ConnectFirst Credit Union

2016

MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED OCTOBER 31, 2016

MAKING MONEY
MAKE A DIFFERENCE

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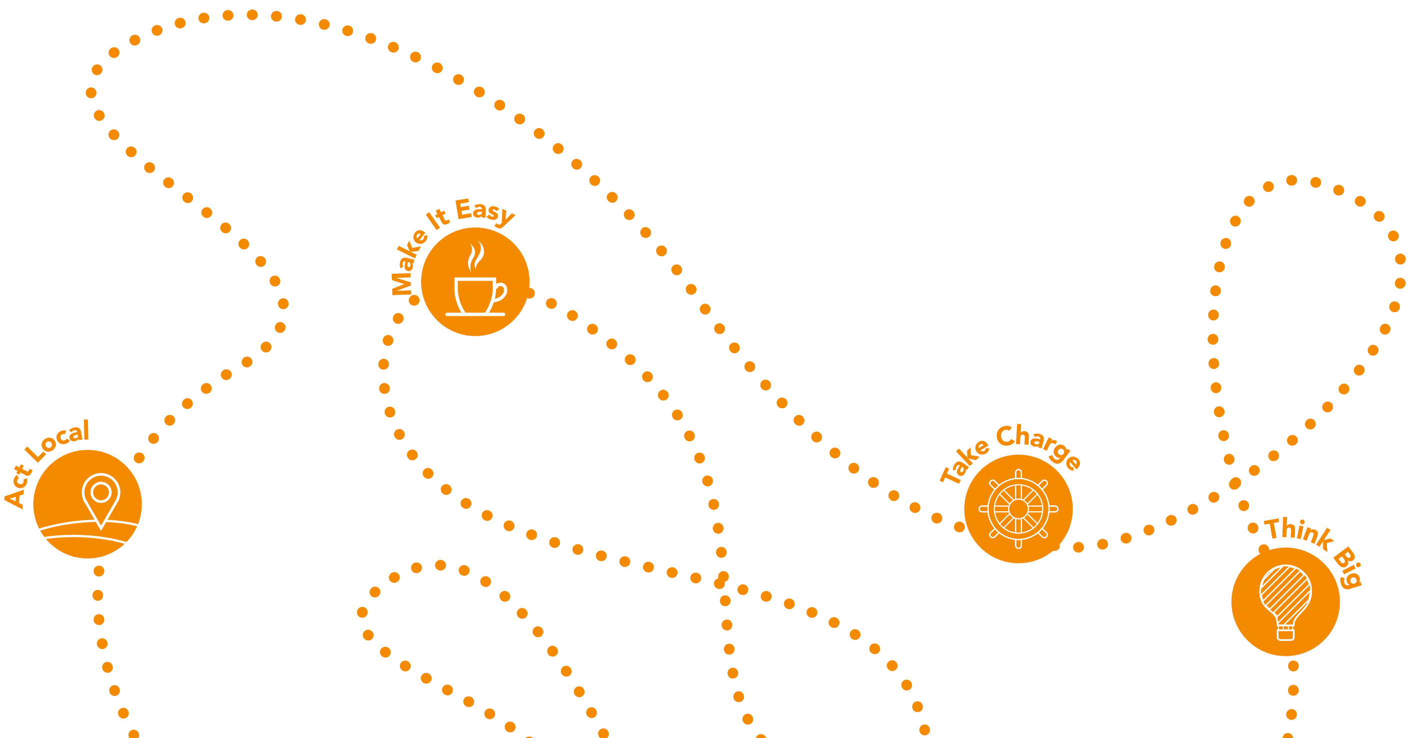


NOTE REGARDING FORWARD LOOKING INFORMATION

This financial 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 performance of Connect First for the year ended October 31, 2016. 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 2016 and 2015 audited financial statements of Connect First with the unaudited financial statements for the sum of the two previously independent operations of First Calgary Financial and Chinook Credit Union for 2012-2014. 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 6th, 2016.

ABOUT US

Credit unions have a long history of putting people first. It's what makes us stand out.

At Connect First Credit Union, we're on a mission to Make Money Make a Difference, armed with a vision to become Alberta's neighbourhood credit union.

When you bank with us, you're a member – and an owner. We believe that banking is about more than money. It's about positively impacting people's futures, understanding their dreams and aspirations, and helping them connect the dots between their finances and their goals.

We know that being a positive part of the local community means investing in it, and believe that's something our 100,000 members across southern Alberta should expect of us.

With over $4 billion in assets under administration, we employee over 600 Albertans who are passionate about bringing people-first banking services to 13 communities at 27 branches through our two regional divisions, Chinook Financial and First Calgary Financial.

In 2016 we brought our mission to life. We became the first financial institution in Alberta to introduce an alternative to payday lending - the Cash Crunch Loan. We launched a responsible gift certificate program - Gifts that Grow – encouraging people to give meaningful gifts that have a positive long-term effect on financial savings while helping to instill financial literacy skills. Mindful of the current economic challenges, we spread holiday cheer by paying bills, covering rent, taking care of mortgage payments and providing funds to help relieve the stress and burden of loan payments for our members. We also introduced a new community grant program - Act Local - inviting individuals and groups to apply for funding to support local projects and events.

When our members succeed - we succeed.
THAT'S THE CONNECT FIRST CREDIT UNION DIFFERENCE.

THINK BIG, ACT LOCAL, TAKE CHARGE, and MAKE BANKING EASY

ConnectFirstCU.com | ChinookFinancial.com | FirstCalgary.com

Proudly recognized as one of Canada's Most Admired Corporate Cultures, a Top Employer in Alberta and one of Canada's Best Managed Companies

2016 — A YEAR IN REVIEW

FINANCIAL RESULTS SUMMARY

Total Assets	Net Income Before Tax
$4.3 billion	**$16.1 million**
Loans to Members	**Employees**
$3.7 billion	**636**
Deposits from Members	**2016 Common Share Dividend**
$3.9 billion	**4.2%**

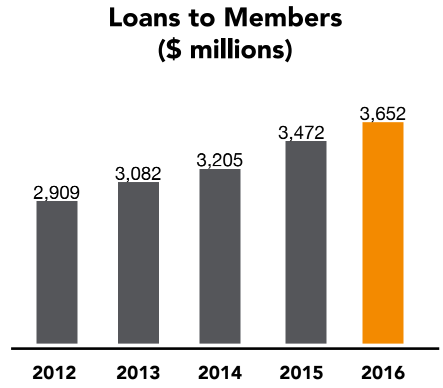
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Total assets of the credit union increased $169 million or 4.1% over the previous year.

Total loans to members increased $180 million or 5.2% from a year ago.

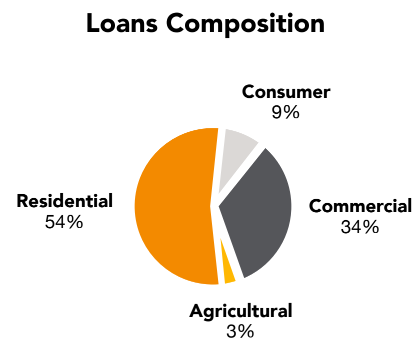
Loans to members is comprised of four categories that reflect the demand for credit within southern Alberta. These categories include:

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



Residential mortgages have surpassed $1.9 billion during Fiscal 2016 and represents 54% of the overall loan portfolio. During Fiscal 2016, residential mortgages grew by $114 million, representing an increase of 6.2% over the previous year. With mortgage rates trending at historical lows, many individuals are taking the opportunity to lock in their mortgages at reduced interest rates. We expect Fiscal 2017 to present challenges for residential mortgage growth as new regulatory requirements for homebuyers come into effect. We are confident growth can be achieved as we grow our relationships with members and develop new relationships with prospective members.

Connect First continued to have strong performance in consumer loans in 2016. During the year, consumer loans increased by $32 million or 10.8% 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 and term loans.

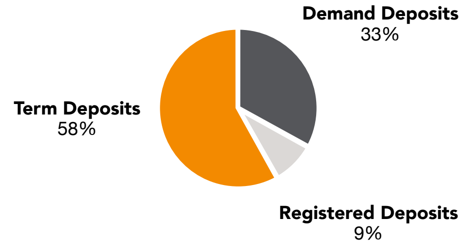


Commercial loan growth during Fiscal 2016 was 2.6% or $32 million above one year ago. Commercial loans comprised 34% of the total loan portfolio in 2016, compared to 35% during 2015.

Agricultural loans increased 1.6% from 2015 reaching $123 million. Agricultural loans now comprise 3% of our total loan portfolio.

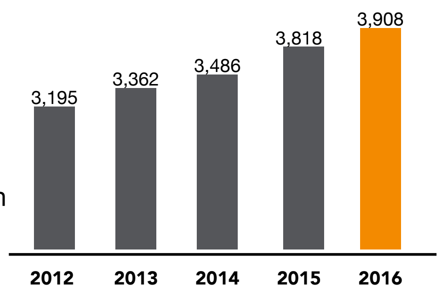
We continue to have a stable deposit base, with 58% of the deposit portfolio in term deposits. Demand deposits comprise 33% or $1.3 billion of the total deposit portfolio along with 9% or $336 million represented by registered deposits.

Deposit Composition



Total member deposits were up $90 million from one year ago, or 2.4%. The increase in member deposits was primarily in term deposits which grew by $165 million. Registered deposits, including registered education savings plans, declined during the year by $9 million. Management expects that total deposits will continue to increase during Fiscal 2017 despite the challenging economic environment. The Credit Union Deposit Guarantee Corporation (CUDGC) guarantees all deposits held with Connect First, including accrued interest.

Deposits from Members ($ millions)



During Fiscal 2016, Connect First commenced a securitization program, with which the Credit Union entered into an agreement with a third party to securitize a pool of residential mortgages. Securitization of mortgages is a source of liquidity to supplement our members deposit balances and is used to support our lending activities.

Member equity increased by $53 million, or 17.4% in 2016. Member equity during the year was supported by the issuance of $30 million Series G investment shares and continued strong growth in common share purchases. By increasing member equity, capital is increased to support future growth in the Credit Union and members are rewarded through common share and investment share dividends. In 2016, Connect First declared a 4.2% common share dividend, resulting in $4.2 million returned to our members. Dividends on investment shares were 5.0% for each investment share series, resulting in a total investment share dividend of $5.7 million.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

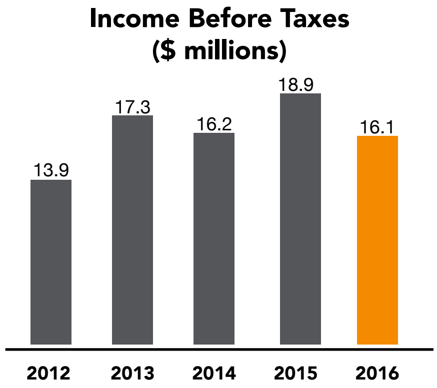
Financial margin represents the difference between the income we earn on loans and the interest we pay on deposits. In recent years, interest rates have been trending near historical lows and as a result the difference or "spread" between loan interest revenue and deposit interest expense has tightened. Fiscal 2016 saw the continuation of this low interest rate environment which resulted in additional loans repriced at reduced rates. For 2016, financial margin was $86.4 million down from $88.3 million in 2015. Financial margin as a percentage of average assets has dropped to 2.1% in Fiscal 2016 from 2.2% in 2015 due to an increasing asset base and relatively static financial margin. The current lower interest rate environment is expected to continue through Fiscal 2017, however this is largely dependent upon an uncertain economic environment.

Non-interest revenue, which includes banking fees, mutual-fund sales fees, foreign-exchange services and insurance-related services, was $19.0 million in 2016, down from $19.2 million in 2015. Increasing non-interest revenue in Fiscal 2017 is a key strategic initiative to help offset the reduction in financial margin as a result of the continued low rate environment.

Charge for loan impairment, which is the expense the Credit Union provisions for loan losses, remained largely consistent with the previous year rising only $297,000 above Fiscal 2015. Total charge for loan impairment was $3.4 million, and is in line with the results of the last five years of combined operations. The economic downturn has negatively impacted the loan portfolio, however due to conservative lending practices of the Credit Union the overall impact is being closely monitored and mitigated to the extent the Credit Union is able.

Managing the overall expense was a key focus of management during the year to drive further efficiencies in the organization. Overall, managed expenses were slightly higher than the previous year as we made strategic investments related to advertising and supporting the awareness of our new brand. Managed expenses for Fiscal 2016 were $85.9 million, or 0.4% more than one year ago.

Income before income taxes decreased to $16.1 million in Fiscal 2016, representing a decrease of 14.9% from Fiscal 2015. Comprehensive income after income taxes was $11.9 million compared to $14.3 million in 2015.



PERFORMANCE TARGETS AND RESULTS

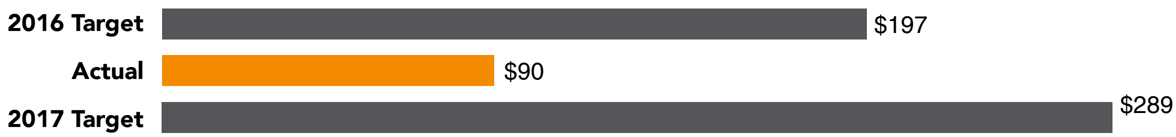
Connect First has established a number of key objectives for growth and performance targets for each year. Below are the 2016 results achieved compared to 2016 targets as well as our targets for the upcoming year.

Loan Growth

Net growth in total loans. *($ millions)*

Deposit Growth

Net growth in total deposits. *($ millions)*



Return on Average Assets

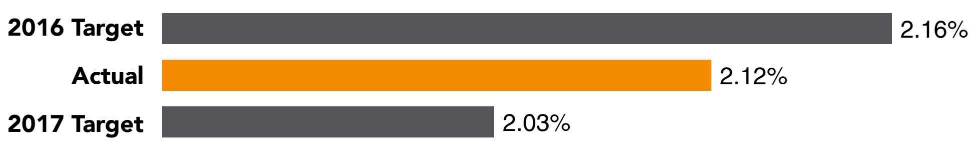
Income before income taxes divided by average assets represented as a percentage value.

Return on Average Equity

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

Operating Expenses Ratio

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



FIVE YEAR FINANCIAL HISTORY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

			COMBINED PERFORMANCE		
($ Thousands)	**2016**	**2015**	**2014**	**2013**	**2012**
ASSETS					
Cash and cash equivalents	49,845	74,807	65,936	23,852	18,991
Investments	522,785	503,993	440,284	474,188	483,337
Loans to members	3,652,502	3,472,423	3,205,336	3,082,070	2,909,139
Foreclosed property	-	658	-	49	697
Other assets	45,419	46,466	33,588	27,531	16,478
Intangible assets	3,754	4,621	4,903	5,399	5,758
Property and equipment	28,835	30,981	33,058	35,406	34,951
	4,303,140	**4,133,949**	**3,783,105**	**3,648,495**	**3,469,351**
LIABILITIES					
Members' deposits	3,908,080	3,818,048	3,486,922	3,362,465	3,195,637
Accounts payable and accruals	13,309	10,230	11,440	13,589	15,401
Secured borrowing	24,049	-	-	-	-
Deferred tax liability	706	1,542	1,242	1,496	1,780
	3,946,144	**3,829,820**	**3,499,604**	**3,377,550**	**3,212,818**
MEMBERS' EQUITY					
Common shares	108,796	91,751	76,478	71,818	66,176
Investment shares	120,673	91,215	91,736	90,592	88,943
Ownership dividend allocation	4,224	3,528	3,901	3,128	4,062
Investment share dividends declared	5,679	4,562	4,588	4,964	4,644
Contributed surplus	27,576	27,576	-	-	-
Retained earnings	88,870	84,232	105,683	99,706	92,708
Accumulated other comprehensive income	1,178	1,265	1,115	737	-
	356,996	**304,129**	**283,501**	**270,945**	**256,533**
	4,303,140	**4,133,949**	**3,783,105**	**3,648,495**	**3,469,351**

** The figures listed above represent Connect First audited financial results for years 2016 and 2015, along with the unaudited financial statements for the sum of the two previously independent operations of First Calgary Financial and Chinook Credit Union from 2012-2014.*

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

			COMBINED PERFORMANCE		
($ Thousands)	**2016**	**2015**	**2014**	**2013**	**2012**
FINANCIAL INCOME					
Interest on loans to members	124,990	126,188	123,992	123,979	127,748
Interest and dividends on investments	6,033	6,787	7,730	12,558	5,316
Unrealized gain (losses) on interest rate swaps	(995)	382	(638)	(2,091)	(5,047)
	130,028	133,357	131,084	134,446	128,017
FINANCIAL EXPENSE					
Interest on members' deposits	43,503	45,006	42,831	41,734	42,530
Interest on loans payable	118	5	11	23	12
	43,621	45,011	42,842	41,757	42,542
FINANCIAL MARGIN	**86,407**	**88,346**	**88,242**	**92,689**	**85,475**
Charge for loan impairment	3,414	3,117	3,171	4,774	3,820
	82,993	85,229	85,071	87,915	81,655
Other income	18,977	19,202	18,276	17,300	17,756
GROSS MARGIN	**101,970**	**104,431**	**103,347**	**105,215**	**99,411**
Personnel expenses	44,809	44,990	45,126	46,128	44,175
Operating lease expenses	5,863	5,759	6,267	6,083	5,707
Depreciation and amortization	4,250	4,253	4,919	4,973	5,287
Other expenses	30,976	30,551	30,796	30,703	30,387
	85,898	85,553	87,108	87,887	85,556
INCOME BEFORE INCOME TAXES	**16,072**	**18,878**	**16,239**	**17,328**	**13,855**
Patronage allocation	-	-	-	-	3,100
Income taxes					
Current	4,845	4,443	3,902	4,262	3,084
Deferred (recovery)	(733)	300	(220)	(285)	(687)
	4,112	4,743	3,682	3,977	2,397
NET INCOME	**11,960**	**14,135**	**12,557**	**13,351**	**8,358**
Change in unrealized gains (losses) on available for sale investments, net of income tax / (recovery)	(87)	150	378	737	-
COMPREHENSIVE INCOME	**11,873**	**14,285**	**12,935**	**14,088**	**8,358**

** The figures listed above represent Connect First audited financial results for years 2016 and 2015, along with the unaudited financial statements for the sum of the two previously independent operations of First Calgary Financial and Chinook Credit Union from 2012-2014.*

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 2016, the Credit Union issued a new series of investment shares to members. Series G investment shares were available for purchase in early 2016 and due to high demand were sold within approximately five business days, further demonstrating our members confidence in the success and growth of the Credit Union. Series G investment shares were issued with a stated dividend rate for the first year of 5.0%. As a result of the new series of investment shares and consistent increases in common share sales and retained earnings, total regulatory capital held by the Credit Union increased 18.2% during the year, ending at $353 million.

The Credit Union Deposit Guarantee Corporation, which regulates Alberta credit unions, mandates regulatory capital targets to be met. The minimum supervisory capital target, expressed as capital as a percentage of risk weighted assets, is 11.5%. CUDGC expects that the Credit Union has internal policies that add an additional 2% to the minimum supervisory capital target for a total target of 13.5%.

Through its balanced approach to capital growth, Connect First has a capital to risk-weighted assets ratio of 14.4%, while experiencing positive asset growth in 2016. The Credit Union will continue to strengthen its capital position in 2017, maintaining a solid base for sustainable growth, and ensuring sufficient capital buffer against unexpected negative developments or economic downturn.

ECONOMIC OUTLOOK

There remains considerable uncertainty in the long-term outlook of the Alberta economy, however Fiscal 2017 should bring some moderate relief to Albertans. Stabilization in crude oil prices and less volatile labour market will help improve economic conditions in the province. Despite the improvements, economic growth will be moderate in the coming years as the price of crude oil remains difficult to predict in the long term. That aside, there is renewed optimism for the province with the recent approval of pipeline projects that will help support the Alberta economy in expanding to new markets.

As of October 31, 2016, Alberta's unemployment rate was 8.5% which represents an increase of 1.9% from one year earlier and a level not seen in the province since the early 1990s. With the renewed outlook for the upcoming year there is expectation that layoffs in the province will ease; however a substantial recovery in the labour market may not occur for some time.

Alberta's second largest industry, the agricultural sector has helped support the provincial economy despite the less than ideal weather conditions during this year's harvest. There has been some softening in wheat and cattle prices since last year, however the agriculture and forestry sectors should benefit from a lower Canadian dollar. We continue to monitor the impacts of the Bovine Tuberculosis outbreak in southern Alberta and support our members where possible.

Monetary policy in Canada remains particularly accommodative as the Bank of Canada is keen to provide incentives for economic growth in the country. As a result, interest rates continue to track at historical lows creating competitive pressures in the financial services industry. Management believes that the low interest rate environment will continue for the upcoming year. The Credit Union continues to actively monitor our risk exposure and stress tests the loan portfolio on a regular basis to identify weakness or deterioration of lending commitments. We remain committed to helping our members navigate the challenging economic times in the province.

LEGISLATIVE AND POLICY DEVELOPMENTS

CHANGES TO HOMEOWNER MORTGAGE INSURANCE

In 2016 the Department of Finance Canada announced changes to the qualification rules for homeowner mortgage insurance. Effective October 17, 2016 all new high-ratio homebuyers (where the mortgage as a percent of the value of the property is greater than 80%) must qualify for mortgage insurance at either the greater of their contract rate or the Bank of Canada's conventional five-year fixed posted rate. This helps ensure the borrower's ability to make mortgage payments at higher rates. Previously, this requirement applied to high-ratio mortgages with terms less than five years or with variable interest rates. The changes are meant to reinforce the Canadian housing market, protect the long-term financial security of borrowers, and improve tax fairness.

BILL 32: CREDIT UNION AMENDMENT ACT

In November 2016 the Alberta government introduced Bill 32: Credit Union Amendment Act. The Bill will allow Alberta credit unions to offer home and auto insurance directly to members, and common shares will be eligible to be held in Tax Free Savings Accounts. In addition, the bill provides greater consumer protection surrounding unclaimed balances, clarification of membership for out of province and business members, and introduces measures to improve transparency and credit union governance. All of the above changes will help support the competitiveness of the credit union and will enable us to provide additional benefits and services to our members.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

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 13 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

Consolidated back-office support and expertise in:

- Treasury and ALM
- Technology
- Risk Management
- Marketing & Communications
- Human Resources
- And more

from Treasury and Asset/Liability Management to Risk and Compliance, Accounting and Administration, Human Resources, Marketing, Information Technology support, we support our member facing employees so they can focus on what matters – serving our members and communities.

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 tenth 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. With our model, members experience a seamless transition 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, and with continued optimization underway, Connect First enters 2017 with a continued focus on its strategy and long-term vision.

STRATEGY

At Connect First, we have embarked 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 credit unions across the province. We will also continue seeking complementary opportunities to build meaningful relationships with people eager to experience the Connect First difference, by expanding operations in new markets.

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 honours 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 in which we operate.

The categories of key risk affecting Connect First are strategic, financial, and operational. We have established a risk profile to assess our risk levels, their trends and actions being taken on a quarterly basis. This framework includes appropriate tolerances, risk reporting and board and management risk polices to effectively manage and monitor risk. Management committees exist for Asset and Liability Management, Credit, Information Technology and Risk Oversight. These committees meet regularly to discuss both inherent and emerging risks and report quarterly to the board through the Board Risk Committee on our risk profile and compliance with risk policies. Our approach to managing strategic, financial, operational, and compliance risks is outlined in the following sections.

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 Management 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. It also includes the potential for loan growth that could exceed maximum risk tolerances, effective monitoring of credit risk, credit exposure limits, and concentration risk. 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 are 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 Management 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. The key risks are associated with the operational availability, integrity, confidentiality and security of our information systems and infrastructure. These risks 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.

2016 FINANCIAL REPORT

MAKING MONEY
MAKE A DIFFERENCE

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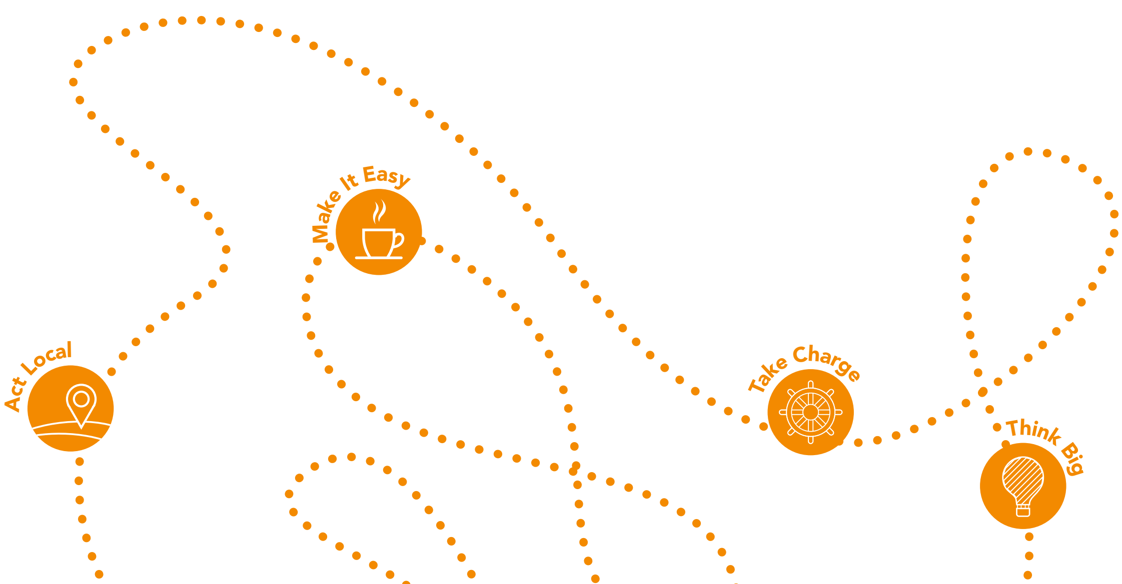

Independent Auditors' Report

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, 2016, 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, 2016 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants
December 6, 2016
Calgary, Canada

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		YEARS ENDED	
($ Thousands)	**Notes**	**October 31, 2016**	**October 31, 2015**
ASSETS			
Cash and cash equivalents		49,845	74,807
Investments	6	522,785	503,993
Loans to members	7	3,652,502	3,472,423
Foreclosed property		-	658
Other assets	8	45,419	46,466
Intangible assets	9	3,754	4,621
Property and equipment	9	28,835	30,981
		4,303,140	**4,133,949**
LIABILITIES			
Members' deposits	10	3,908,080	3,818,048
Accounts payable and accruals		13,309	10,230
Secured borrowings	24	24,049	-
Deferred tax liability	16	706	1,542
		3,946,144	**3,829,820**
MEMBERS' EQUITY			
Common shares	13	108,796	91,751
Investment shares	13	120,673	91,215
Ownership dividend allocation	12	4,224	3,528
Investment share dividends declared	13	5,679	4,562
Contributed surplus	1	27,576	27,576
Retained earnings		88,870	84,232
Accumulated other comprehensive income		1,178	1,265
		356,996	**304,129**
		4,303,140	**4,133,949**

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

On behalf of the Board:

Andrew Eberl
Board Chair

Kevin Van Koughnett
Chair, Audit Committee

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

($ Thousands)	Notes	YEARS ENDED October 31, 2016	October 31, 2015
FINANCIAL INCOME			
Interest on loans to members	21	124,990	126,188
Interest and dividends on investments	23	6,033	6,787
Unrealized gain (losses) on interest rate swaps	21	(995)	382
		130,028	133,357
FINANCIAL EXPENSE			
Interest on members' deposits		43,503	45,006
Interest on loans payable		118	5
		43,621	45,011
Financial margin		**86,407**	**88,346**
Charge for loan impairment	7	3,414	3,117
		82,993	85,229
Other income	14	18,977	19,202
Gross margin		**101,970**	**104,431**
Personnel expenses	18	44,809	44,990
Operating lease expenses		5,863	5,759
Depreciation and amortization		4,250	4,253
Other expenses	15	30,976	30,551
		85,898	85,553
Income before income taxes		16,072	18,878
Income taxes	16		
Current		4,845	4,443
Deferred (recovery)		(733)	300
		4,112	4,743
Net income		**11,960**	**14,135**
Change in unrealized gains(losses) on available for sale investments, net of income tax/(recovery) of $(31) (2015 - $47)		(87)	150
Comprehensive income		**11,873**	**14,285**

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

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY

Years ended October 31, 2016 and 2015

($ Thousands)	Common shares	Series A-G investment shares	Ownership dividends declared	Investment share dividends declared	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total equity
BALANCE NOVEMBER 1, 2014	**76,479**	**91,736**	**3,901**	**4,588**	**27,576**	**76,252**	**1,115**	**281,647**
Net income						14,135		14,135
Changes 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**
Net income						11,960		11,960
Changes in unrealized loss on available for sale investments (net of income tax recovery of $31)							(87)	(87)
Transactions with members								
Shares issued to members for cash	21,166	30,000						51,166
Shares issued by dividend	3,528	4,562	(3,528)	(4,562)				-
2016 dividends declared - investment				5,679		(5,679)		-
2016 dividends declared - ownership			4,224			(4,224)		-
Income tax recovery, dividends declared						2,581		2,581
Shares redeemed for cash	(7,649)	(5,104)						(12,753)
BALANCE OCTOBER 31, 2016	**108,796**	**120,673**	**4,224**	**5,679**	**27,576**	**88,870**	**1,178**	**356,996**

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, 2016**	**October 31, 2015**
Cash flows from operating activities		
Net Income	11,960	14,135
Adjustments for:		
Interest on loans to members	(124,990)	(126,188)
Interest / dividends on investments	(6,033)	(6,787)
Interest expense	43,621	45,011
Unrealized loss (gain) on interest rate swaps	995	(382)
Depreciation and amortization	4,250	4,253
Charge for loan impairment	4,677	3,387
Income tax expense	4,112	4,743
Change in other assets	52	(12,506)
Change in accounts payable	1,688	(2,952)
Interest received	131,461	127,345
Dividends received	1,400	1,255
Interest paid	(44,703)	(40,554)
Income tax paid	(3,555)	(3,381)
Current tax recovery on dividends	2,581	1,935
Increase in members' deposits	91,113	327,302
(Increase) in loans to members, net of repayments	(186,060)	(268,407)
Proceeds from sale of foreclosed property	970	677
Net cash from (used in) operating activities	**(66,461)**	**68,886**
Cash flows from financing activities		
Common shares issued for cash	21,166	17,416
Common share redemptions	(7,649)	(6,045)
Investment shares issued for cash	30,000	-
Investment share redemptions	(5,104)	(5,109)
Secured borrowings	24,049	-
Net cash from financing activities	**62,462**	**6,262**
Cash flows used in investing activities		
Cash acquired on amalgamation with Chinook (note 1)	-	13,476
Acquisition of investments	(1,270,719)	(1,510,080)
Proceeds from sale of investments	1,250,993	1,447,541
Acquisition of property and equipment, net	(847)	(2,904)
Acquisition of intangibles, net	(390)	(834)
Net cash (used in) investing activities	**(20,963)**	**(52,801)**
Increase (decrease) in cash and cash equivalents	(24,962)	22,347
Cash and cash equivalents, beginning of year	74,807	52,460
Cash and cash equivalents, end of year	**49,845**	**74,807**

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, 2016 and 2015

($ 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 6, 2016. All amounts are in thousands unless otherwise noted.

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 acquired	852,188
Derivative financial liabilities	634
Accounts payable	3,812
Deposits	771,390
Total liabilities assumed	775,836
Net assets acquired	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.

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 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 Limited (“Alberta Central”) are not traded on an active market and are reported at cost.

Accounts Receivable and Lease Residual

Accounts receivable and lease residuals are included in other assets and are categorized as loans and receivables that are initially measured at fair value. Accounts receivable consists mainly of funds that are owed to the Credit Union for loan pool transactions and the lease residuals represent the value of the vehicles at the end of their lease that are guaranteed to the Credit Union. Subsequent to initial recognition, accounts receivable and lease residuals are measured at amortized 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

Interest income is 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.

(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 interpetations are not yet effective for the year ended October 31, 2016 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.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15, issued in May 2014, replaces the existing guidance in IAS 18 *Revenue*. IFRS 15 establishes principles for reporting about the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard provides a single principles-based five-step model for revenue recognition to be applied to all contracts with customers. The Credit Union intends to adopt IFRS 15 and the clarifications in its financial statements for the annual period beginning November 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 16 *Leases*

IFRS 16, issued in January 2016, sets out a new model for lease accounting and replaces the existing guidance in IAS 17 *Leases*. The new standard will result in all lease commitments being recognized as a liability. The Credit Union intends to adopt IFRS 16 in its financial statements for the annual period beginning November 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

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 plus a regulatory buffer of 3.5% (11.5% in total). The Credit Union's objectives when managing capital are to maintain the minimum regulatory requirement plus a cushion of 2.0% of risk-weighted assets, 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, 2016, the Credit Union's regulatory capital is $352,899 (2015 - $298,787) compared to the minimum capital requirement of $197,403 (2015 - $190,914).

6. INVESTMENTS

	2016	**2015**
Investments available for sale - term deposits	22,417	37,317
Investments available for sale - other	2,166	2,305
Alberta Central term deposits		
- Non-statutory term deposits	158,055	119,352
- Statutory term deposits	297,659	306,040
Alberta Central shares	42,488	38,979
	522,785	**503,993**

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

The Credit Union is required by the Act to hold shares in Alberta Central, which are also a condition of membership in Alberta Central; however, these shares do not confer direct voting privileges. Credit Unions have the right to vote on certain issues at Alberta 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 Alberta 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:

	2016	2015
Performing loans	3,609,224	3,450,785
Non performing loans	41,520	19,918
Accrued Interest	7,764	8,757
Allowance for impairment	(6,006)	(7,037)
Total	**3,652,502**	**3,472,423**

Included in accrued interest receivable is $1,458 of interest on impaired loans (2015 - $2,340).

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

2016	**On Demand**	**Within 1 Year**	**1 to 2 Years**	**2 to 3 Years**	**3 to 4 Years**	**4 Years & Over**	**Total**
Residential Mortgages							
Insured	1,297	85,979	79,966	60,146	88,298	76,462	392,148
Conventional	312,548	337,587	383,090	187,988	185,825	149,442	1,556,480
Consumer Loans	58,920	81,431	54,937	46,833	34,915	53,715	330,751
Commercial Mortgages	136,644	267,767	180,722	106,484	128,604	165,478	985,699
Commercial Loans	177,977	11,438	10,358	7,013	3,220	10,676	220,682
Agricultural Loans	11,247	562	550	280	269	567	13,475
Agricultural Mortgages	57,181	10,238	10,651	9,902	10,994	11,023	109,989
Total	**775,814**	**795,002**	**720,274**	**418,646**	**452,125**	**467,363**	**3,609,224**

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	316,371	308,898	288,739	258,488	121,027	185,647	1,479,170
Consumer Loans	92,730	63,260	41,767	33,049	26,306	41,667	298,779
Commercial Mortgages	136,998	197,286	159,316	162,572	85,681	202,190	944,043
Commercial Loans	181,250	11,735	7,416	8,975	5,068	40,147	254,591
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	**783,411**	**667,035**	**588,865**	**538,628**	**286,741**	**586,105**	**3,450,785**

Allowance for impairment consists of the following:

2016	Gross Portfolio	Specific Allowance	Collective Allowance	Net Loans	Non Performing Loans
Residential Mortgages	1,951,823	19	278	1,951,526	3,195
Consumer Loans	331,522	675	1,056	329,791	771
Commercial Mortgages	1,009,908	498	1,446	1,007,964	24,209
Commercial Loans	234,027	1,650	384	231,993	13,345
Agricultural Loans	13,475	-	-	13,475	-
Agricultural Mortgages	109,989	-	-	109,989	-
Total	**3,650,744**	**2,842**	**3,164**	**3,644,738**	**41,520**

2015	Gross Portfolio	Specific Allowance	Collective Allowance	Net Loans	Non Performing Loans
Residential Mortgages	1,837,920	56	202	1,837,662	6,084
Consumer Loans	299,235	726	736	297,773	456
Commercial Mortgages	949,349	3,121	1,217	945,011	5,306
Commercial Loans	262,663	717	262	261,684	8,072
Agricultural Loans	34,753	-	-	34,753	-
Agricultural Mortgages	86,783	-	-	86,783	-
Total	**3,470,703**	**4,620**	**2,417**	**3,463,666**	**19,918**

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

	2016	2015
Balance, beginning of year	7,037	4,560
Loans written off	(5,708)	(910)
Provision for loan impairment	4,677	3,387
Balance, end of year	**6,006**	**7,037**

Recoveries reduced loan impairment expense charged to the statement of comprehensive income by $1,263 for 2016 (2015 - $270).

8. OTHER ASSETS

	2016	2015
Accounts receivable	14,982	18,575
Lease residual	18,476	16,362
Prepaid expenses	10,378	8,619
Fair value of swaps (Note 21)	1,366	2,361
Other	217	549
	45,419	**46,466**

9. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

Cost	**Land & buildings**	**Furniture & equipment**	**Computer equipment**	**Leasehold improvements**	**Total**	**Intangible assets**
Balance at November 1, 2015	22,873	10,733	2,570	7,912	44,088	11,905
Acquisitions	84	270	275	218	847	390
Disposals	-	-	-	-	-	-
Balance at October 31, 2016	**22,957**	**11,003**	**2,845**	**8,130**	**44,935**	**12,295**

Depreciation & Amortization	**Buildings**	**Furniture & equipment**	**Computer equipment**	**Leasehold improvements**	**Total**	**Intangible assets**
Balance at November 1, 2015	(1,985)	(4,330)	(1,364)	(5,428)	(13,107)	(7,284)
Depreciation & amortization for the year	(619)	(1,053)	(441)	(880)	(2,993)	(1,257)
Disposals	-	-	-	-	-	-
Balance at October 31, 2016	**(2,604)**	**(5,383)**	**(1,805)**	**(6,308)**	**(16,100)**	**(8,541)**

Net Book Value

October 31, 2015	**20,888**	**6,403**	**1,206**	**2,484**	**30,981**	**4,621**
October 31, 2016	**20,353**	**5,620**	**1,040**	**1,822**	**28,835**	**3,754**

10. MEMBERS' DEPOSITS

	2016	2015
Demand Deposits	1,284,019	1,348,427
Registered Savings Plans	336,110	348,632
Term Deposits	2,265,508	2,100,539
Registered Education Savings Plans	4,409	1,334
	3,890,046	3,798,932
Accrued Interest	18,034	19,116
Total	**3,908,080**	**3,818,048**

Maturitites are as follows:

2016	On Demand	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 Years & Over	Total
Demand Deposits	1,284,019	-	-	-	-	-	1,284,019
Registered Savings Plans	107,066	101,201	56,191	39,314	20,436	11,902	336,110
Term Deposits	555,506	1,349,331	197,650	94,460	35,518	33,043	2,265,508
Registered Education Savings Plans	4,409	-	-	-	-	-	4,409
Total	**1,951,000**	**1,450,532**	**253,841**	**133,774**	**55,954**	**44,945**	**3,890,046**

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 Savings 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
Registered Education Savings Plans	1,334	-	-	-	-	-	1,334
Total	**1,935,523**	**1,279,682**	**318,678**	**135,647**	**63,491**	**65,912**	**3,798,932**

11. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Lease Commitments

Non-cancellable operating lease rentals are payable as follows:

	2016	2015
Less than one year	5,420	5,180
Between one and five years	11,556	8,882
More than five years	275	-

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.

	2016
Letters of credit	7,722
Commitments to extend credit with a term to maturity of one year or less	632,341

(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 2017 in respect of fiscal 2016 to members by way of an issuance of common shares in the amount of $4,224. The ownership dividend allocated to members is based on member common share holdings.

For fiscal year 2015, an ownership dividend of $3,528 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 & G Investment Shares

In October 2016, the Board of Directors approved a 5% dividend to holders of record of Series A, B, C, D, E, F and G Investment Shares for the year ended October 31, 2016 in the aggregate amount of $5,679 (2015 – $4,562). The payment will be made in December 2016 through the issuance of additional Series A, B, C, D, E, F and G Investment Shares, respectively.

Series A, B, C, D, E, F and G Investment Shares were issued for consideration of $1 per share and have the following characteristics:

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

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

14. OTHER INCOME

	2016	2015
Service charges and other fees	5,281	5,496
Foreign exchange gain / loss	2,318	418
Loan prepayment and other fees	3,079	4,014
Insurance	1,634	1,688
Credit card fees	568	443
Wealth management	3,967	4,120
Other	2,130	3,023
Total	**18,977**	**19,202**

15. OTHER EXPENSES

	2016	2015
Advertising	2,258	1,346
Technology	7,556	7,119
Member security and deposit insurance premium	6,848	6,351
Professional fees	831	1,043
Stationary, telephone, postage, courier	1,660	1,543
Financial planning	486	1,476
ATM / POS operations	1,550	1,455
Board expenses	692	506
Lending costs	939	1,487
Charitable donations / community investment	617	540
Occupancy	2,533	2,475
Amalgamation expenses (Note 1)	-	98
Other	5,006	5,112
Total	**30,976**	**30,551**

16. PROVISION FOR INCOME TAXES

The components of tax expense for the years ended October 31, 2016 and 2015 are as follows:

	2016	2015
Current tax expense		
Current period	4,845	4,443
Deferred tax expense		
Origination and reversal of temporary differences	(733)	300
Total income tax expense	**4,112**	**4,743**

Reconciliation of effective tax rate

	2016	2015
Income before tax	16,072	18,878
Income tax using Company's combined federal and provincial statutory Canadian tax rate of 26.07% (2015 - 23.94%)	4,190	4,519
Effect of tax rate changes and other	(106)	181
Non-deductible expenses	28	43
Total income tax expense, including current and deferred expense	**4,112**	**4,743**

Recognized deferred assets and liabilities

	Property and Equipment	Provisions	Other Assets	Totals
As at November 1, 2015	(2,038)	1,112	(616)	(1,542)
Credit/(Charged) to the statement of income	490	(5)	248	733
Credit/(Charged) to other	-	103	-	103
As at October 31, 2016	**(1,548)**	**1,210**	**(368)**	**(706)**

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:	2016	2015
Key management personnel and entities controlled by key management personnel	26,149	28,000

Outstanding deposits to:	2016	2015
Key management personnel and entities controlled by key management personnel	5,712	6,421

Compensation of key management personnel ($)

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

2016	Base Compensation	Performance Incentive	Total Benefits	2016 Total
Chief Executive Officer	360,000	167,400	166,799	694,199
Senior Vice President, Finance and Administration	189,000	67,034	64,426	320,460
Senior Vice President, Shared Services	210,000	74,482	67,205	351,687
Chief Risk Officer	175,000	45,051	45,690	265,741
Senior Vice President, Information Technology	171,000	45,947	32,902	249,849
President, First Calgary Financial	189,000	58,393	31,535	278,928
President, Chinook Financial	201,600	58,710	58,679	318,989

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

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 2015 and paid in 2016. An accrual of $2,800,000 has been recorded in these financial statements in respect of performance incentive for fiscal 2016 for all employees, including key management personnel.

Paid to directors ($):

	2016	2015
Directors' fees and committee remuneration	378,013	389,022
Directors' expenses	13,106	13,250

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.

18. PERSONNEL EXPENSES

	2016	2015
Salaries and wages	32,816	32,312
Short term benefits	11,728	10,636
Termination benefits	265	2,042
	44,809	**44,990**

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.

2016 ($ 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 31,2016									
Assets									
Cash	0.19%	38,366	-	-	-	-	-	11,479	49,845
Investments	0.77%	459,257	49,970	5,100	2,600	100	2,021	3,737	522,785
Loans to Members	3.44%	1,050,155	543,939	720,274	418,646	452,125	467,363	-	3,652,502
Other	0.00%	-	-	-	-	-	-	78,008	78,008
	3.02%	**1,547,778**	**593,909**	**725,374**	**421,246**	**452,225**	**469,384**	**93,224**	**4,303,140**
Liabilities & Equity									
Deposits	1.17%	2,154,195	1,012,022	253,841	133,774	55,954	44,945	253,349	3,908,080
Other	0.00%	-	-	-	-	-	-	395,060	395,060
	1.06%	**2,154,195**	**1,012,022**	**253,841**	**133,774**	**55,954**	**44,945**	**648,409**	**4,303,140**
Balance Sheet Mismatch		(606,417)	(418,113)	471,533	287,472	396,271	424,439	(555,185)	-
Derivatives		(50,000)	-	25,000	25,000	-	-	-	-
Net Mismatch		(656,417)	(418,113)	496,533	312,472	396,271	424,439	(555,185)	-

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%	973,023	499,061	588,865	538,628	286,741	586,105	-	3,472,423
Other	0.00%	-	-	-	-	-	-	82,726	82,726
	3.13%	**1,413,082**	**603,318**	**608,865**	**538,628**	**286,741**	**586,105**	**97,210**	**4,133,949**
Liabilities & Equity									
Deposits	1.19%	2,102,503	911,163	318,678	135,647	63,491	65,912	220,655	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		(689,421)	(307,845)	290,187	402,981	223,250	520,193	(439,345)	-
Derivatives		-	(100,000)	50,000	-	25,000	25,000	-	-
Net Mismatch		(689,421)	(407,845)	340,187	402,981	248,250	545,193	(439,345)	-

20. CREDIT FACILITIES

The Credit Union has certain credit facilities in place allowing it to borrow funds on a short-term basis from Alberta Central. These facilities are classified as financial liabilities measured at amortized cost. As at October 31, 2016, the following facilities were in place:

(a) A revolving line of credit authorized to a maximum amount of $240,000 including a US dollar component equivalent to CAD $29,000 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 $160,000 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, 2016, an amount of $0 (2015 - $ 0) is outstanding.

The total guaranteed commitment level for the above facilities at October 31, 2016 is set at 5% of the Credit Union's assets or $215,113. 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, a decrease in fair value of $117 was recorded in other comprehensive income.

2016	**Notes**	**Carrying Value**	**Fair Value**	**Favourable / (Unfavourable)**
Assets				
Investments	6	522,785	522,198	(587)
Loans to Members	7	3,652,502	3,674,771	22,269
Liabilities				
Members' Deposits	10	3,908,080	3,891,864	16,216

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

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.

2016	Notional Amount	Positive Fair Value
Interest Rate Swaps	50,000	1,366

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

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, 2016, outstanding interest rate swaps resulted in realized gains of $1,116 (2015 - $1,526) and unrealized losses of $995 (2015 gain - $382). 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

2016	Consumer loans & residential mortgages	Agricultural mortgages and loans	Commercial mortgages and loans	Total
Grades				
1 to 5 - satisfactory risk			1,192,051	1,192,051
6 unimpaired			18,686	18,686
7-9 impaired			37,554	37,554
Commercial mortgages and loans			1,248,291	1,248,291
Residential mortgages and loans	2,281,291			2,281,291
Agricultural mortgages and loans		124,960		124,960
Impaired loans	3,966			3,966
Allowance for impaired loans	(2,028)	-	(3,978)	(6,006)
Total	**2,283,229**	**124,960**	**1,244,313**	**3,652,502**

2015	Consumer loans & residential mortgages	Agricultural mortgages and loans	Commercial mortgages and loans	Total
Grades				
1 to 5 - satisfactory risk			1,202,016	1,202,016
6 unimpaired			5,136	5,136
7-9 impaired			13,378	13,378
Commercial mortgages and loans			1,220,530	1,220,530
Residential mortgages and loans	2,129,332			2,129,332
Agricultural mortgages and loans		123,058		123,058
Impaired loans	6,540			6,540
Allowance for impaired loans	(1,720)		(5,317)	(7,037)
Total	**2,134,152**	**123,058**	**1,215,213**	**3,472,423**

Aging of overdue but not impaired loans:

2016 Loan Type	**30 to 59 days**	**60 to 89 days**	**Total**
Commercial	548	8	556
Consumer	1,594	504	2,098
Residential	7,642	1,449	9,091
Agricultural	1,004	50	1,054
Total	**10,788**	**2,011**	**12,799**

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**

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	2016	2015
Commercial:		
Real estate, rental & leasing	658,352	646,295
Construction	97,782	133,792
Accommodation & food services	133,119	134,415
Health care & social assistance	131,467	119,703
Retail trade	50,948	41,919
Finance & insurance	30,324	44,305
Other	141,943	92,636
	1,243,935	**1,213,065**
Retail:		
Mortgages	1,951,823	1,836,867
Dealer loans & leases	191,986	159,698
Unsecured lending	44,465	41,793
Secured lending	95,071	97,744
	2,283,345	**2,136,102**
Agriculture:		
Mortgages	109,989	86,783
Loans	13,475	34,753
	123,464	**121,536**
	3,650,744	**3,470,703**

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 Credit Risk 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 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:	2016
100 basis point increase in rates	5,773
50 basis point increase in rates	(2,731)

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 Alberta 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 2016 the Credit Union's liquidity as at October 31, 2016 exceeds minimum requirements by $204,242.

23. INVESTMENT INCOME

During the fiscal year, the Credit Union received patronage dividends of $1,400 (2015 - $1,250) from Alberta Central. These distributions have been recorded in interest and dividends on investments in the statement of comprehensive income.

24. SECURITIZATION

During the fiscal year, the Credit Union, as part of its program of liquidity, commenced a securitization program pursuant to which the Credit Union entered into asset transfer agreements with a third party to securitize a pool of residential mortgages.

The Credit Union reviews transfer agreements in order to determine whether the transfers of financial assets should result in all or a portion of the transferred mortgages being derecognized from its consolidated statement of financial position. The de-recognition requirements include an assessment of whether the Credit Union's rights to contractual cash flows have expired or have been transferred or whether an obligation has been undertaken by the Credit Union to pay the cash flows collected on the underlying transferred assets over to a third party. The de-recognition requirements also include an assessment of whether substantially all the risks and rewards of ownership have been transferred.

The Credit Union has determined that an amount of $24,049 raised from securitization transactions should be accounted for as secured borrowing as the Credit Union did not transfer substantially all of the risks and rewards of ownership, including principal prepayment, interest rate and credit risk of the mortgages in the securitization transaction. The residential mortgages are categorized as Loans to members and they are held as security for this secured borrowing. The weighted average interest rate on the secured borrowings is 1.40% and they mature at the same rate as the underlying mortgages.

Type of loan	Total principal amount of mortgages	Principal amount of loans over 60 days past due
Residential	23,869	-

Connect First has no obligation to repurchase the securitized mortgages. The mortgages and the secured borrowings mature as follows:

	Mortgages	**Secured Borrowings**
2017	732	719
2018	756	742
2019	17,010	17,293
2020	5,371	5,107