EXPENSE			
Interest on members' deposits		45,006	34,128
Interest on loans payable		5	1
		45,011	34,129
Financial Margin		**88,346**	**67,075**
Charge for loan impairment	**7**	3,117	3,300
		85,229	63,775
Other income	**14**	19,202	11,940
Gross Margin		**104,431**	**75,715**
Personnel expenses	**18**	44,990	32,962
Operating lease expenses		5,759	5,398
Depreciation and amortization		4,253	3,666
Other expenses	**15**	30,551	22,331
		85,553	64,357
Income before income taxes		18,878	11,358
Income taxes	**16**		
Current		4,443	2,811
Deferred (recovery)		300	(220)
		4,743	2,591
Net income		**14,135**	**8,767**
Change in unrealized gains on available for sale investments, net of income tax of $47 (2014 - $110)		150	378
Comprehensive income		**14,285**	**9,145**

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

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY

Years ended October 31, 2015 and 2014

($ Thousands)	Common shares	Series A-F investment shares	Ownership dividends declared	Investment share dividends declared	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total equity
BALANCE NOVEMBER 1, 2013	**27,469**	**90,592**	**2,072**	**4,964**		**72,325**	**737**	**198,159**
Net income						8,767		8,767
Change in unrealized gains on available for sale investments (net of income tax of $110)							378	378
Transactions with members								
Shares issued to members for cash	1,607							1,607
Shares issued by dividend	2,072	4,964	(2,072)	(4,964)				–
2014 dividends declared - investment				4,588		(4,588)		–
2014 dividends declared - ownership			1,657			(1,657)		–
Income tax recovery, dividends declared						1,405		1,405
Shares redeemed for cash	(1,201)	(3,820)						(5,021)
BALANCE OCTOBER 31, 2014	**29,947**	**91,736**	**1,657**	**4,588**		**76,252**	**1,115**	**205,295**
Acquisition of Chinook (note 1)	46,532		2,244		27,576			76,352
Net income						14,135		14,135
Change in unrealized gains on available for sale investments (net of income tax of $47)							150	150
Transactions with members								
Shares issued to members for cash	17,416							17,416
Shares issued by dividend	3,901	4,588	(3,901)	(4,588)				–
2015 dividends declared - investment				4,562		(4,562)		–
2015 dividends declared - ownership			3,528			(3,528)		–
Income tax recovery, dividends declared						1,935		1,935
Shares redeemed for cash	(6,045)	(5,109)						(11,154)
BALANCE OCTOBER 31, 2015	**91,751**	**91,215**	**3,528**	**4,562**	**27,576**	**84,232**	**1,265**	**304,129**

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

CONSOLIDATED STATEMENTS OF CASH FLOW

	YEARS ENDED	
($ Thousands)	October 31, 2015	October 31, 2014
Cash flows from operating activities		
Net Income	14,135	8,767
Adjustments for:		
Interest on loans to members	(126,188)	(95,473)
Interest/dividends on investments	(6,787)	(6,369)
Interest expense	45,011	34,129
Unrealized loss (gain) on interest rate swaps	(382)	638
Loss on disposal of property and equipment	–	55
Depreciation and amortization	4,253	3,666
Charge for loan impairment	3,387	3,639
Current/deferred income tax expense	4,743	2,591
Change in other assets	(12,506)	(6,801)
Change in accounts payable	(2,952)	(2,700)
Interest received	127,345	101,669
Dividends received	1,255	1,303
Interest paid	(40,554)	(34,568)
Income tax paid	(3,381)	(1,008)
Current tax recovery on dividends	1,935	1,405
Increase in members' deposits	327,302	111,138
(Increase) in loans to members, net of repayments	(268,407)	(113,771)
Proceeds from sale of foreclosed property	677	32
Net cash from operating activities	**68,886**	**8,342**
Cash flows from financing activities		
Common shares issued for cash	17,416	1,607
Common share redemptions	(6,045)	(1,201)
Investment share redemptions	(5,109)	(3,820)
Net cash from (used in) financing activities	**6,262**	**(3,414)**
Cash flows used in investing activities		
Cash acquired on amalgamation with Chinook (note 1)	13,476	–
Acquisition of investments	(1,510,080)	(1,047,000)
Proceeds from sale of investments	1,447,541	1,085,209
Acquisition of property and equipment, net	(2,904)	(665)
Acquisition of intangibles, net	(834)	(729)
Net cash from (used in) investing activities	**(52,801)**	**36,815**
Increase in cash and cash equivalents	22,347	41,743
Cash and cash equivalents, beginning of year	52,460	10,717
Cash and cash equivalents, end of year	**74,807**	**52,460**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended October 31, 2015 and 2014

($ thousands)

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 ("the Act") (see note 1). 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.

The Credit Union Deposit Guarantee Corporation ("CUDGC"), a Provincial Corporation, guarantees the repayment of all deposits, including accrued interest, held with Alberta credit unions. The Act provides that the Province of Alberta will ensure that this obligation of CUDGC is carried out.

The consolidated financial statements have been approved for issue by the board of directors on December 8, 2015.

1. BUSINESS COMBINATION

On November 1, 2014, pursuant to the terms of an Amalgamation Agreement, all members of First Calgary and Chinook exchanged their common shares and investment shares of the predecessor credit unions for common shares and investment 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 (contractual amount of $731,122)	730,068
Property and equipment	13,412
Intangible assets	835
Total assets aquired	852,188
Derivitave finanical liabilities	634
Accounts payable	3,812
Deposits	771,390
Total liabilities assumed	775,836
Net assets aquired	**76,352**

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.

The financial income included in the consolidated statement of comprehensive income since November 1, 2014 contributed by Chinook was $29,378. As a result of the amalgamation of the administration of the credit unions, it is not practical to determine the 2015 net income contributed by Chinook.

The comparative figures as at and for the year ended October 31, 2014 represent those of First Calgary Financial, prior to the amalgamation.

2. BASIS OF PRESENTATION

a) Statement of Compliance

The Credit Union's consolidated annual financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

b) Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain available for sale financial assets and all derivative financial instruments, which are measured at fair value.

c) Functional and Presentation Currency

The consolidated financial statements are presented in Canadian dollars, which is also the Credit Union's functional currency. Except as otherwise indicated, financial information has been rounded to the nearest thousand.

d) Use of Estimates and Judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the statement of financial position date and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of estimates include the measurement of the allowance for loan impairment and the estimate of fair value of financial instruments measured at fair value. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Financial Instruments

Cash and Cash Equivalents

Cash and cash equivalents includes highly liquid financial assets with original maturities of three months or less and are carried at amortized cost in the statement of financial position.

Investments

Investments which the Credit Union both intends and has the ability to hold to maturity are classified as held-to-maturity and are carried at amortized cost. Intent and ability to hold to maturity are not considered to be satisfied if an investment is available to be sold in response to changes in interest rates, prepayment rates, or other reasons as part of the overall asset/liability management strategy. All statutory liquidity investments are classified as held to maturity.

Investments that the Credit Union may not hold until maturity, including investments in equity securities, are classified as available for sale and carried at fair value, with unrealized gains and losses, after applicable taxes, reported in other comprehensive income. Investments in equity securities are carried at cost if they do not trade on an active market and the price cannot be reliably measured. Shares held in Credit Union Central of Alberta ("Central") are not traded on an active market and are reported at cost.

Loans to Members

Loans to members are financial instruments categorized as loans and receivables that are initially measured at fair value net of fees earned plus direct costs incurred in connection with lending activities. Loans to members are subsequently reported at amortized cost, using the effective interest rate method.

The Credit Union derecognizes loans when it transfers the loans and substantially all the risks and rewards of ownership of those assets. The difference between the carrying amount of the asset and the consideration received is recognized in net income for the period. The Credit Union generally retains an obligation to service the transferred loans for a fee. To the extent that the fee is intended only to compensate the Credit Union for the cost of servicing the loan portfolio transferred, no servicing asset or liability is recognized.

Identification and Measurement of Impairment

The Credit Union regularly assesses whether there is objective evidence that a financial asset is impaired. Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by the borrower, restructuring of a loan or advance by the Credit Union on terms that the Credit Union would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group, or when principal or interest is contractually past due 90 days.

Connect First considers the evidence of impairment at both a specific and collective level. All individually significant loans are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

In assessing collective impairment the Credit Union groups loans with similar risk characteristics, and uses statistical modelling of historical loss experience, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses incurred are likely to be greater or less than suggested by historical modelling. Estimates are regularly benchmarked against actual outcomes to ensure they remain appropriate.

Impairment losses are measured as the difference between the carrying amount of the loan and the present value of estimated future cash flows discounted at the original effective interest rate. When management cannot determine this amount, it bases its estimate on the present value of the loan's security, net of expected selling costs. Impairment losses are reported net of recoveries.

Interest continues to be recognized on impaired loans through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease is reversed through net income.

When a loan has been subjected to an individually assessed provision and it is determined that there is no likelihood of recovery, the loan is written off against the related allowance.

Impairment losses on available-for-sale investments are recognized by transferring the cumulative loss that has been recognized in other comprehensive income to net income.

Throughout the year, unauthorized overdrafts in members' accounts, outstanding for at least 90 days and considered to be uncollectible, are written off.

Renegotiated Loans

Where possible, the Credit Union seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Members' Deposits and Loans Payable

Members' deposits and loans payable are initially classified as other financial liabilities and measured at fair value including all transaction costs directly attributable to the issuance of the instrument. Members' deposits and loans payable are subsequently measured at amortized cost, using the effective interest rate method.

Derivative Contracts

The Credit Union periodically enters into derivative financial instruments to manage its exposure to interest rate risks. Derivatives are initially recognized at fair value at the date the contracts are entered into and are subsequently re-measured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in net income for the period. Negative fair values are included in accounts payable and positive fair values are included in other assets in the statement of financial position.

Translation of Foreign Currencies

Financial assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing at the date of the financial statements. Revenues and expenses in foreign currencies are translated at the average exchange rates prevailing during the period. Realized and unrealized gains and losses on foreign currency positions are included in other income.

(b) Foreclosed Properties

Foreclosed properties are classified as held for sale assets and are measured at the lower of the carrying amount and fair value less costs to sell.

(c) Intangible Assets

Intangible assets consist of application and internally developed software. Expenditure on internally developed software is recognized as an asset when the Credit Union is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can reliably measure the costs to complete the development. Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and any accumulated impairment losses. Software is amortized on a straight line basis at 30 percent per year based on the estimated useful life of these assets.

(d) Property and Equipment

Property and equipment are initially recorded at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, with the exception of land which is not depreciated.

Depreciation methods, useful lives and residual values are reviewed at each annual reporting date and adjusted as appropriate. Depreciation is provided on a straight-line basis at the following annual rates based on the estimated useful life of the assets:

• Parking lot	**4 percent**
• Buildings	**2 to 10 percent**
• Furniture and equipment	**2.5 to 14 percent**
• Computer equipment	**20 percent**
• Leasehold improvements	**Remaining term of lease**

(e) Impairment of Non-Financial Assets

Non-financial assets are reviewed at each reporting date for indicators of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in net income.

(f) Provisions

A provision is recognized if, as a result of a past event, the Credit Union has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Short term employee benefit obligations are measured on an undiscounted basis and expensed as the related service is provided.

(g) Income Taxes

Income tax expense comprises current and deferred income taxes. Current tax is the expected tax payable on the taxable income for the period. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Current tax and deferred tax are recognized in net income except to the extent that it relates to items recognized directly in equity or other comprehensive income.

(h) Share Capital

Common and investment shares are redeemable at the discretion of the board of directors and accordingly are presented as a component of issued capital within equity. Incremental costs directly attributable to the issue of shares are recognized as a deduction from equity, net of tax. Investment share stock dividends are recorded against retained earnings and increase share capital with no net change in equity. Ownership dividend is charged to equity.

(i) Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Credit Union and the revenue can be reliably measured.

Interest income and Expense

Interest income and expense are calculated on financial assets and liabilities held at amortized cost and are recognized in net income for the period using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount. The calculation of the effective interest rate includes all transaction costs and fees paid or received that are directly attributable to the acquisition or issue of a financial asset or liability. Interest is recorded on an accrual basis.

Interest income is recognized on loans to members and investments. Interest income on impaired loans continues to be recognized at the rate of interest used to discount future cash flows to present values for the purpose of measuring the impairment loss. Mortgage prepayment fees are included in interest income when charged.

Interest and dividends on investments includes both interest on financial assets held at amortized cost using the effective interest rate and dividends. Dividends are recognized when the Credit Union's right to receive the payment is established.

Gains (Losses) on Interest Rate Swaps

Derivatives held for risk management purposes are measured at fair value through net income. Realized gains and losses are included in interest on loans to members in the statement of comprehensive income.

Other Income

All other fees earned by the Credit Union are recognized in other income as the related services to members are performed.

Accumulated Other Comprehensive Income

Other comprehensive income recognizes the increase in value of the Credit Union's available for sale investments. The calculation and value is performed and recognized on an annual basis, and is based on a valuation derived from the Qtrade Financial Group.

(j) Defined Contribution Pension Plan

A defined contribution plan is a post-employment benefit plan under which employees contribute a percentage of their salary that is matched by the Credit Union. Payment is made to the entity administering the plan on behalf of the employee and is paid by them to the employee upon their retirement from the Credit Union. Obligations for contributions to defined contribution pension plans are recognized as a personnel expense when they are due in respect of services rendered in the period.

(k) Lease Payments

Payments made under operating leases are recognized in net income for the year on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(l) Consolidated Financial Statements

Subsidiaries are entities controlled by the Credit Union. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-company balances, and income and expenses arising from intra-company transactions, are eliminated in preparing the consolidated financial statements. These consolidated financial statements include the accounts of the Credit Union and its wholly-owned subsidiary, 1549081 Alberta Ltd.

4. FUTURE ACCOUNTING CHANGES

A number of new standards and amendments to standards and interpretations are not yet effective for the year ended October 31, 2015 and have not been applied in preparing these consolidated financial statements.

IFRS 9 *FINANCIAL INSTRUMENTS*

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, including loans to members. IFRS 9 also includes new general hedge accounting requirements. It carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39.

IFRS 9 is effective for the Credit Union's fiscal year beginning on November 1, 2018, with early adoption permitted. The Credit Union is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

5. CAPITAL MANAGEMENT

The Credit Union provides financial services to its members and is subject to regulatory capital requirements set out in the Act.

The Credit Union is required under the Act to hold capital equal to or exceeding the greater of: 4.0% of the consolidated statement of financial position assets or 8.0% of risk-weighted assets. The Credit Union's objectives when managing capital are to maintain the minimum regulatory requirement plus a cushion of 2.5% of risk-weighted assets or 1.0% of the consolidated statement of financial position assets, whichever is greater, allowing for the impact of operational risk and strategic initiatives. Should the cushion fall below the pre-defined amounts, management together with the board of directors will determine what corrective action needs to be taken, if any.

The Credit Union's goal is to hold capital in a range of diverse forms, with a specific focus on growing retained earnings. Retained earnings are the most stable and least expensive form of capital for the Credit Union to hold.

When determining sufficiency of capital, the Credit Union includes in its calculation amounts permitted under the Act including:

- Retained earnings and contributed surplus;
- Common shares;
- Investment shares;
- Other forms of capital as determined from time to time by the board of directors and permitted under the Act.

The total value of the figures above is then reduced (increased) by:

- Future income tax asset (liability);
- Goodwill and other intangible assets.

The Credit Union management ensures compliance with capital adequacy through an Internal Capital Adequacy Assessment Process (ICAAP) that includes the following activities:

- Identifying the capital needed to support the current and planned operations of the Credit Union, including operations conducted or to be conducted through subsidiaries;
- Developing and submitting to the board of directors for its approval, appropriate and prudent capital management policies, including policies on the quantity and quality of capital needed to support the current and planned operations that reflect both the risks to which the Credit Union is exposed and its regulatory capital requirements;
- Regularly measuring and monitoring capital requirements and capital position, and ensuring Connect First meets its capital requirements;
- Establishing appropriate and effective procedures and controls for managing capital, monitoring adherence to those procedures and controls, and reviewing them on a regular basis to ensure that they remain effective;
- Providing the board of directors with appropriate reports on the Credit Union's capital position and on the procedures and controls for managing capital.
- Stress testing the capital levels on at least an annual basis. The tests include a variety of scenarios that vary growth and income assumptions. They include a test for the current year as well as for the following year. A sufficient number of scenarios are tested to ensure that sensitivity levels can reasonably be assessed and planned for.

The Credit Union has exceeded its minimum regulatory capital requirements. As at October 31, 2015, the Credit Union's regulatory capital is $298,787 (2014 - $218,058) compared to the minimum capital requirement of $190,914 (2014 - $177,264).

6. INVESTMENTS

	2015	2014
Investments available for sale - term deposits	37,317	16,853
Investments available for sale - other	2,305	2,108
Central term deposits		
Non-statutory term deposits	119,352	82,559
Statutory term deposits	306,040	218,623
Central shares	38,979	28,543
	503,993	**348,686**

Central statutory term deposits are held to maturity investments. Non-statutory deposits and shares held in Central are available for sale investments.

The Credit Union is required by the Act to hold shares in Central, which are also a condition of membership in Central; however, these shares do not confer direct voting privileges. Credit Unions have the right to vote on certain issues at Central's annual general meeting ("AGM"). Most votes at the AGM are egalitarian but Credit Unions do have the right in certain circumstances to call for a weighted vote based on assets and membership. In a weighted vote the Credit Union would have approximately 16% of the votes (proportionate to its share holdings in Central).

As required by the Act, the Credit Union maintains statutory term deposits in Central to satisfy the legislated liquidity level, as described in Note 22 (c).

7. LOANS TO MEMBERS

Loans to members are comprised as follows:

	2015	2014
Performing loans	3,457,577	2,459,328
Impaired loans	13,126	15,144
Accrued interest	8,757	5,356
Allowance for impairment	(7,037)	(4,560)
Total	**3,472,423**	**2,475,268**

Included in accrued interest receivable is $1,819 of interest on impaired loans (2014 - $1,153).

Performing loans to members and their maturities consist of the following:

2015	On Demand	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 Years & Over	Total
Residential Mortgages							
Insured	–	71,074	84,745	67,655	43,279	85,913	352,666
Conventional	315,318	308,898	288,739	258,488	121,027	185,647	1,478,117
Consumer Loans	92,730	63,260	41,767	33,049	26,306	41,667	298,779
Commercial Mortgages	144,704	197,286	159,316	162,572	85,681	206,805	956,364
Commercial Loans	176,774	11,735	7,416	8,975	5,068	40,147	250,115
Agricultural Loans	10,649	253	312	371	240	22,928	34,753
Agricultural Mortgages	45,413	14,529	6,570	7,518	5,140	7,613	86,783
Total	**785,588**	**667,035**	**588,865**	**538,628**	**286,741**	**590,720**	**3,457,577**

2014	On Demand	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 Years & Over	Total
Residential Mortgages							
Insured	9	69,401	72,185	80,402	54,942	36,915	313,854
Conventional	262,061	248,843	261,266	157,876	94,434	67,127	1,091,607
Consumer Loans	38,530	50,412	27,296	21,747	15,154	21,713	174,852
Commercial Mortgages	76,418	153,057	133,799	110,972	113,605	79,244	667,095
Commercial Loans	182,313	4,331	7,071	4,392	3,353	10,460	211,920
Total	**559,331**	**526,044**	**501,617**	**375,389**	**281,488**	**215,459**	**2,459,328**

Allowance for impairment consists of the following:

2015	Gross Portfolio	Specific Allowance	Collective Allowance	Net Loans	Non Performing Loans
Residential Mortgages	1,836,867	56	202	1,836,609	6,084
Consumer Loans	299,235	726	736	297,773	456
Commercial Mortgages	960,496	3,121	1,217	956,158	4,132
Commercial Loans	252,569	717	262	251,590	2,454
Agricultural Loans	34,753	–	–	34,753	–
Agricultural Mortgages	86,783	–	–	86,783	–
Total	**3,470,703**	**4,620**	**2,417**	**3,463,666**	**13,126**

2014	Gross Portfolio	Specific Allowance	Collective Allowance	Net Loans	Non Performing Loans
Residential Mortgages	1,410,971	33	134	1,410,803	3,002
Consumer Loans	175,444	454	342	174,649	592
Commercial Mortgages	739,833	2,220	770	736,843	3,862
Commercial Loans	148,223	452	154	147,617	7,688
Total	**2,474,472**	**3,160**	**1,400**	**2,469,912**	**15,144**

Changes in allowance for impairments for the year ended October 31 are as follows:

	October 31, 2015	October 31, 2014
Balance, beginning of year	4,560	16,671
Loans written off	(910)	(15,750)
Provision for loan impairment	3,387	3,639
Balance, end of year	**7,037**	**4,560**

Recoveries reduced loan impairment expense charged to the statement of comprehensive income by $270 for 2015 (2014 - $339).

8. OTHER ASSETS

	2015	2014
Accounts receivable	18,575	11,966
Lease residual	16,362	10,943
Prepaid expenses	8,619	5,794
Fair value of swaps (note 21)	2,361	1,979
Other	549	97
	46,466	**30,779**

9. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

	Land & buildings	Furniture & equipment	Computer equipment	Leasehold improvements	Total	Intangible assets
Cost						
Balance at November 1, 2014	10,475	8,484	1,966	10,620	31,545	11,302
Assets acquired as a result of amalgamation (note 1)	12,257	813	342	–	13,412	835
Acquisitions	141	2,113	366	283	2,903	834
Disposals	–	(677)	(104)	(2,991)	(3,772)	(1,066)
Balance at October 31, 2015	**22,873**	**10,733**	**2,570**	**7,912**	**44,088**	**11,905**

	Buildings	Furniture & equipment	Computer equipment	Leasehold improvements	Total	Intangible assets
Depreciation and Amortization						
Balance at November 1, 2014	**(1,204)**	**(4,129)**	**(959)**	**(7,452)**	**(13,744)**	**(7,234)**
Depreciation and amortization for the year	(781)	(879)	(509)	(968)	(3,137)	(1,116)
Disposals	–	678	104	2,992	3,774	1,066
Balance at October 31, 2015	**(1,985)**	**(4,330)**	**(1,364)**	**(5,428)**	**(13,107)**	**(7,284)**
Net book value						
October 31, 2014	**9,271**	**4,355**	**1,007**	**3,168**	**17,802**	**4,068**
October 31, 2015	**20,888**	**6,403**	**1,206**	**2,484**	**30,981**	**4,621**

10. MEMBERS' DEPOSITS

	2015	2014
Demand Deposits	1,348,427	835,344
Registered Retirement Plans	348,632	309,888
Term Deposits	2,100,539	1,555,007
RESP	1,334	–
	3,798,932	2,700,239
Accrued Interest	19,116	14,659
Total	**3,818,048**	**2,714,898**

Maturities are as follows:

2015	On Demand	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 Years & Over	Total
Demand Deposits	1,348,427	–	–	–	–	–	1,348,427
Registered Retirement Plans	95,589	99,397	71,926	40,213	21,139	20,368	348,632
Term Deposits	490,172	1,180,285	246,752	95,434	42,352	45,544	2,100,539
RESP's	1,334	–	–	–	–	–	1,334
Total	**1,935,523**	**1,279,682**	**318,678**	**135,647**	**63,491**	**65,912**	**3,798,932**

2014	On Demand	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 Years & Over	Total
Demand Deposits	835,344	–	–	–	–	–	835,344
Registered Retirement Plans	74,622	110,934	58,181	39,652	11,024	15,475	309,888
Term Deposits	401,799	865,163	177,484	67,743	22,115	20,703	1,555,007
Total	**1,311,765**	**976,097**	**235,665**	**107,395**	**33,139**	**36,178**	**2,700,239**

11. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Lease Commitments

Non-cancellable operating lease rentals are payable as follows:

	2015	2014
Less than one year	5,180	5,153
Between one and five years	8,882	13,654
More than five years	–	47

The Credit Union leases a number of premises under operating leases. The leases typically range from one to ten years, with a five year option to renew beyond the current term.

(b) Credit Commitments

In the normal course of business, the Credit Union enters into various commitments to meet the credit requirements of its members. These include credit commitments and letters of credit, which are not included in the consolidated statement of financial position.

Standby letters of credit represent an irrevocable obligation to make payments to a third party in the event that the member is unable to meet its contractual financial or performance obligations. In the event of a call on such commitments, the Credit Union has recourse against the member.

Documentary and commercial letters of credit require the Credit Union to honour drafts presented by third parties upon completion of specific activities.

Commitments to extend credit represent undertakings to make credit available in the form of loans or other financing for specific amounts and maturities, subject to certain conditions, and include recently authorized credit not yet drawn down and credit facilities available on a revolving basis.

These credit arrangements are subject to the Credit Union's normal credit standards and collateral may be obtained where appropriate. The contract amounts set out below represent the maximum future cash requirements should the contracts be fully drawn. However, many of these arrangements will expire or terminate without being drawn.

	2015
Letters of credit	6,423
Commitments to extend credit with a term to maturity of one year or less	551,645

(c) Contingencies

Various actions and legal proceedings arising from the normal course of business are pending against the Credit Union. Management does not anticipate that the ultimate loss, if any, of these actions and proceedings will be material.

12. OWNERSHIP DIVIDENDS

The Board of Directors has declared an ownership dividend to be paid in fiscal 2016 in respect of fiscal 2015 to members by way of an issuance of common shares in the amount of $3,528. The ownership dividend allocated to members is based on member common share holdings.

For fiscal year 2014, an ownership dividend of $1,657 was paid based on member common share holdings.

13. SHARE CAPITAL

($ thousands, except per share amounts)

(a) Common Shares

Common shares have the following characteristics:

i) an unlimited number have been authorized to be issued;

ii) a par value of $1 per share, but fractional shares may be issued;

iii) transferable only in restricted circumstances;

iv) non-assessable;

v) redemption is at par value and is at the discretion of the board of directors of the Credit Union, subject to the restrictions contained in the Act;

vi) members must hold a minimum of 1 share to retain membership in the Credit Union; and

vii) carry the right to vote.

(b) Series A, B, C, D, E & F Investment Shares

In October 2015, the board of directors approved a 5% dividend to holders of record of Series A, B, C, D, E and F Investment Shares for the year ended October 31, 2015 in the aggregate amount of $4,562 (2014 – $4,588). The payment will be made in December 2015 through the issuance of additional Series A, B, C, D, E and F Investment Shares, respectively.

Series A, B, C, D, E and F 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.

Common shares and Series A, B, C, D, E and F Investment Shares represent "at risk" capital and are not guaranteed by CUDGC.

14. OTHER INCOME

	2015	2014
Service charges and other fees	5,914	3,636
Loan prepayment and other fees	4,014	3,307
Insurance	1,688	1,148
Credit card fees	443	422
Wealth management	4,120	1,924
Other	3,023	1,503
Total	**19,202**	**11,940**

15. OTHER EXPENSES

	2015	2014
Advertising	1,346	2,336
Technology	7,119	5,281
Member security and deposit insurance premium	6,351	4,107
Professional fees	1,043	666
Stationary, telephone, postage, courier	1,543	1,119
Financial planning	1,476	390
ATM/POS operations	1,455	1,111
Board expenses	506	387
Loan issuance costs	1,487	1,196
Charitable donations/community investment	540	575
Occupancy	2,475	1,786
Amalgamation expenses (note 1)	98	199
Other	5,112	3,178
Total	**30,551**	**22,331**

16. PROVISION FOR INCOME TAXES

The components of tax expense for the years ended October 31, 2015 and 2014 are as follows:

	2015	2014
Current tax expense		
Current period	4,443	2,811
Deferred tax expense		
Origination and reversal of temporary differences	300	(220)
Total income tax expense	**4,743**	**2,591**

Reconciliation of effective tax rate

	2015	2014
Income before tax	18,878	11,358
Income tax using the Company's combined federal and provincial statutory Canadian tax rate of 23.94% (2014 - 22.47%)	4,519	2,552
Effect of tax rate changes and other	181	10
Non-deductible expenses	43	29
Total income tax expense, including current and deferred expense	**4,743**	**2,591**

Recognized deferred tax assets and liabilities

	Property and Equipment	Provisions	Other Assets	Total
As at November 1, 2014	(1,284)	503	(461)	(1,242)
Credit/(charged) to the statement of income	(754)	609	(155)	(300)
As at October 31, 2015	**(2,038)**	**1,112**	**(616)**	**(1,542)**

17. RELATED PARTY TRANSACTIONS

Related parties of Connect First include subsidiaries, key management personnel and close family members of key management personnel, including directors, as well as entities that have a control or significant influence relationship with key management personnel.

Outstanding loans to:	2015	2014
Key management personnel and entities controlled by key management personnel	28,000	26,269

Outstanding deposits from:	2015	2014
Key management personnel and entities controlled by key management personnel	6,421	3,641

Compensation of key management personnel ($)

Connect First executive management earned the following remuneration and benefits ($):

2015	Base Compensation	Performance Incentive	Total Benefits	2015 Total
Chief Executive Officer	372,600	161,971	137,285	671,856
Senior Vice President, Finance and Administration	195,300	49,930	53,270	298,500
Senior Vice President, Shared Services	219,187	68,180	62,385	349,752
Chief Risk Officer	167,808	–	36,474	204,282
Senior Vice President, Information Technology	169,755	14,796	32,350	216,901
President, First Calgary Financial	181,871	14,796	34,179	230,846
President, Chinook Financial	201,600	3,360	39,448	244,408

2014	Base Compensation	Performance Incentive	Total Benefits	2014 Total
President and Chief Executive Officer	335,778	44,615	128,214	508,607
Senior Vice President, Strategy & Operations	185,021	19,652	50,420	255,093
Senior Vice President, Human Resources & Governance	191,293	29,591	60,452	281,336
Vice President, Finance	165,767	19,402	27,603	212,772
Vice President, Business Banking	183,677	18,340	59,138	261,155
Vice President, Retail Banking	34,446	–	4,374	38,820

The Board administers a performance-based incentive compensation program for all eligible employees. Amounts are accrued as an expense in the fiscal year earned, and paid to the individuals in the following year. The performance incentive amounts in the table above were earned in fiscal 2014 and paid in 2015. An accrual of $2,500,000 has been recorded in these financial statements in respect of performance incentive for fiscal 2015 for all employees, including key management personnel.

Paid to directors ($):

	2015	2014
Directors' fees and committee remuneration	389,022	364,313
Directors' expenses	13,250	2,450

Members of the Board do not receive or pay preferred rates on products and services offered by the Credit Union and are only compensated with short term director fees.

Directors' fees and committee remuneration increased in 2015 due to costs associated with the amalgamation of First Calgary and Chinook Financial. The 2014 amounts reflect compensation paid to directors of First Calgary only.

18. PERSONNEL EXPENSES

	2015	2014
Salaries and wages	32,312	24,796
Short term benefits	10,636	7,611
Termination benefits	2,042	555
	44,990	**32,962**

19. ASSET AND LIABILITY MANAGEMENT

Interest rate risk refers to the potential impact of changes in interest rates on the Credit Union's earnings when the maturities of its financial liabilities are not matched with the maturities of its financial assets. In the normal course of business, the Credit Union enters into interest rate swaps and option contracts to manage exposure to interest rate fluctuations and to manage the asset and liability mismatch. These financial instruments are subject to normal credit standards, financial controls, and risk management and monitoring procedures.

Payments exchanged under the swaps are calculated on a fixed rate, pay floating rate basis. The notional principal amounts, shown in the table below, are not exchanged by the Credit Union and its counterparties. They are used as the basis for determining payments under the contracts.

The fair value of these contracts is included in other assets on the statement of financial position if positive and accounts payable if negative, and represents the estimated consideration that would be received or paid, as applicable, to settle these derivative contracts. However, it is the intention of the Credit Union to maintain these contracts to maturity, when the contract expires with no value. Accordingly, over the life of each of these derivative contracts, cumulative unrealized gains and losses recognized will total nil.

Interest receivable or payable under the terms of the interest rate swaps is recorded as an adjustment to interest on loans to members on an accrual basis.

The table below summarizes key Statement of Financial Position categories by maturity dates and weighted average effective interest rates.

2015 *($ thousands)*	**Average Rate**	**Variable & Within 3 Months**	**3 months to 1 Year**	**1 to 2 Years**	**2 to 3 Years**	**3 to 4 Years**	**Over 4 years**	**Non-Interest Sensitive**	**Total**
October 31, 2015									
Assets									
Cash	0.22%	65,011	–	–	–	–	–	9,796	74,807
Investments	0.68%	375,048	104,257	20,000	–	–	–	4,688	503,993
Loans to Members	3.62%	968,408	499,061	588,865	538,628	286,741	590,720	–	3,472,423
Other	0.00%	–	–	–	–	–	–	82,726	82,726
	3.13%	**1,408,467**	**603,318**	**608,865**	**538,628**	**286,741**	**590,720**	**97,210**	**4,133,949**
Liabilities and Equity									
Deposits	1.19%	2,102,503	911,163	318,678	135,647	63,491	65,912	220,665	3,818,048
Other	0.00%	–	–	–	–	–	–	315,901	315,901
	1.10%	**2,102,503**	**911,163**	**318,678**	**135,647**	**63,491**	**65,912**	**536,556**	**4,133,949**
Balance Sheet Mismatch		(694,036)	(307,845)	290,187	402,981	223,250	524,808	(439,345)	–
Derivatives		–	(100,000)	50,000	–	25,000	25,000	–	–
Net mismatch		(694,036)	(407,845)	340,187	402,981	248,250	549,808	(439,345)	–

2014 *($ thousands)*	**Average Rate**	**Variable & Within 3 Months**	**3 months to 1 Year**	**1 to 2 Years**	**2 to 3 Years**	**3 to 4 Years**	**Over 4 years**	**Non-Interest Sensitive**	**Total**
October 31, 2014									
Assets									
Cash	0.21%	44,990	–	–	–	–	–	7,470	52,460
Investments	1.14%	295,482	29,691	–	20,000	–	–	3,513	348,686
Loans to Members	3.85%	726,793	374,521	501,616	376,065	281,488	214,785	–	2,475,268
Other	0.00%	–	–	–	–	–	–	52,649	52,649
	3.39%	**1,067,265**	**404,212**	**501,616**	**396,065**	**281,488**	**214,785**	**63,632**	**2,929,063**
Liabilities and Equity									
Deposits	1.23%	1,451,072	671,712	235,665	107,395	33,139	36,179	179,736	2,714,898
Other	0.00%	–	–	–	–	–	–	214,165	214,165
	1.14%	**1,451,072**	**671,712**	**235,665**	**107,395**	**33,139**	**36,179**	**393,901**	**2,929,063**
Balance Sheet Mismatch		(383,807)	(267,500)	265,951	288,670	248,349	178,606	(330,269)	–
Derivatives		(100,000)	–	50,000	–	25,000	25,000	–	–
Net mismatch		(483,807)	(267,500)	315,951	288,670	273,349	203,606	(330,269)	–

20. CREDIT FACILITIES

The Credit Union has certain credit facilities in place allowing it to borrow funds on a short-term basis from Central. These facilities are classified as financial liabilities measured at amortized cost. As at October 31, 2015, the following facilities were in place:

(a) A revolving line of credit authorized to a maximum amount of $166,000 including a US dollar component equivalent to CAD $15,400 that is repayable on demand and bears interest at prime less one-half of one percent per annum.

(a) A revolving term loan with an authorized limit of $125,300 that is repayable in equal monthly installments over the term of the loan at the Prime Rate in effect less 1%. The Credit Union may fix the interest rate for the term, or the remainder of the term if it is less than 30 days, at the rate of CDOR plus 0.75% for terms of 30 days to 1 year and at the SWAP rate plus 0.75% for 1 year to 2 years.

As at October 31, 2015, an amount of $0 (2014 - $ 0) is outstanding.

The total guaranteed commitment level for the above facilities at October 31, 2015 is set at 5% of the Credit Union's assets or $206,796. The balance of the facility is subject to availability. A security agreement covering substantially all of the Credit Union's assets is collateral for the credit facilities.

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out in the table below represent the fair values of the Credit Union's financial instruments using the valuations and assumptions described below. The amounts do not include the fair value of items that are not considered financial assets or financial liabilities, such as premises and equipment and equity instruments.

The estimated fair value approximates amounts at which instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act; however, many of the Credit Union's financial instruments lack an available trading market and are intended to be held to maturity. Therefore, fair values are based on estimates using present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates which reflect current market rates of interest and varying degrees of credit risk. Because of the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

The Credit Union's interest rate swaps and available for sale investments other than Central shares are reported in the consolidated statement of financial position at fair value. Fair value is a point-in-time estimate that may change in subsequent reporting periods, primarily in response to changes in market interest rates. A fair value hierarchy is used to categorize the inputs used in valuation techniques to measure fair value. The fair value of interest rate swaps and available for sale term deposits was measured with internal models using observable future interest rates as inputs (level 2 of the hierarchy). Available for sale – other investment is measured at fair value using inputs that are unobservable (level 3 of the fair value hierarchy), as there are no observable market prices for the investment. Valuation techniques include net present value and discounted cash flow models. During the year, an increase in fair value of $197 was recorded in other comprehensive income.

2015	Notes	Carrying Value	Fair Value	Favourable/ (Unfavourable)
Assets				
Investments	6	503,993	502,374	(1,619)
Loans to Members	7	3,472,423	3,499,960	27,537
Liabilities				
Members' Deposits	10	3,818,048	3,791,347	26,701

2014	Notes	Carrying Value	Fair Value	Favourable/ (Unfavourable)
Assets				
Investments	6	348,686	348,144	(542)
Loans to Members	7	2,475,268	2,483,760	8,492
Liabilities				
Members' Deposits	10	2,714,898	2,685,323	29,575

The fair values of cash and other financial assets and liabilities not included above are assumed to approximate carrying values, due to their short term nature. The estimated fair value of floating rate member loans and member deposits are assumed to equal book value as the interest rates automatically re-price to market. The estimated fair value of fixed rate member loans and fixed rate member deposits are determined by discounting the expected future cash flows of these loans and deposits at current market rates for products with similar terms and credit risks.

Derivative Financial Instruments

The following table provides the notional value outstanding for derivative financial instruments and the related fair value.

2015	Notional Amount	Positive Fair Value
Interest Rate Swaps	100,000	2,361

2014	Notional Amount	Positive Fair Value
Interest Rate Swaps	100,000	1,979

The fair values of derivative financial instruments are calculated based on market conditions at the reporting date, and may not be reflective of future fair values. The fair values are recognized in other assets (note 8). During the year ended October 31, 2015, outstanding interest rate swaps resulted in realized gains of $1,526 (2014 - $1,709) and unrealized gains of $382 (2014 loss - $638). Realized gains are included in interest on loans to members in the statement of comprehensive income.

22. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS

The Credit Union is exposed to the following risks as a result of holding financial instruments: credit risk, market risk, and liquidity risk. The following is a description of those risks and how the Credit Union manages them.

a) Credit Risk

Credit risk is the risk that a financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to the Credit Union. Credit risk arises principally in lending activities that result in loans to members as described in Note 6. Credit risk is also present in interest rate swaps, cash and investments held for liquidity purposes. The Credit Union monitors counterparty published credit ratings to mitigate risks with respect to these assets.

Credit Quality

2015	Consumer loans and residential mortgages	Agricultural mortgages and loans	Commercial mortgages and loans	Total
Grades				
1 to 5 - satisfactory risk			1,208,869	1,208,869
6 unimpaired			5,075	5,075
7-9 impaired			6,587	6,587
Commercial mortgages and loans			1,220,531	1,220,531
Residential mortgages and loans	2,129,332			2,129,332
Agricultural mortgages and loans		123,058		123,058
Impaired loans	6,539			6,539
Allowance for impaired loans	(1,720)		(5,317)	(7,037)
Total	**2,134,152**	**123,058**	**1,215,213**	**3,472,423**

2014	Consumer loans and residential mortgages	Commercial mortgages and loans	Total
Grades			
1 to 5 - satisfactory risk		875,090	875,090
6 unimpaired		7,639	7,639
7-9 impaired		11,550	11,550
Commercial mortgages and loans		894,279	894,279
Residential mortgages and loans	1,581,955		1,581,955
Impaired loans	3,594		3,594
Allowance for impaired loans	(964)	(3,597)	(4,560)
Total	**1,584,586**	**890,682**	**2,475,268**

Aging of overdue but not impaired loans:

2015

Loan Type	30 to 59 days	60 to 89 days	Total
Commercial	–	9	9
Consumer	598	613	1,211
Residential	2,425	1,259	3,684
Agricultural	–	295	295
Total	**3,023**	**2,176**	**5,199**

2014

Loan Type	30 to 59 days	60 to 89 days	Total
Commercial	22	–	22
Consumer	208	220	428
Residential	2,798	319	3,117
Total	**3,028**	**539**	**3,567**

Credit grades are formally applied to commercial mortgages and loans and comply with provincial regulations. Residential mortgages and consumer loans are tested for impairment on an ongoing basis.

The Credit Union monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans to members at the reporting date is shown below:

Concentration by sector	**2015**	**2014**
Commercial:		
Real Estate, rental & leasing	646,295	506,072
Construction	133,792	84,637
Accommodation & food services	134,415	75,524
Health Care & social assistance	119,703	78,245
Retail trade	41,919	31,035
Finance & insurance	44,305	32,787
Other	92,636	79,756
	1,213,065	**888,056**
Retail:		
Mortgages	1,836,867	1,410,972
Dealer loans and leases	159,698	117,792
Unsecured lending	41,793	35,340
Secured lending	97,744	22,312
	2,136,102	**1,586,416**
Agriculture:		
Mortgages	86,783	–
Loans	34,753	–
	121,536	–
	3,470,703	**2,474,472**

Credit Risk Management

The Credit Union employs a risk measurement process for its loan portfolio. Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. Risk is measured by reviewing exposure to individual borrowers, and by reviewing qualitative and quantitative factors that impact the loan portfolios. Qualitative and quantitative analysis of a borrower's financial information are important factors used in determining the financial state of the counterparty.

Borrowers are subject to a credit review process. These reviews ensure that the borrower complies with internal policy and underwriting standards. The Credit Union reduces credit risk through various forms of collateral security, including mortgages. Credit risk is also managed through analysis of the ability of members and potential members to meet principal and interest repayment obligations and by changing lending limits where appropriate. Risk is generally assessed on residential mortgage loans based on their classification as either conventional mortgages or insured mortgages. Mortgages that do not meet specific underwriting standards are insured. A residential mortgage is classified as conventional if the amount borrowed does not exceed 80% of the assessed value of the property held as collateral. Consumer loans have a marginally higher credit risk, which is mitigated through a variety of methods including collateral requirements. The Investment and Credit Risk Board Committee monitors credit risk and approves policies for the Credit Union.

The collateral and other enhancements held by Connect First as security for loans include: i) insurance, ii) mortgages over residential lots and properties, iii) recourse to business assets such as real estate, equipment, inventory and accounts receivable, and iv) recourse to liquid assets and securities.

Specialized risk management policies and underwriting practices also protect the Credit Union in commercial lending.

b) Market Risk

Market risk arises from changes in interest rates that affect the Credit Union's financial margin. Exposure to this risk directly impacts the Credit Union's income from its loan and investment portfolios, and interest expense related to its deposit portfolios. The Credit Union's objective is to earn an acceptable return on these portfolios, without taking unreasonable risk, while meeting member-owner needs.

Risk management

The Credit Union's risk position is measured based upon the potential impact of a change in interest rates on interest payments: charged to and received from member-owners, received on investments, and paid on borrowings. The Asset Liability Committee (ALCO) is a committee comprised of senior management that meets at least quarterly and ad-hoc as required. Every meeting must include the Chief Executive Officer. Responsibilities include:

- Reviewing variances between actual, budgeted and projected financial margin
- Reviewing management of interest rate sensitivity and financial margin including investing, liquidity management, hedging and securitization activities
- Reviewing asset/liability management, ("ALM") and hedging strategies to manage interest rate risk in order to achieve policies
- Assessing the current interest rate risk position and the potential effect of the Credit Union's primary ALM strategy
- Reviewing and providing input and feedback on key risk modeling assumptions

Interest rate risk in the one-year time frame is managed to keep the negative impact for every 100 basis point change in prime rate to within 10 basis points of the projected most likely financial margin. At this level, no corrective action to reduce risk is required, but may be taken as a proactive step based upon management's judgment, allowing for potential deviations from assumptions and the resultant risk that may occur.

The following table provides the potential before-tax impact of a 100 basis point ("bps") increase or 50 bps decrease in interest rates on our financial margin. These measures are based on assumptions made by management and validated by experience. All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and our risk management initiatives.

Before tax impact on financial margin of:	2015
100 basis point increase in rates	4,366
50 basis point decrease in rates	(3,148)

c) Liquidity Risk

Liquidity risk is the risk of having insufficient financial resources to meet the Credit Union's cash and funding requirements, statutory liquidity requirements, or both.

The desired liquidity level above the statutory requirement is determined by taking into account the balance between the cost of liquidity and the yield achieved. The Credit Union will at all times maintain statutory liquidity levels as required by regulations. Immediate corrective action will be taken if the ratio approaches the regulatory minimum. The Act requires that statutory liquidity deposits be held with Central. Statutory liquidity includes eligible deposits and shares of Central. The statutory liquidity ratio is 9.0% of average deposits and borrowings for the second prior month. Based on average deposits and borrowings for August 2015 the Credit Union's liquidity as at October 31, 2015 exceeds minimum requirements by $216,537.

23. INVESTMENT INCOME

During the fiscal year, the Credit Union received patronage dividends of $1.25 million (2014 - $1.30 million) from Central. These distributions have been recorded in interest and dividends on investments in the statement of comprehensive income.