ConnectFirst Credit Union

2017

Management's Discussion & Analysis

For the year ended October 31, 2017

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, 2017. 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 Connect First 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 2017 and 2016 audited financial statements of Connect First.

The following discussion and analysis is the responsibility of management, and is as of December 11, 2017.

ABOUT US

As a Credit Union, we're different than a bank - and we like it that way.

At Connect First, we spend our days helping our members achieve their financial aspirations through three trusted local brands - First Calgary Financial, Chinook Financial and Legacy Financial - and a community - focused approach to banking that's true to our co-operative principles. You're our member, not a number. We're your neighbours, and your partner. Over 75 years ago we started from humble beginnings. Through the years, we've grown to become one of Alberta's leading financial institutions through a desire to connect the dots between your dreams, your goals, your community and your financial wellness. We believe that banking is about more than money – it's a cornerstone of every vibrant community and that our members should expect us to positively impact the financial success and viability of the communities that we call home. We invest meaningfully in the potential and well-being of our employees, and what matters most to our members. We have honest conversations, about real things, as real people. Our members are owners, they have a say in how we operate, they earn dividends on common shares and investment shares, and they have access to an extensive array of financial products and services.

We're committed to providing outstanding experiences to our members, our communities, and our employees, and we're proud to be regarded as one of the best:

- 2016 Alberta Central Credit Union of the Year award
- One of Canada's Best Managed Companies (every year since 1996)
- A Top Employer in Alberta (since 2006)
- One of Canada's Most Admired Corporate Cultures (2013-2016)

Mission

To Make Money Make a Difference:
We deliver a meaningful impact to our members and communities in the ways that makes sense to them.

Vision

To be Alberta's Neighbourhood Credit Union:
We're growing, and focused on making our members' financial dreams and goals come true.

Values

Think Big:
We embrace new ideas to create the greatest possible value for our members.

Act Local:
We actively seek out local ways to positively impact the communities we live, work and thrive in.

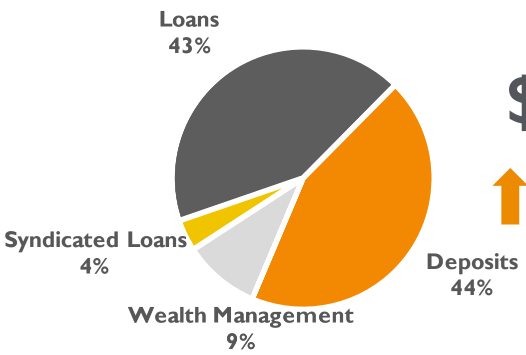
Take Charge:
We succeed when you succeed. We're accountable, and take ownership over situations to deliver results.

Make it Easy:
We listen, seeking to understand and find every opportunity to make your experiences with us helpful and easy.

2017 – FINANCIAL HIGHLIGHTS

For Connect First, 2017 was a successful year and achieved solid financial performance and asset growth. The success translated into a 4.75% common share dividend and a 5.0% investment dividend for our 100,000 plus members.

Book of business



$9.0 billion
↑ 2.8%

580
Employees

Member's equity

$379 million
↑ 6.2%

Performance ratios

0.41% Return on assets

14.3% Capital ratio

2.02% Interest margin

3.6% Return on equity

Income before taxes

$18.1 million
↑ 12.7%

Deposits from members

$4.0 billion
↑ 1.4%

Loans to members

$3.9 billion
↑ 5.4%

Dividends paid

$82,000,000

in dividends paid to our members over the last 10 years

2017 – YEAR IN REVIEW

Overview

Connect First was able to achieve above budgeted income for the year due in part to diligent expense management and asset growth. Connect First loans increased by $199 million (5.4%) while managed expenses decreased slightly from the previous year. Connect First continued to invest in members by expanding the Member Care Centre to support all divisions, launched a transformational website for each division, and expanded our footprint in southern Alberta with a location in Medicine Hat.

Provincially, the economy experienced a modest recovery during Fiscal 2017 which, combined with the strong growth experienced elsewhere in Canada, gave way to the Bank of Canada increasing the benchmark interest rate twice. The impact from the increase in interest rates was twofold, as higher rates on the variable rate loans were partially offset by increased deposit expenses.

Branch Network

During Fiscal 2017, the Credit Union opened a Chinook Financial office in Medicine Hat. This location offers tailored residential, commercial and agriculture services to new and existing members in the Medicine Hat area. Expansion into Medicine Hat represents another step in expanding the Credit Union across Southern Alberta and serving the financial needs of our members.

Amalgamations

Effective November 1, 2017 Connect First and Legacy Savings & Credit Union Ltd. amalgamated following board approvals and overwhelming member support. Legacy Savings & Credit Union Ltd. has been renamed Legacy Financial and represents the third division operating under the Connect First model.

Legacy Financial has approximately 4,000 members and operates two branches in the City of Calgary. The amalgamation will allow Connect First to create a presence in the greater downtown area without an outlay of capital. Legacy Savings & Credit Union members will gain from an expanded range of products and services, innovative technology offerings, and receive extended support through Connect First's Member Care Centre.

Subsequent to year end, Mountain View Credit Union and Connect First have undertaken activities to explore a business case to amalgamate. Subject to regulatory and membership approvals, the new credit union will support approximately 120,000 members and over 700 employees in 44 different locations across Central and Southern Alberta. With approximately $6.7 billion in assets under management, the amalgamated credit union would be Canada's 7th largest credit union.

Administration Building

Subsequent to fiscal year end and effective November 4, 2017 Connect First sold its administration building (200, 510 16 Ave NE) to Calgary COOP. Connect First is evaluating its eventual new location to consolidate and relocate its multiple Calgary office locations and leases. Management believes sharing a single space will generate substantial gains in collaboration, creativity, communication and efficiency.

FINANCIAL PERFORMANCE TO TARGET

($ Thousands)	2017	2017 Target	2016	2015
Statement of Financial Position				
Assets	4,505,350	4,604,977	4,303,140	4,133,949
Liabilities	4,126,320	4,230,031	3,946,144	3,829,820
Equity	379,030	374,946	356,996	304,129
Statement of Comprehensive Income				
Financial Margin	89,123	87,419	86,407	88,346
Other Income	18,291	18,957	18,977	19,202
Managed Expenses	89,298	90,280	89,312	88,670
Income Before Taxes	18,116	16,096	16,072	18,878
Regulatory Capital & Ratios				
Regulatory Capital	376,683	370,457	354,238	298,797
Capital to Assets	8.4%	8.1%	8.2%	7.2%
Risk Weighted Capital as a % of Risk Weighted Assets	14.3%	14.0%	14.4%	12.5%
Return on Assets	0.41%	0.36%	0.38%	0.48%
Interest Margin	2.02%	1.96%	2.05%	2.20%

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Assets

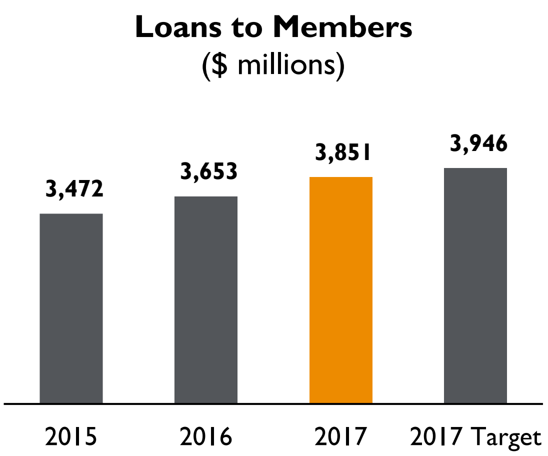
Total assets of the Credit Union increased $202 million (4.7%) over the previous year.

Loans

Total loans to members increased $199 million (5.4%) from a year ago.

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

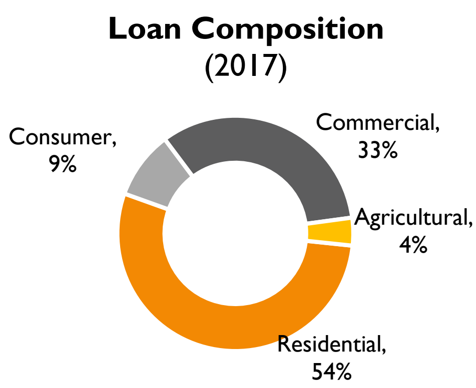
- Residential mortgages
- Consumer loans
- Commercial and business banking
- Agricultural loans



Residential mortgages have surpassed $2.1 billion during fiscal 2017 and represent 54% of the overall loan portfolio. During 2017, residential mortgages grew by $121 million (6.2%) over the previous year. Mortgage growth was positively impacted by successful mortgage referral programs with builders and other partner institutions. We are confident further growth can be achieved in this area as we continue to grow our relationships with members and develop new relationships with prospective members.

Connect First continued to have strong performance in consumer loans in 2017. During the year, consumer loans increased by $26 million (8.0%). Our consumer loan portfolio now comprises 9.0% of our total loan portfolio and is made up primarily of automotive loans and individual member loans such as lines of credits and term loans.

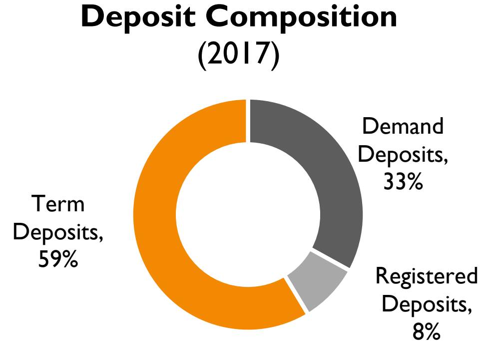
Commercial loan growth during fiscal 2017 was $29 million, (2.3%) above one year ago. Commercial loans comprised 33% of the total loan portfolio in 2017, compared to 34% during 2016.

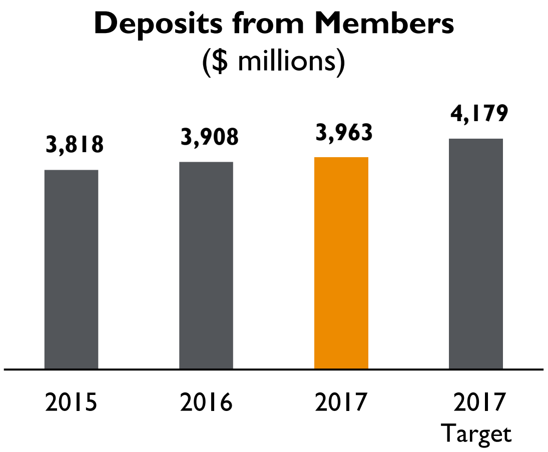


Agricultural loans had significant growth, reaching $147 million (18.9% growth) in 2017. Agricultural loans continue to be a strategic focus and comprise 4.0% of our total loan portfolio.

Deposits

Connect First continues to have a stable deposit base, with $2.3 billion (59%) of the deposit portfolio in term deposits. Demand deposits comprise $1.3 billion (33%) of the total deposit portfolio along with $0.3 billion (8%) represented by registered deposits.





Total member deposits were up $54 million from one year ago, or 1.4%. The increase in member deposits was driven by a $36 million (1.6%) growth in term deposits. Registered deposits, including registered education savings plans, declined during the year by $9 million (-2.6%). The Credit Union Deposit Guarantee Corporation (CUDGC) guarantees all deposits held with Connect First, including accrued interest. Off balance sheet deposits (investments with wealth management partners) increased $43 million (5.4%).

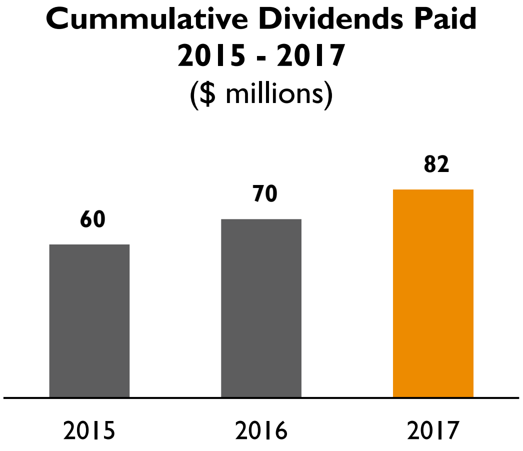
During Fiscal 2017 Connect First issued three National Housing Act Mortgage-Backed Securities (NHA MBS), and one Canada Mortgage Bond (CMB). Securitizations offer a cost effective alternative and a source of liquidity in periods of accelerated lending.

Member's Equity

Member's equity increased by $22 million (6.2%) in 2017. Member's equity was supported by continued growth in common share purchases and solid retained earnings growth.

In 2017, Connect First was proud to declare a common share dividend rate of 4.75%, resulting in $5.5 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 $6.1 million.

Connect First has paid over $81.9 million in dividends in the past ten years.



CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Financial Margin

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 continued to be low and, as a result, the difference or “spread” between loan interest revenue and deposit interest expense has tightened. For 2017, financial margin was $89.1 million, up from $86.4 million in 2016. Financial margin as a percentage of average assets was 2.02% in fiscal 2017 compared to 2.05% in 2016.

NIR

Non-interest revenue, which includes banking fees, mutual-fund sales fees, foreign-exchange services and insurance-related services, was $18.3 million in 2017, compared to $19 million in 2016.

Charges for Loan Impairment

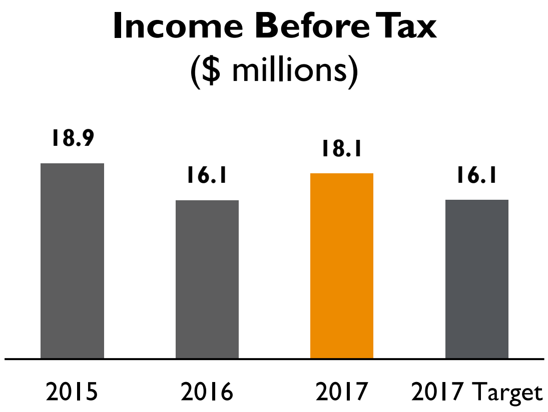
Charges for loan impairment represents the amount the Credit Union records for loan loss provisions. Total charges for loan impairment was $4.1 million, and is consistent with previous years. The Credit Union’s conservative lending practices have minimized the economic impact to our financial position.

Managed Expenses

Expense management was a key focus of the organization during the year. Overall, managed expenses were slightly below the previous year at $89.3 million. This demonstrates our ongoing commitment to improving the efficiency of the Credit Union.

Income Before Income Taxes

Income before income taxes was $18.1 million in Fiscal 2017, representing an increase of 12.7% from Fiscal 2016.



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. Total regulatory capital held by the Credit Union increased 6.3% during the year, ending at $377 million.

The Credit Union Deposit Guarantee Corporation (CUDGC), which regulates Alberta credit unions, mandates regulatory capital targets. The minimum supervisory capital target, expressed as capital as a percentage of risk weighted assets, is 11.5%. 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 for a total target of 13.5%, allowing for the impact of operational risk and strategic initiatives.

The Credit Union maintains an Internal Capital Adequacy Assessment Process (ICAAP) to determine the adequate level of capital the Credit Union needs to hold relative to its risk exposure. ICAAP assesses the material risks to determine if additional capital is required above the 2.0% cushion of risk weighted assets, as noted above. By actively managing the capital position, the Credit Union can ensure that it maintains capital levels that meet or exceed regulatory guidelines, while continuing to provide tangible member benefits through the Ownership Dividend Program.

Through its balanced approach to capital growth, Connect First has a capital to risk-weighted assets ratio of 14.3% at October 31, 2017. The Credit Union will continue to strengthen its capital position in 2018, maintaining a solid base for sustainable growth, and ensuring sufficient capital buffer against unexpected negative developments or economic downturn.

ECONOMIC OUTLOOK

Economic growth returned to Alberta in 2017, following two consecutive years of economic contraction in the province. Year-over-year real GDP growth in Alberta is expected to be over 3.0% for 2018, representing what will likely be the highest growth amongst the Canadian provinces. Economic growth rebounded as greater than expected strength in the energy sector and rebuilding efforts in Fort McMurray provided some relief. Despite the strength in economic growth during 2017, the province continues to recover to prerecession levels of output. Economic momentum is expected to continue into 2018 with continued positive growth and a gradually recovering labour market.

As of October 31, 2017, Alberta's unemployment rate was 7.8% which represents a decrease of 0.8% from one year earlier. With the renewed outlook for the upcoming year there is an expectation that the labour market will continue to recover as more businesses look to expand and increase staffing levels.

Fiscal 2017 represented the end of accommodative monetary policy, as the Bank of Canada increased the benchmark over-night rate twice. Subsequently, financial institutions increased the prime lending rate to end the year at 3.20%. While interest rates remain low, economic growth is expected to be supportive of further rate increases in Fiscal 2018. 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.

LEGISLATIVE AND POLICY DEVELOPMENTS

Changes to Uninsured Mortgage Qualifications

The Office of the Superintendent of Financial Institutions Canada (OSFI) announced changes to the qualification requirements for uninsured mortgages (where the mortgage as a percentage of the value of the property is less than 80%) effective January 1, 2018. This requires uninsured mortgages to qualify at the higher of the five-year benchmark rate published by the Bank of Canada or the contractual mortgage rate plus 2%. Two other changes were implemented; one increasing the measurements on Loan-to-Value (LTV), and the other that restricts agreements between banks and other lenders which would circumvent the maximum allowable LTV, or circumvent other portions of underwriting policies. Our regulator, CUDGC, is currently assessing the impact of adopting similar changes within the credit union system.

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. The Credit Union is currently assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

BUSINESS MODEL

Connect First serves more than 100,000 members through 29 locations in 14 communities across southern Alberta, under the Chinook Financial, Legacy Financial and First Calgary Financial brands.

Our business model is different than other Credit Unions. Each member-facing division retains the local autonomy necessary to meet the needs of its members and is supported by our broad and experienced corporate office.

With expertise ranging from Treasury and Asset/Liability Management to Risk and Compliance, Accounting and Administration, Human Resources, Marketing and Information Technology, 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 partner with us 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 minimal disruption to members, this model provides the flexibility to serve members locally, while driving efficiency through shared corporate functions.

Having completed an amalgamation in 2015, and having welcomed Legacy Financial in 2017, Connect First enters 2018 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 divisions, 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 division to meet the needs of the members in that market. With a focus on helping members bank where they want, when they want, we are investing in our digital and in-person channels to show members how banking local really feels in each of our divisions.

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 through our non-retail lines of business.

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 to "Make 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.

COMMUNITY INVESTMENT

To support our mission to make money make a difference, Connect First focuses on building strong local economies with proud communities. From urban to rural each of our communities face both common and distinct challenges that prevent some of their citizens from thriving in their local economies. As a locally owned financial cooperative, we have the unique opportunity to help communities address these challenges. Based on extensive stakeholder research, our community policy focuses on addressing four community investment priorities:

With these priorities as our focus, we invest through both our branch-led Act Local program and our corporate-led Shared Value partners and programs to address these community challenges.

RISK MANAGEMENT

Connect First has made a strong commitment to managing risk strategically with the objectives of protecting and increasing member 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, integrated enterprise risk management programs and by ensuring that our business strategies provide an appropriate return for the risks we take. Risk management processes are embedded within all major functions of our business as a means to identify, assess and proactively manage and monitor our risks. Through these processes, we establish reasonable assurance of achieving our objectives despite uncertainties in the environment which we operate.

One foundation of our enterprise risk management program is the building of a risk culture, where everyone is an owner of risk, from the Board to Management to all employees. The ongoing discussion of inherent risks of Connect First will help make decisions to balance both opportunities and risk.

The categories of key risk affecting Connect First are strategic, financial, operational and compliance. We have established a risk profile to assess our risk levels, 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 and Audit and Finance 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 renewed strategic direction.

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. Significant financial risk exposure can be found in liquidity risk, credit risk and market risk.

Liquidity Risk

Liquidity risk is the risk that arises from the Credit Union's potential inability to meet both expected and unexpected current and future cash flow needs without impacting daily operations or the financial condition of the organization. This includes the risk of having insufficient financial resources to meet the Credit Union's cash and funding requirements and the ability to meet statutory liquidity requirements.

Liquidity risk is the risk that arises from the Credit Union's potential inability to meet both expected and unexpected current and future cash flow needs without impacting daily operations or the financial condition of the organization. This includes the risk of having insufficient financial resources to meet the Credit Union's cash and funding requirements and the ability to meet statutory liquidity requirements. 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 monitor liquidity by managing and forecasting cash flows and evaluating the concentration of assets and liabilities according to approved policies. The 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 stable 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.

Credit is granted in accordance with board approved policies and detailed lending guidelines. Credit approvals require escalation in accordance with assigned delegated limits, which are subject to periodic review. Non-consumer credit is subject to annual review in a format commensurate with the risk of the individual exposure.

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 due to the risk of financial loss from movements in market prices that impact the value of the assets and liabilities of Connect First. Interest rate risk, and foreign exchange risk are the primary market risks that can impact interest margin as well as equity. The balance sheet of Connect First is comprised predominately 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.

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 controls, 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. Cybersecurity remains top of mind as our Credit Union seeks to expand its electronic member service delivery channels. As more members utilize online and mobile channels, the risk of a cybersecurity breach can increase, however, the Credit Union is continually improving its technology security infrastructure to mitigate these risks as best as possible. 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.

Regulatory and Compliance Risk

Regulatory and compliance risk is a result of not fulfilling the requirements of external or internal regulatory requirements. Our Credit Union operates in a regulated industry and is subject to both provincial and federal legislation. Thus, this risk exists in the everyday operations of our Credit Union.

To manage this risk, the Credit Union seeks to follow sound business practices through Board policies, operating policies and operating procedures. In addition, our corporate code of conduct and ethics defines actions that upholds the integrity and reputation of the Credit Union and ensures compliance with all applicable legislation.

2017
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, 2017, 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, 2017 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 11, 2017
Calgary, Canada

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

($ Thousands)	Notes	YEARS ENDED October 31, 2017	 October 31, 2016
ASSETS			
Cash and cash equivalents		19,655	49,845
Investments	5	552,780	522,785
Loans to members	6	3,851,156	3,652,502
Foreclosed property		1,561	-
Other assets	7	48,581	45,419
Intangible assets	8	3,488	3,754
Property and equipment	8	22,115	28,835
Assets held for sale	24	6,014	-
		4,505,350	**4,303,140**
LIABILITIES			
Members' deposits	9	3,962,527	3,908,080
Accounts payable and accruals		14,506	13,309
Secured borrowings	23	149,199	24,049
Deferred tax liability	15	88	706
		4,126,320	**3,946,144**
MEMBERS' EQUITY			
Common shares	12	122,306	108,796
Investment shares	12	122,395	120,673
Ownership dividend allocation	11	5,476	4,224
Investment share dividends declared	12	6,103	5,679
Contributed surplus		27,576	27,576
Retained earnings		93,565	88,870
Accumulated other comprehensive income		1,609	1,178
		379,030	**356,996**
		4,505,350	**4,303,140**

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

On behalf of the Board:

Andrew Eberl
Board Chair

Carey Taubert
Chair, Audit Committee

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

($ Thousands)	Notes	YEARS ENDED October 31, 2017	October 31, 2016
FINANCIAL INCOME			
Interest on loans to members	20	128,232	124,990
Interest and dividends on investments	22	6,947	6,033
Unrealized (losses) on interest rate swaps	20	(1,102)	(995)
		134,077	130,028
FINANCIAL EXPENSE			
Interest on members' deposits		44,273	43,503
Interest on loans payable		681	118
		44,954	43,621
Financial margin		**89,123**	**86,407**
Charge for loan impairment	6	4,069	3,414
		85,054	82,993
Other income	13	18,291	18,977
Gross margin		**103,345**	**101,970**
Personnel expenses	17	45,616	44,809
Operating lease expenses		5,797	5,863
Depreciation and amortization		4,237	4,250
Other expenses	14	29,579	30,976
		85,229	**85,898**
Income before income taxes		**18,116**	**16,072**
Income taxes	15		
Current		5,569	4,845
Deferred/(recovery)		(618)	(733)
		4,951	**4,112**
Net income		**13,165**	**11,960**
Change in unrealized gains (losses) on available for sale investments, net of income tax/(recovery) of $158 (2016 - $(31))		431	(87)
Comprehensive income		**13,596**	**11,873**

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

CONSOLIDATED STATEMENT OF MEMBERS' EQUITY

Years ended October 31, 2017 and 2016

($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, 2015	**91,751**	**91,215**	**3,528**	**4,562**	**27,576**	**84,232**	**1,265**	**304,129**
Net income						11,960		11,960
Change 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**
Net income						13,165		13,165
Change in unrealized loss on available for sale investments (net of income tax recovery of $158)							431	431
Transactions with members								
Shares issued to members for cash	19,494	-						19,494
Shares issued by dividend	4,224	5,679	(4,224)	(5,679)				-
2017 dividends declared - investment				6,103		(6,103)		
2017 dividends declared - ownership			5,476			(5,476)		
Income tax recovery, dividends declared						3,109		3,109
Shares redeemed for cash	(10,208)	(3,957)						(14,165)
Balance October 31, 2017	**122,306**	**122,395**	**5,476**	**6,103**	**27,576**	**93,565**	**1,609**	**379,030**

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

CONSOLIDATED STATEMENT OF CASH FLOW

($ Thousands)	YEARS ENDED October 31, 2017	October 31, 2016
Cash flows from operating activities		
Net Income	13,165	11,960
Adjustments for:		
Interest on loans to members	(128,232)	(124,990)
Interest on investments	(6,947)	(6,033)
Interest expense	44,954	43,621
Unrealized loss on interest rate swaps	1,102	995
Depreciation and amortization	4,237	4,250
Charge for loan impairment	4,260	4,677
Current/deferred income tax expense	4,951	4,112
Change in other assets	(4,264)	52
Change in accounts payable	(3,523)	1,688
Interest received	132,303	131,461
Dividends received	1,698	1,400
Interest paid	(46,026)	(44,703)
Income tax (paid)	(849)	(3,555)
Current tax recovery on dividends	3,109	2,581
Increase in members' deposits	55,518	91,113
(Increase) in loans to members, net of repayments	(204,435)	(186,060)
Proceeds from sale of foreclosed property	996	970
Net cash (used in) operating activities	**(127,983)**	**(66,461)**
Cash flows from financing activities		
Common shares issued for cash	19,494	21,166
Common share redemptions	(10,208)	(7,649)
Investment shares issued for cash	-	30,000
Investment share redemptions	(3,957)	(5,104)
Advances of secured borrowing	134,692	25,143
Repayment of secured borrowing	(9,542)	(1,094)
Net cash from financing activities	**130,479**	**62,462**
Cash flows used in investing activities		
Acquisition of investments	(1,203,489)	(1,270,719)
Proceeds from sale of investments	1,174,068	1,250,993
Acquisition of property and equipment, net	(2,186)	(847)
Acquisition of intangibles, net	(1,079)	(390)
Net cash (used in) investing activities	**(32,686)**	**(20,963)**
(Decrease) in cash and cash equivalents	(30,190)	(24,962)
Cash and cash equivalents, beginning of year	49,845	74,807
Cash and cash equivalents, end of year	**19,655**	**49,845**

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, 2017 and 2016

($ 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"). 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.

These consolidated financial statements include the accounts of the Credit Union and its wholly-owned subsidiary, 1549081 Alberta Ltd. During the fiscal years ended October 31, 2017 and 2016 the subsidiary has not been active and, consequently, the separate financial statements of the credit union would not differ significantly from the consolidated financial statements.

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 11, 2017. All amounts are in thousands unless otherwise noted.

1. 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.

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Financial Instruments

Cash and cash equivalents

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

Investments

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

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

Secured Borrowings

The Credit Union enters into agreements to securitize pools of residential mortgages and recognizes a liability when the underlying asset is not de-recognized. 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. When risks and rewards are not transferred, the securitization is accounted for as a secured borrowing.

(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. Amortization is calculated on a straight line basis over the estimated useful lives of the intangible assets. The estimated useful lives of the assets are as follows:

Computer software	3 to 10 years

(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 recognized on a straight-line basis over the estimated useful lives of the assets:

Parking lot	25 years
Buildings	10 to 55 years
Furniture and equipment	7 to 40 years
Computer equipment	5 years
Leasehold improvements	Remaining term of lease

Property and equipment are classified as assets held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. Such assets are measured at the lower of carrying amount and fair value less costs to sell.

(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 is 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.

3. FUTURE ACCOUNTING CHANGES

A number of new standards and amendments to standards and interpetations are not yet effective for the year ended October 31, 2017 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 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. The standard contains three principal classification categories for financial assets: measured at amortized cost, fair value through profit or loss and fair value through other comprehensive income. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

IFRS 9 replaces the incurred loss model in IAS 39 for impairment of financial assets with a forward-looking expected credit loss (ECL) model. This will require considerable judgment about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

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 commencing November 1, 2018. The Credit Union is assessing the impact of the new standard on its consolidated financial statements.

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 introduces a single on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Credit Union intends to adopt IFRS 16 in its financial statements for the annual period beginning November 1, 2019. The Credit Union will recognize new assets and liabilities for its operating leases of premises. The extent of the impact of adoption of the standard has not yet been determined.

4. 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 various forms of capital, 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:

- deferred 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;
- 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, 2017, the Credit Union's regulatory capital is 14.29% (2016 – 14.41%) of risk-weighted assets.

5. INVESTMENTS

	2017	2016
Investments available for sale - term deposits	22,350	22,417
Investments available for sale - other	2,754	2,166
Alberta Central term deposits		
- Non-statutory term deposits	196,477	158,055
- Statutory term deposits	287,366	297,659
Alberta Central shares	43,833	42,488
	552,780	522,785

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 21 (c).

6. LOANS TO MEMBERS

Loans to members are comprised as follows:

	2017	2016
Performing loans	3,805,273	3,609,224
Non performing loans	44,839	41,520
Accrued interest	8,798	7,764
Allowance for impairment	(7,754)	(6,006)
Total	3,851,156	3,652,502

Included in accrued interest receivable is $1,271 of interest on impaired loans (2016 - $1,458).

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

2017	On Demand	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 Years & Over	Total
Residential Mortgages							
- Insured	-	89,456	78,105	108,352	87,676	81,755	445,344
- Conventional	301,954	389,127	261,891	260,079	176,139	230,474	1,619,664
Consumer Loans	58,205	75,144	65,903	53,143	43,443	61,332	357,170
Commercial Mortgages	119,186	251,445	149,630	160,361	104,787	172,594	958,003
Commercial Loans	212,776	11,131	9,093	6,584	3,339	35,358	278,281
Agricultural Loans	12,481	969	447	391	620	18,872	33,780
Agricultural Mortgages	41,104	18,272	14,103	13,544	14,872	11,136	113,031
Total	745,706	835,544	579,172	602,454	430,876	611,521	3,805,273

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	755,814	795,002	720,274	418,646	452,125	467,363	3,609,224

Allowance for impairment consists of the following:

2017	Gross Portfolio	Specific Allowance	Collective Allowance	Net Loans	Non Performing Loans
Residential Mortgages	2,072,339	23	224	2,072,092	7,331
Consumer Loans	357,907	581	985	356,341	737
Commercial Mortgages	993,257	2,608	1,703	988,946	35,254
Commercial Loans	279,798	1,129	501	278,168	1,517
Agricultural Loans	33,780	-	-	33,780	-
Agricultural Mortgages	113,031	-	-	113,031	-
Total	3,850,112	4,341	3,413	3,842,358	44,839

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

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

	2017	2016
Balance, beginning of year	6,006	7,037
Loans written off	(2,512)	(5,708)
Provision for loan impairment	4,260	4,677
Balance, end of year	7,754	6,006

Recoveries reduced loan impairment expense charged to the statement of comprehensive income by $191 for 2017 (2016 - $1,263).

7. OTHER ASSETS

	2017	2016
Accounts receivable	14,514	14,982
Lease residual	18,387	18,476
Prepaid expenses	15,304	10,378
Fair value of swaps (Note 20)	264	1,366
Other	112	217
	48,581	45,419

8. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

	Land & buildings	Furniture & equipment	Computer equipment	Leasehold improvements	Total	Intangible assets
COST						
Balance at November 1, 2016	22,957	11,003	2,845	8,130	44,935	12,295
Acquisitions	177	1,253	487	301	2,218	1,079
Disposals	-	(162)	-	-	(162)	-
Transfer to assets held for sale	(6,528)	-	-	-	(6,528)	-
Balance at October 31, 2017	16,606	12,094	3,332	8,431	40,463	13,374

	Buildings	Furniture & equipment	Computer equipment	Leasehold improvements	Total	Intangible assets
DEPRECIATION AND AMORTIZATION						
Balance at November 1, 2016	(2,604)	(5,383)	(1,805)	(6,308)	(16,100)	(8,541)
Depreciation and amortization for the year	(631)	(1,051)	(373)	(837)	(2,892)	(1,345)
Disposals	-	130	-	-	130	-
Transfer to assets held for sale	514	-	-	-	514	-
Balance at October 31, 2017	(2,721)	(6,304)	(2,178)	(7,145)	(18,348)	(9,886)
NET BOOK VALUE						
October 31, 2016	20,353	5,620	1,040	1,822	28,835	3,754
October 31, 2017	13,885	5,790	1,154	1,286	22,115	3,488

9. MEMBERS' DEPOSITS

	2017	2016
Demand Deposits	1,312,805	1,284,019
Registered Savings Plans	326,808	336,110
Term Deposits	2,301,206	2,265,508
Registered Education Savings Plans	4,746	4,409
	3,945,565	3,890,046
Accrued Interest	16,962	18,034
Total	3,962,527	3,908,080

Maturities are as follows:

2017	On Demand	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 Years & Over	Total
Demand Deposits	1,312,805	-	-	-	-	-	1,312,805
Registered Savings Plans	114,232	82,284	53,818	47,290	13,044	16,140	326,808
Term Deposits	573,824	1,340,875	196,409	99,902	38,939	51,257	2,301,206
Registered Education Savings Plans	-	4,746	-	-	-	-	4,746
	2,000,861	1,427,905	250,227	147,192	51,983	67,397	3,945,565

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
	1,951,000	1,450,532	253,841	133,774	55,954	44,945	3,890,046

10. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Lease Commitments

Non-cancellable operating lease rentals are payable as follows:

	2017	2016
Less than one year	4,645	5,420
Between one and five years	7,562	11,556
More than five years	22	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.

	2017
Letters of credit	6,085
Commitments to extend credit with a term to maturity of one year or less	632,406

(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.

11. OWNERSHIP DIVIDENDS

The Board of Directors has declared an ownership dividend to be paid in fiscal 2018 in respect of fiscal 2017 to members by way of an issuance of common shares in the amount of $5,476 (2016 - $4,224). The ownership dividend allocated to members is based on member common share holdings.

12. 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 2017, 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, 2017 in the aggregate amount of $6,103 (2016 – $5,679). The payment will be made in December 2017 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.

13. OTHER INCOME

	2017	2016
Service charges and other fees	5,413	5,281
Foreign exchange gain/loss	1,097	2,318
Loan prepayment and other fees	2,847	3,079
Insurance	1,319	1,634
Credit card fees	632	568
Wealth management	4,216	3,967
Other	2,767	2,130
	18,291	18,977

14. OTHER EXPENSES

	2017	2016
Advertising	2,801	2,258
Technology	7,852	7,556
Member security and deposit insurance premium	4,147	6,848
Professional fees	1,221	831
Stationary, telephone, postage, courier	1,434	1,660
Financial planning	511	486
ATM/POS operations	1,473	1,550
Board expenses	591	692
Lending costs	910	939
Charitable donations/community investment	567	617
Occupancy	2,659	2,533
Amalgamation expenses (Note 24)	80	-
Other	5,333	5,006
	29,579	30,976

15. PROVISION FOR INCOME TAXES

The components of tax expense for the years ended October 31, 2017 and 2016 are as follows:

	2017	2016
Current tax expense		
Current period	5,569	4,845
Deferred tax expense		
Origination and reversal of temporary differences	(618)	(733)
Total income tax expense	**4,951**	**4,112**

Reconciliation of effective tax rate

	2017	2016
Income before tax	18,116	16,072
Income tax using the Credit Union's combined federal and provincial statutory Canadian tax rate of 26.85% (2016 - 26.07%)	4,864	4,190
Effect of tax rate changes and other	56	(106)
Non-deductible expenses	31	28
Total income tax expense	**4,951**	**4,112**

Recognized deferred tax assets and liabilities

	Property and Equipment	Provisions	Other Assets	Totals
As at November 1, 2016	(1,548)	1,210	(368)	(706)
Credit/(Charged) to the statement of income	127	195	296	618
As at October 31, 2017	**(1,421)**	**1,405**	**(72)**	**(88)**

16. 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:	**2017**	2016
Key management personnel and entities controlled by key management personnel	24,970	26,149

Outstanding deposits from:	**2017**	2016
Key management personnel and entities controlled by key management personnel	5,918	5,712

Compensation of key management personnel ($)

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

2017	**Base Compensation**	**Performance Incentive**	**Total Benefits**	**2017 Total**
Chief Executive Officer	390,000	112,936	154,937	657,873
Senior Vice President, Finance and Administration	189,000	54,350	90,456	333,806
Senior Vice President, Shared Services	210,000	60,389	66,424	336,813
Chief Risk Officer	175,000	50,324	75,364	300,688
Senior Vice President, Information Technology	177,215	49,174	89,559	315,948
President, First Calgary Financial	189,000	54,350	89,713	333,063
President, Chinook Financial	201,600	63,244	77,862	342,706

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

Paid to directors ($):

	2017	2016
Directors' fees and committee remuneration	353,971	378,013
Directors' expenses	17,925	22,469

Compensation to directors ranged from $7,350 (2016 - $9,050) to $60,038 (2016 - $54,568) with an average of $27,229 (2016- $27,037). 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.

17. PERSONNEL EXPENSES

	2017	2016
Salaries and wages	33,011	32,816
Short term benefits	12,039	11,728
Termination benefits	566	265
	45,616	44,809

18. 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.

2017

($ 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, 2017									
ASSETS									
Cash	0.11%	9,135	-	-	-	-	-	10,520	19,655
Investments	1.16%	533,417	5,175	2,600	100	-	7,021	4,467	552,780
Loans to Members	3.42%	943,939	655,073	579,172	602,454	430,876	611,521	28,121	3,851,156
Other	3.04%	-	-	-	-	-	-	81,759	81,759
	3.12%	**1,486,491**	**660,248**	**581,772**	**602,554**	**430,876**	**618,542**	**124,867**	**4,505,350**
LIABILITIES and EQUITY									
Deposits	1.21%	2,181,951	1,000,371	250,227	147,192	51,983	67,397	263,406	3,962,527
Other	0.00%							542,823	542,823
	1.06%	**2,181,951**	**1,000,371**	**250,227**	**147,192**	**51,983**	**67,397**	**806,229**	**4,505,350**
BALANCE SHEET MISMATCH		(695,460)	(340,123)	331,545	455,362	378,893	551,145	(681,362)	-
Derivatives		(50,000)	25,000	25,000		-	-	-	-
NET MISMATCH		(745,460)	(315,123)	356,545	455,362	378,893	551,145	(681,362)	-

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 and 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)	-

19. 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, 2017, the following facilities were in place:

(a) A revolving line of credit authorized to a maximum amount of $90,000 including a US dollar component equivalent to CAD $21,750 that is repayable on demand and bears interest at prime less one-half of one percent per annum.

(b) A revolving term loan with an authorized limit of $254,000 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, 2017, the credit facilities are undrawn.

The total guaranteed commitment level for the above facilities at October 31, 2017 is set at 2% of the Credit Union's assets or $344,000 under normal operating conditions. Total borrowing facilities can be increased to 8% of the Credit Union's assets in the case of an unexpected emergency liquidity event. 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.

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

The Credit Union's interest rate swaps and available for sale investments other than Central shares are reported in the consolidated statement of financial position at fair value. Fair value is a point-in-time estimate that may change in subsequent reporting periods, primarily in response to changes in market interest rates. A fair value hierarchy is used to categorize the inputs used in valuation techniques to measure fair value. The fair value of interest rate swaps and available for sale term deposits was measured with internal models using observable future interest rates as inputs (level 2 of the hierarchy). Available for sale – other investment is measured at fair value using inputs that are unobservable (level 3 of the fair value hierarchy), as there are no observable market prices for the investment. Valuation techniques include net present value and discounted cash flow models. During the year, an increase in fair value of $588 was recorded in other comprehensive income.

2017

	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Assets					
Investments - held to maturity	-	286,877	-	286,877	287,366
Investments - available for sale	-	262,660	2,754	265,414	265,414
Loans	-	3,852,499	-	3,852,499	3,851,156
Total	-	4,402,036	2,754	4,404,790	4,403,936
Liabilities					
Deposits	-	3,961,235	-	3,961,235	3,962,527
Secured borrowings	-	149,549	-	149,549	149,199
Total	-	4,110,784	-	4,110,784	4,111,726

2016

	Level 1	Level 2	Level 3	Total fair value	Carrying amount
Assets					
Investments - held to maturity	-	297,072	-	297,072	297,659
Investments - available for sale	-	222,960	2,166	225,126	225,126
Loans	-	3,674,771	-	3,674,771	3,652,502
Total	-	4,194,803	2,166	4,196,969	4,175,287
Liabilities					
Deposits	-	3,891,864	-	3,891,864	3,908,080
Secured borrowings	-	25,531	-	25,531	24,049
Total	-	3,917,395	-	3,917,395	3,932,129

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.

2017

	Notional Amount	Positive Fair Value
Interest Rate Swaps	50,000	264

2016

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

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 7). During the year ended October 31, 2017, outstanding interest rate swaps resulted in realized gains of $643 (2016 - $1,116) and unrealized losses of $1,102 (2016 - $995). Realized gains are included in interest on loans to members in the statement of comprehensive income.

21. 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

2017	Consumer loans and residential mortgages	Agricultural mortgages and loans	Commercial mortgages and loans	Total
Grades				
1 to 5 - satisfactory risk			1,150,558	1,150,558
6-7 unimpaired			90,044	90,044
8-9 impaired			36,771	36,771
Commercial mortgages and loans			1,277,373	**1,277,373**
Residential mortgages and loans	2,424,853			2,424,853
Agricultural mortgages and loans		148,616		148,616
Impaired loans	8,068			8,068
Allowance for impaired loans	(1,813)		(5,941)	(7,754)
	2,431,108	**148,616**	**1,271,432**	**3,851,156**

2016	Consumer loans and 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)
	2,283,229	**124,960**	**1,244,313**	**3,652,502**

Aging of overdue but not impaired loans:

2017

Loan Type	30 to 59 days	60 to 89 days	Total
Commercial	13,216	6,494	19,710
Consumer	1,354	418	1,772
Residential	4,211	3,117	7,328
Agricultural	4,714	249	4,963
Total	23,495	10,278	33,773

2016

Loan Type	30 to 59 days	60 to 89 days	Total
Commercial	8,087	8	8,095
Consumer	1,594	504	2,098
Residential	7,642	1,449	9,091
Agricultural	1,004	50	1,054
Total	18,327	2,011	20,338

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

	2017	2016
Commercial:		
Real estate, rental & leasing	727,255	658,352
Construction	112,685	97,782
Accommodation & food services	140,788	133,119
Health care & social assistance	78,274	131,467
Retail trade	48,332	50,948
Finance & insurance	17,454	30,324
Other	148,267	141,943
	1,273,055	1,243,935
Retail:		
Mortgages	2,072,339	1,951,823
Dealer loans & leases	220,313	191,986
Unsecured lending	40,796	44,465
Secured lending	96,798	95,071
	2,430,246	2,283,345
Agriculture:		
Mortgages	113,031	109,989
Loans	33,780	13,475
	146,811	123,464
	3,850,112	**3,650,744**

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 deposits and borrowings. The Asset Liability Committee (ALCO) is a committee comprised of senior management that meets at least quarterly and ad-hoc as required. Every meeting must include the Chief Executive Officer. Responsibilities include:

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

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

The following table provides the potential before-tax impact of a 100 basis point ("bps") increase or 100 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:	2017
100 basis point increase in rates	8,394
100 basis point decrease in rates	(7,248)

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 2017 the Credit Union's liquidity as at October 31, 2017 exceeds minimum requirements by $529 (2016 - $204).

22. INVESTMENT INCOME

During the fiscal year, the Credit Union received patronage dividends of $1,700 (2016 - $1,400) from Alberta Central. These distributions have been recorded in interest and dividends on investments in the statement of comprehensive income.

23. SECURITIZATION

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

The Credit Union has determined that an amount of $134,692 (2016 - $25,143) raised from securitization transactions with repayments of $9,542 (2016 - $1,094) 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 transactions. The balance at October 31, 2017 is $149,199 (2016 - $24,049). The residential mortgages are categorized as Loans to Members and they are held as security for the secured borrowings. The carrying amount as at October 31, 2017, of the associated residential mortgages as at October 31, 2017 is $150,785 (2016 - $23,869). Connect First has no obligation to repurchase the securitized mortgages.

The National Housing Act Mortgage-Backed Securities (NHA MBS) program consists of investments that are financed by pools of insured mortgages. Investors in these pools receive monthly payments of principal and interest where principal is distributed from the payments of the mortgagors and interest is based on the pool's coupon rate. Timely payment of the blended payments is guaranteed by the Canada Mortgage and Housing Corporation (CMHC).

In the Canadian Mortgage Bond (CMB) program, the monthly and amortizing cash flows are converted into a fixed interest coupon bond. Interest payments are made semi-annually with a final principal payment at maturity.

Secured Borrowings	Maturity Date	Pricing Yield	As at October 31, 2017	As at October 31, 2016
CMB	December 1, 2019 to September 1, 2022	1.0600% to 2.2080%	57,860	24,049
NHA MBS	November 1, 2018 to December 1, 2021	1.0700% to 2.1230%	91,339	-
Total			149,199	24,049

24. SUBSEQUENT EVENTS

Amalgamation with Legacy Savings and Credit Union Ltd.

Subsequent to year end, on November 1, 2017, the Credit Union amalgamated with Legacy Savings and Credit Union Ltd. (“Legacy”). Pursuant to the terms of the amalgamation, all members of Legacy exchanged their common shares for shares of Connect First on a one for one basis for total consideration of $1,438.

The business combination will be accounted for using the acquisition method, with the Credit Union acquiring 100% of the net assets of Legacy.

Legacy operates two branches in the City of Calgary. The amalgamation will allow Connect First to create a presence in the greater downtown area without an outlay of capital and be a further visible representation of the Credit Union’s regionally focused merger model. Legacy members will gain from a larger range of products and services, innovative technology offerings, and receive extended support through Connect First’s Member Care Centre.

At the date of these financial statements, the fair values of the assets and liabilities acquired has not yet been finalized. The carrying amount of net assets acquired is $6,248.

Sale of Administration Building

On November 4, 2017, the Credit Union completed a sale of the administration building located at 510 – 16th Ave. NE Calgary, AB for cash proceeds of $6,500. The net book value of the building on October 31, 2017 was $6,014, resulting in a gain of $486 which will be recorded in fiscal 2018. The carrying value of the building is included as assets held for sale on the statement of financial position at October 31, 2017.