2014
Financial Report

First Calgary Financial

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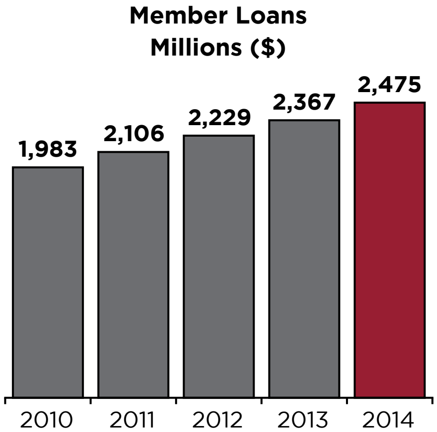
MANAGEMENT'S DISCUSSION AND ANALYSIS

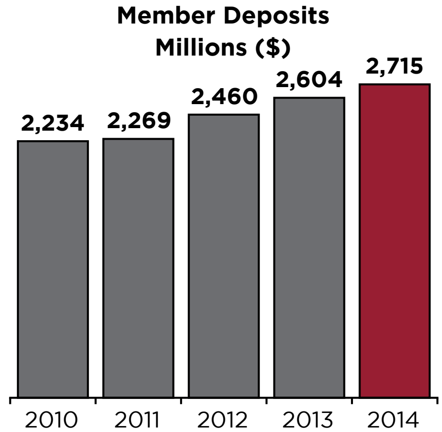
Management's Discussion and Analysis (MD&A) provides additional commentary and information on the results of operations and financial condition of First Calgary Financial Credit Union Limited for the years ending October 31, 2014 and 2013. The MD&A is an integral part of the annual report and should be read in conjunction with the consolidated financial statements.

Like the financial statements, the MD&A gives First Calgary Financial 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 results of operations, financial condition and future prospects, the MD&A lets members look at First Calgary Financial through the eyes of management.

The following discussion and analysis is the responsibility of management and is as of December 9th, 2014.

2014 FINANCIAL PERFORMANCE REVIEW





Consolidated Statements of Financial Position

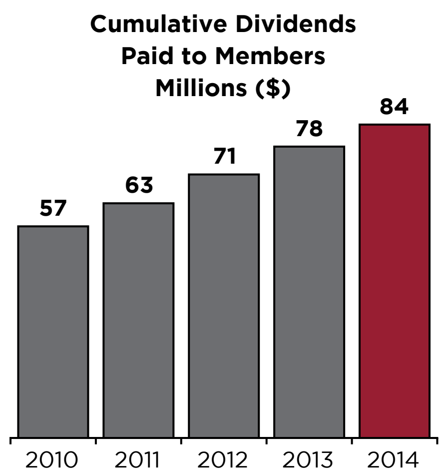
Total assets at year-end increased $116.8 million, or 4.2 per cent, over the previous year.

Total net loans at year-end increased $107.8 million, or 4.6 per cent, from a year ago.

Residential mortgages surpassed $1.41 billion during fiscal 2014 and comprised 57.3 per cent of our loan portfolio at year-end. At the end of fiscal 2013, residential mortgages represented $1.36 billion or 58.1 per cent of our loan portfolio. The 3.0 per cent growth in our commercial loan portfolio has resulted in this portfolio comprising 35.6 per cent of our loan portfolio at year-end. Consumer loans grew by $42.6 million during fiscal 2014, comprising 7.1 per cent of our total loan portfolio. This is compared to 5.6 per cent at the end of fiscal 2013.

Member deposits at year-end were up $111.1 million, or 4.3 per cent, from a year ago. The increase was primarily in term deposits and demand deposits, which grew by $45.0 and $71.0 million respectively over 2013, while registered deposits decreased by $4.9 million.

Members' equity increased by $7.1 million, or 3.6 per cent, in 2014. By increasing members' equity through profits, we provide capital for growth pay dividends to our members. We have paid more than $57.0 million in patronage and dividends to members over the past decade. In 2013 we launched a new method of paying profits back to members, referred to as an Ownership Dividend. For fiscal 2014 we paid a 6.0 per cent dividend on common share balances to our members, resulting in a $1.7 million dollar payment. Dividends were also paid on investment shares; this payment was equal to $4.6 million.



Consolidated Statements of Comprehensive Income

We continued to remain in an extremely low interest rate environment throughout 2014. Financial margin, which is the difference between the income we earn on loans and the interest we pay on deposits, continues to be compressed due to competition in the marketplace and little difference between short and long term interest rates. At year-end, financial margin was $67.1 million, $3.9 million lower than 2013.

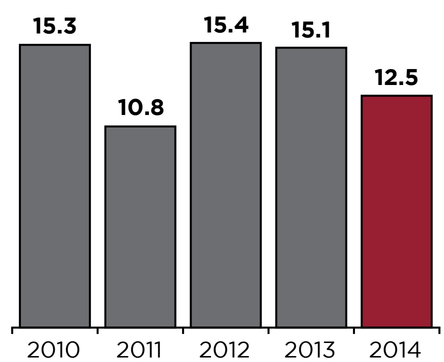
Non-interest revenue, which includes banking fees, mutual-fund sales fees, foreign-exchange services and insurance-related services, was $11.9 million in 2014, up $0.3 million from last year. The increase in non-interest revenue was primarily due to revenue generated from our wealth management sector.

Operating expenses remain well managed, with a decrease of $1.5 million or 2.3% during the year. Much of the decrease from the previous year can be attributed to a reduction in personnel expenses.

At year-end, 0.6 per cent of loans were in arrears compared with 1.1 per cent the previous year. This decrease was the result of active management of arrears arising from the impacts on the local economy stemming from the worldwide economic slowdown that started in 2008 which impacted the local economy and our portfolio. Management regularly reviews economic conditions in conjunction with the performance of First Calgary Financials loan portfolio to identify indications of impairment and ensure security levels are adequate to prevent significant losses, and that adequate provision has been made for future loan losses.

Adjusted comprehensive income from operations, before income taxes was $12.5 million in 2014, a decrease of $2.6 million or 17.1 per cent from 2013. Comprehensive income after income taxes was $9.1 million in 2014 compared to $9.9 million in 2013.

Adjusted Comprehensive Income Millions ($)



FIRST CALGARY FINANCIAL 2014 MEMBER SCORECARD

The member scorecard is a set of non-financial measures each, compared to an annual target set and approved by the Board of Directors. The following is a snapshot of First Calgary Financials performance against those targets in 2014.

Objective	Measure	2014 Target	2014 Result
MEMBER SATISFACTION			
Member Score	Results from member survey	81	85
MEMBER GROWTH			
New Members	Annual growth in membership	2,500	3,337

FINANCIAL DATA • FIVE-YEAR HISTORY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

($ Thousands)	IFRS 2014	IFRS 2013	IFRS 2012	IFRS 2011	IFRS 2010
ASSETS					
Cash and cash equivalents	52,460	10,717	8,925	9,284	14,968
Investments	348,686	385,226	385,608	303,683	363,801
Loans to members	2,475,268	2,367,440	2,229,357	2,106,350	1,982,989
Foreclosed property	–	39	572	3,568	3,071
Other assets	30,779	24,616	13,064	18,187	17,797
Intangible assets	4,068	4,261	4,542	3,375	3,712
Property and equipment	17,802	19,936	20,521	21,505	22,718
	2,929,063	2,812,235	2,662,589	2,465,952	2,409,056
LIABILITIES					
Members' deposit	2,714,898	2,604,199	2,459,786	2,269,293	2,233,554
Accounts payable and accruals	6,361	7,027	8,961	7,942	12,375
Provisions	1,267	1,388	1,300	1,238	1,156
Deferred tax liability	1,242	1,462	1,747	2,434	3,156
	2,723,768	2,614,076	2,471,794	2,280,907	2,250,241
MEMBERS' EQUITY					
Common shares	29,947	27,469	25,472	24,346	22,398
Investment shares	91,736	90,592	88,943	87,265	65,975
Ownership dividend allocation	1,657	2,072	3,100	2,200	3,059
Investment share dividends declared	4,588	4,964	4,644	4,548	3,504
Retained earnings	76,252	72,325	68,636	66,686	63,879
Accumulated other comprehensive income	1,115	737	–	–	–
	205,295	**198,159**	**190,795**	**185,045**	**158,815**
	2,929,063	**2,812,235**	**2,662,589**	**2,465,952**	**2,409,056**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

($ Thousands)	IFRS 2014	IFRS 2013	IFRS 2012	IFRS 2011	CGAAP 2010
FINANCIAL INCOME					
Interest on loans to members	95,473	95,853	99,504	104,284	102,669
Interest and dividends on investments	6,369	9,610	3,881	3,187	2,079
Unrealized losses on interest rate swaps	(638)	(2,091)	(5,047)	(569)	(2,794)
	101,204	103,372	98,338	106,902	101,954
FINANCIAL EXPENSE					
Interest on members' deposits	34,128	32,412	32,037	37,932	34,604
Interest on loans payable	1	16	8	10	205
	34,129	32,428	32,045	37,942	34,809
FINANCIAL MARGIN	**67,075**	**70,944**	**66,293**	**68,960**	**67,145**
Charge for loan impairment	3,300	4,642	3,820	8,354	4,635
	63,775	66,302	62,473	60,606	62,510
Other income	11,940	11,621	12,540	14,134	14,467
GROSS MARGIN	**75,715**	**77,923**	**75,013**	**74,740**	**76,977**
Personnel expenses	32,962	34,000	32,452	30,290	29,951
Operating lease expenses	5,398	5,208	4,887	4,706	4,457
Depreciation and amortization	3,666	3,748	4,356	4,899	4,243
Other expenses	22,331	22,946	22,953	24,661	25,794
	64,357	65,902	64,648	64,556	64,445
INCOME BEFORE PATRONAGE ALLOCATION AND INCOME TAXES	**11,358**	**12,021**	**10,365**	**10,184**	**12,532**
Patronage			3,100	2,200	3,059
Income taxes					
Current	2,811	3,093	2,334	2,190	2,988
Future	(220)	(285)	(687)	(722)	(1,272)
	2,591	2,808	1,647	1,468	1,716
NET INCOME	**8,767**	**9,213**	**5,618**	**6,516**	**7,757**
Change in unrealized gains on available for sale investments	378	737	–	–	–
COMPREHENSIVE INCOME	**9,145**	**9,950**	**5,618**	**6,516**	**7,757**
ADJUSTED COMPREHENSIVE INCOME BEFORE TAX	**12,484**	**15,051**	**15,412**	**10,753**	**15,326**
RETURN ON ASSETS	**0.43%**	**0.55%**	**0.60%**	**0.44%**	**0.65%**
RETURN ON EQUITY	**6.19%**	**7.74%**	**8.20%**	**6.25%**	**10.01%**
OPERATING EFFICIENCY	**80.80%**	**77.85%**	**77.07%**	**77.16%**	**76.35%**

Return on assets, equity and operating efficiency was calculated based on adjusted net earnings from operations before tax.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

TO THE DIRECTORS OF CONNECT FIRST CREDIT UNION LIMITED:

The Management of Connect First Credit Union Limited prepared these consolidated financial statements of First Calgary Financial Credit Union Limited and is responsible for their reliability, completeness and integrity. They were prepared in accordance with the requirements of the Credit Union Act (Alberta) and conform in all material respects to International Financial Reporting Standards.

Management maintains the necessary reporting and internal control systems to provide reasonable assurance of the timely production of reliable and accurate financial information, the protection of assets against loss or unauthorized use, and the promotion of operational efficiency. Internal audit provides management with the ability to assess the adequacy of these controls. The Audit and Finance Committee has implemented a plan to review internal controls as deemed appropriate for this Credit Union. The Board of Directors, acting through its Audit and Finance Committee, oversee management's responsibilities for the financial reporting and internal control systems.

KPMG LLP, appointed by the Board of Directors, conducted an audit of these consolidated financial statements in accordance with Canadian generally accepted auditing standards. The Audit and Finance Committee reviewed these consolidated financial statements before recommending their approval to the Board of Directors.

Paul Kelly
CEO

Sandra Kaye
Senior Vice President of Finance & Administration

Calgary, Canada
December 9, 2014

INDEPENDENT AUDITORS' REPORT

To the Directors of Connect First Credit Union Limited

We have audited the accompanying consolidated financial statements of First Calgary Financial Credit Union Limited, which comprise the consolidated statement of financial position as at October 31, 2014, 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 First Calgary Financial Credit Union Limited as at October 31, 2014 and its consolidated financial performance and its consolidated cash flow for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants
December 9, 2014
Calgary, Canada

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

($ Thousands)	Notes	YEARS ENDED October 31, 2014	YEARS ENDED October 31, 2013
ASSETS			
Cash and cash equivalents		52,460	10,717
Investments	**5**	348,686	385,226
Loans to members	**6**	2,475,268	2,367,440
Other assets	**7**	30,779	24,655
Intangible assets	**8**	4,068	4,261
Property and equipment	**8**	17,802	19,936
		2,929,063	**2,812,235**
LIABILITIES			
Members' deposits	**9**	2,714,898	2,604,199
Accounts payable and accruals		6,361	7,027
Provisions		1,267	1,388
Deferred tax liability	**15**	1,242	1,462
		2,723,768	**2,614,076**
MEMBERS' EQUITY			
Common shares	**12**	29,947	27,469
Investment shares	**12**	91,736	90,592
Ownership dividend allocation	**11**	1,657	2,072
Investment share dividends declared	**12**	4,588	4,964
Retained earnings		76,252	72,325
Accumulated other comprehensive income	**2**	1,115	737
		205,295	**198,159**
		2,929,063	**2,812,235**
Subsequent event	**23**		
Commitments	**10**		

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

On behalf of the Board:

Ron Gibson
Board Chair

Kevin Van Koughnett
Chair, Audit Committee

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

($ Thousands)	Notes	YEARS ENDED October 31, 2014	October 31, 2013
FINANCIAL INCOME			
Interest on loans to members	**20**	95,473	95,853
Interest and dividends on investments	**22**	6,369	9,610
Unrealized losses on interest rate swaps	**20**	(638)	(2,091)
		101,204	103,372
FINANCIAL EXPENSE			
Interest on members' deposits		34,128	32,412
Interest on loans payable		1	16
		34,129	32,428
Financial Margin		**67,075**	**70,944**
Charge for loan impairment	**6**	3,300	4,642
		63,775	66,302
Other income	**13**	11,940	11,621
Gross Margin		**75,715**	**77,923**
Personnel expenses	**17**	32,962	34,000
Operating lease expenses		5,398	5,208
Depreciation and amortization		3,666	3,748
Other expenses	**14**	22,331	22,946
		64,357	65,902
Income before income taxes		11,358	12,021
Income taxes	**15**		
Current		2,811	3,093
Deferred (recovery)		(220)	(285)
		2,591	2,808
Net income		**8,767**	**9,213**
Change in unrealized gains on available for sale investments, net of income tax of $110 (2013 - $202)		378	737
Comprehensive income		**9,145**	**9,950**

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

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY

Years ended October 31, 2014 and 2013
($ Thousands)

	Common shares	Series A-F investment Shares	Ownership dividends declared	Investment share dividends declared	Retained earnings	Accumulated other comprehensive income	Total equity
BALANCE NOVEMBER 1, 2012	**25,472**	**88,943**	**3,100**	**4,644**	**68,636**	**–**	**190,795**
Net income					9,213		9,213
Change in unrealized gains on available for sale investments (net of income tax of $202)						737	737
Transactions with members							
Shares issued to members for cash	22						22
Shares issued by dividend	3,100	4,644	(3,100)	(4,644)			–
2013 dividends declared - investment				4,964	(4,964)		–
2013 dividends declared - ownership			2,072		(2,072)		–
Income tax recovery, dividends declared					1,512		1,512
Shares redeemed for cash	(1,125)	(2,995)					(4,120)
BALANCE OCTOBER 31, 2013	**27,469**	**90,592**	**2,072**	**4,964**	**72,325**	**737**	**198,159**
Net income					8,767		8,767
Change in unrealized gains on available for sale investments (net of income tax of $105)						378	378
Transactions with members							
Shares issued to members for cash	1,607						1,607
Shares issued by dividend	2,072	4,964	(2,072)	(4,964)			–
2014 dividends declared - investment				4,588	(4,588)		–
2014 dividends declared - ownership			1,657		(1,657)		–
Income tax recovery, dividends declared					1,405		1,405
Shares redeemed for cash	(1,201)	(3,820)					(5,021)
BALANCE OCTOBER 31, 2014	**29,947**	**91,736**	**1,657**	**4,588**	**76,252**	**1,115**	**205,295**

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

CONSOLIDATED STATEMENTS OF CASH FLOW

	YEARS ENDED	
($ Thousands)	October 31, 2014	October 31, 2013
Cash flows from operating activities		
Net Income	8,767	9,213
Add (deduct):		
Interest on loans to members	(95,473)	(95,853)
Interest/dividends on investments	(6,396)	(9,610)
Interest expense	34,129	32,428
Unrealized losses on interest rate swaps	638	2,091
Loss on disposal of property and equipment	55	–
Depreciation and amortization	3,666	3,748
Charge for loan impairment	3,639	5,022
Current/deferred income tax expense	2,591	2,808
Change in other assets	(6,801)	(13,643)
Change in accounts payable	(2,700)	(2,826)
Interest received	101,669	100,093
Dividends received	1,303	5,928
Interest paid	(34,568)	(32,301)
Income tax paid	(1,008)	(2,315)
Increase in members' deposits	111,138	144,286
Increase in loans to members, net of repayments	(113,771)	(146,233)
Proceeds from sale of foreclosed property	32	3,315
Net cash from operating activities	**6,937**	**6,151**
Cash flows used in financing activities		
Common shares issued for cash	1,607	22
Common share redemptions	(1,201)	(1,125)
Investment share redemptions, net	(3,820)	(2,995)
Current tax recovery on dividends	1,405	1,512
Net cash used in financing activities	**(2,009)**	**(2,586)**
Cash flows from (used in) investing activities		
Acquisition of investments	(1,047,000)	(1,198,339)
Proceeds from sale of investments	1,085,209	1,199,448
Acquisition of property and equipment, net	(665)	(2,233)
Acquisition of intangibles, net	(729)	(649)
Net cash from (used in) investing activities	**36,815**	**(1,773)**
Increase in cash and cash equivalents	41,743	1,792
Cash and cash equivalents, beginning of year	10,717	8,925
Cash and cash equivalents, end of year	**52,460**	**10,717**

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, 2014 and 2013

($ thousands)

First Calgary Financial Credit Union Limited ("First Calgary Financial" or the "Credit Union") was formed on March 18, 1987 pursuant to the Credit Union Act of the Province of Alberta ("the Act") as an amalgamation of seven open bond credit unions. The amalgamation was effective November 1, 1986. Throughout fiscal 2014, First Calgary Financial operated a network of Credit Union branches in the City of Calgary and surrounding area.

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 Credit Union's registered office is located at 200, 510 – 16 Avenue NE, Calgary, Alberta, T2E 1K4.

On November 1, 2014 First Calgary Financial amalgamated with Chinook Credit Union Ltd. to form Connect First Credit Union Limited (see note 23).

The consolidated financial statements have been approved for issue by the Board of Directors of Connect First Credit Union Limited on December 9, 2014.

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.

Effective November 1, 2013 the Credit Union adopted the following new and amended accounting standards as issued by the International Accounting Standards Board (IASB):

IFRS 10 *Consolidated Financial Statements* (IFRS 10) provides a single consolidation model that defines control and establishes control as the basis of consolidation for all types of interests. Under IFRS 10 the Credit Union controls an entity when it has the power over the entity, exposure or rights to variable returns from the Credit Union's involvement in the entity, and the ability to exercise power to affect the amount of returns. The adoption of IFRS 10 did not impact the consolidated financial statements of the Credit Union.

IFRS 13 *Fair Value Measurement* (IFRS 13) provides a common definition of fair value and establishes a framework for measuring fair value. The new standard also requires some additional disclosures about certain fair value measurements. The adoption of IFRS 13 did not impact the consolidated financial statements of the Credit Union.

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

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

Loans to Members

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

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

Identification and Measurement of Impairment

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

First Calgary Financial 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 remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in net income for the period. Negative fair values are included in accounts payable and positive fair values are included in other assets in the statement of financial position.

Translation of Foreign Currencies

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

(b) Foreclosed Properties

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

(c) Intangible Assets

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

(d) Property and Equipment

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

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

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

(e) Impairment of Non-Financial Assets

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

(f) Provisions

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

(g) Income Taxes

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

(h) Share Capital

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

(i) Revenue Recognition

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

Interest income and Expense

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

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

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

Gains (Losses) on Interest Rate Swaps

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

Other Income

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

Accumulated Other Comprehensive Income

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

(j) Defined Contribution Pension Plan

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

(k) Lease Payments

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

(l) Consolidated Financial Statements

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

3. FUTURE ACCOUNTING CHANGES

A number of new standards and amendments to standards and interpretations are not yet effective for the year ended October 31, 2014 and have not been applied in preparing these consolidated financial statements.

IFRS 9 *FINANCIAL INSTRUMENTS*

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

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

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. 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 or 1.0% of the consolidated statement of financial position assets, whichever is greater, allowing for the impact of operational risk and strategic initiatives. Should the buffer fall below 2%, management together with the Board of Directors will determine what corrective action needs to be taken, if any.

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

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

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

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

- Future income tax asset or liability.
- Goodwill and other intangible assets.

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

- Identifying the capital needed to support the current and planned operations of the Credit Union, including operations conducted or to be conducted through subsidiaries;
- Developing and submitting to the Board of Directors for its approval, appropriate and prudent capital management policies, including policies on the quantity and quality of capital needed to support the current and planned operations that reflect both the risks to which the Credit Union is exposed and its regulatory capital requirements;
- Regularly measuring and monitoring capital requirements and capital position, and ensuring First Calgary 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, 2014, the Credit Union's regulatory capital is $200,461 (2013 - $199,954) compared to the minimum capital requirement of $128,090 (2013 - $130,568).

5. INVESTMENTS

	2014	2013
Investments available for sale - term deposits	16,853	64,628
Investments available for sale - other	2,108	1,620
Central term deposits		
Non-statutory term deposits	82,559	83,010
Statutory term deposits	218,623	209,325
Central shares	28,543	26,643
	348,686	**385,226**

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

The Credit Union is required by the Act to hold shares in Central, which are also a condition of membership in Central; however, these shares do not confer direct voting privileges. Credit Unions have the right to vote on certain issues at Central's annual general meeting ("AGM"). Most votes at the AGM are egalitarian but Credit Unions do have the right in certain circumstances to call for a weighted vote based on assets and membership. In a weighted vote the Credit Union would have approximately 13% of the votes (proportionate to its share holdings in Central).

As required by the Act, the Credit Union maintains statutory term deposits in Central to satisfy the legislated liquidity level, as described in Note 21 (c).

6. LOANS TO MEMBERS

Loans to members are comprised as follows:

	2014	2013
Performing loans	2,459,328	2,349,875
Impaired loans	15,144	26,570
Accrued interest	5,356	7,666
Allowance for impairment	(4,560)	(16,671)
Total	**2,475,268**	**2,367,440**

Included in accrued interest receivable is $1,153 of interest on impaired loans (2013 - $3,280).

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

2014	On Demand	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 Years & Over	Total
Residential Mortgages							
Insured	9	69,401	72,185	80,402	54,942	36,915	313,854
Conventional	262,061	248,843	261,266	160,384	94,434	67,127	1,094,115
Consumer Loans	38,530	50,412	27,296	21,747	15,154	21,713	174,852
Commercial Mortgages	76,418	153,057	133,799	109,140	113,605	78,570	664,587
Commercial Loans	182,313	4,331	7,071	4,392	3,353	10,460	211,920
Total	**559,331**	**526,044**	**501,617**	**376,065**	**281,488**	**214,785**	**2,459,328**

2013	On Demand	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 Years & Over	Total
Residential Mortgages							
Insured	20	69,651	59,598	62,431	70,758	50,386	312,844
Conventional	262,067	263,412	191,102	130,050	120,798	86,025	1,053,454
Consumer Loans	35,741	36,176	22,511	15,505	11,496	10,778	132,207
Commercial Mortgages	85,359	142,499	90,976	97,187	101,968	146,464	664,453
Commercial Loans	175,346	2,572	1,195	4,184	2,150	1,470	186,917
Total	**558,533**	**514,310**	**365,382**	**309,357**	**307,170**	**295,123**	**2,349,875**

Allowance for impairment consists of the following:

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

2013	Gross Portfolio	Specific Allowance	Collective Allowance	Net Loans	Non Performing Loans
Residential Mortgages	1,370,954	8	178	1,370,768	3,085
Consumer Loans	132,468	348	327	131,793	259
Commercial Mortgages	745,428	5,976	961	738,491	9,471
Commercial Loans	127,595	8,708	164	118,723	13,755
Total	**2,376,445**	**15,040**	**1,631**	**2,359,774**	**26,570**

Changes in allowance for impairment:

	October 31, 2014	October 31, 2013
Balance, beginning of year	16,671	16,752
Loans written off	(15,750)	(5,103)
Provision for loan impairment	3,639	5,022
Balance, end of year	**4,560**	**16,671**

Recoveries reduced loan impairment expense charged to the statement of comprehensive income by $339 for 2014 (2013 - $380).

7. OTHER ASSETS

	2014	2013
Accounts receivable	11,966	14,060
Lease residual	10,943	1,910
Prepaid expenses	5,794	5,971
Fair value of swaps (note 20)	1,979	2,617
Employee benefits	97	97
	30,779	**24,655**

8. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

	Land & buildings	Furniture & equipment	Computer equipment	Leasehold improvements	Total	Intangible assets
Cost						
Balance at November 1, 2013	10,381	8,551	1,970	12,422	33,325	10,943
Acquisitions	94	301	279	22	696	729
Disposals	–	(368)	(283)	(1,824)	(2,475)	(370)
Balance at October 31, 2014	**10,475**	**8,484**	**1,966**	**10,620**	**31,546**	**11,302**

	Buildings	Furniture & equipment	Computer equipment	Leasehold improvements	Total	Intangible assets
Depreciation and Amortization						
Balance at November 1, 2013	(890)	(3,650)	(875)	(7,974)	(13,389)	(6,682)
Depreciation and amortization for the year	(314)	(780)	(367)	(1,283)	(2,744)	(922)
Disposals	–	301	283	1,805	2,389	370
Balance at October 31, 2014	(1,204)	(4,129)	(959)	(7,452)	(13,744)	(7,234)
Net book value						
October 31, 2013	**9,491**	**4,901**	**1,095**	**4,448**	**19,936**	**4,261**
October 31, 2014	**9,271**	**4,355**	**1,007**	**3,168**	**17,802**	**4,068**

9. MEMBERS' DEPOSITS

	2014	2013
Demand Deposits	835,344	764,298
Registered Retirement Plans	309,888	314,769
Term Deposits	1,555,007	1,510,034
	2,700,239	2,589,101
Accrued Interest	14,659	15,098
Total	**2,714,898**	**2,604,199**

Maturities are as follows:

2014	On Demand	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 Years & Over	Total
Demand Deposits	835,344	–	–	–	–	–	835,344
Registered Retirement Plans	74,622	110,934	58,181	39,652	11,024	15,475	309,888
Term Deposits	401,799	865,163	177,484	67,743	22,115	20,703	1,555,007
Total	**1,311,764**	**976,097**	**235,665**	**107,395**	**33,139**	**36,178**	**2,700,239**

2013	On Demand	Within 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 Years & Over	Total
Demand Deposits	764,298	–	–	–	–	–	764,298
Registered Retirement Plans	80,688	105,619	68,160	35,909	13,540	10,854	314,770
Term Deposits	351,772	895,239	152,286	67,633	21,580	21,523	1,510,033
Total	**1,196,758**	**1,000,858**	**220,446**	**103,542**	**35,120**	**32,377**	**2,589,101**

10. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Lease Commitments

Non-cancellable operating lease rentals are payable as follows:

	2014	2013
Less than one year	5,153	5,075
Between one and five years	13,654	15,566
More than five years	47	356

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.

		2014
Letters of Credit	$	7,199
Commitments to extend credit with a term to maturity of one year or less	$	444,498

(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 2015 in respect of fiscal 2014 to members by way of an issuance of common shares in the amount of $1,657. The ownership dividend allocated to members is based on member common share holdings.

For fiscal year 2013, an ownership dividend of $2,072 was paid 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 Investment Shares

In October 2014, the Board of Directors approved a 5% dividend to holders of record of Series A, B, C, D, E and F Investment Shares for the year ended October 31, 2014 in the aggregate amount of $4,588 (2013 – $4,964). The payment will be made in December 2014 through the issuance of additional Series A, B, C, D, E and F Investment Shares, respectively

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

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

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

13. OTHER INCOME

	2014	2013
Service charges and other fees	3,636	4,366
Loan prepayment and other fees	3,307	3,277
Insurance	1,148	949
Credit card fees	422	335
Wealth management	1,924	1,588
Other	1,503	1,106
	11,940	**11,621**

14. OTHER EXPENSES

	2014	2013
Advertising	2,336	2,797
Technology	5,281	5,022
Member security and deposit insurance premium	4,107	3,876
Professional fees	666	986
Stationary, telephone, postage, courier	1,119	1,166
Travel, meals and entertainment	411	372
ATM/POS operations	684	644
Organization	1,759	1,912
Loan issuance costs	1,626	1,573
Amalgamation expenses (note 23)	199	–
Other	4,143	4,598
	22,331	**22,946**

15. PROVISION FOR INCOME TAXES

The components of tax expense for the years ended October 31, 2014 and 2013 are as follows:

	2014	2013
Current tax expense		
Current period	2,811	3,093
Deferred tax expense		
Origination and reversal of temporary differences	(220)	(285)
Total income tax expense	**2,591**	**2,808**

Reconciliation of effective tax rate

	2014	2013
Income before tax	11,358	12,021
Income tax using the Company's combined federal and provincial statutory Canadian tax rate of (2014 22.5%; 2013 21.5%)	2,552	2,584
Effect of tax rate changes and other	10	200
Non-deductible expenses	29	24
Total income tax expense	**2,591**	**2,808**

Recognized deferred tax assets and liabilities

	Property and Equipment	Provisions	Other Assets	Total
As at November 1, 2013	(1,395)	521	(588)	(1,462)
Credit/(charged) to the statement of income	111	(18)	127	220
As at October 31, 2014	**(1,284)**	**503**	**(461)**	**(1,242)**

16. RELATED PARTY TRANSACTIONS

Related parties of First Calgary 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.

	2014	2013
Outstanding loans to:		
Key management personnel and entities controlled by key management personnel	26,269	27,769

	2014	2013
Outstanding deposits from:		
Key management personnel and entities controlled by key management personnel	3,641	3,667

Compensation of key management personnel ($)

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

	Base Compensation	Performance Incentive	Total Benefits	2014 Total	2013 Total
President and Chief Executive Officer	335,778	44,615	128,214	508,607	491,662
Senior Vice President, Strategy & Operations	185,021	19,652	50,420	255,093	284,610
Senior Vice President, Human Resources & Governance	191,293	29,591	60,452	281,336	247,640
Vice President, Finance	165,767	19,402	27,603	212,772	224,576
Vice President, Business Banking	183,677	18,340	59,138	261,155	262,805
Vice President, Retail Banking *	34,446	–	4,374	38,820	244,536

** Position only includes 3 months of compensation due to changes in personnel during the fiscal year.*

The board administers a performance-based incentive compensation program for all eligible employees. Amounts are accrued as an expense in the fiscal year earned, and paid to the individuals in the following year. The performance incentive amounts in the table above were earned in fiscal 2013 and paid in 2014. An accrual of $1,000,000 has been recorded in these financial statements in respect of performance incentive for fiscal 2014 for all employees, including key management personnel.

Paid to directors ($):

	2014	2013
Directors' fees and committee remuneration	364,313	300,446
Directors' expenses	2,450	2,769

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

Directors' fees and committee remuneration increased in 2014 due to costs associated with the amalgamation with Chinook Credit Union Ltd.

17. PERSONNEL EXPENSES

	2014	2013
Salaries and wages	24,796	25,830
Short term benefits	7,611	7,984
Long term benefits	–	171
Termination benefits	555	15
	32,962	**34,000**

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 receive 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.

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

2013 *($ 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, 2013									
Assets									
Cash	0.05%	1,999	–	–	–	–	–	8,718	10,717
Investments	1.04%	329,130	54,469	–	–	–	–	1,627	385,226
Loans to Members	3.94%	699,782	392,003	364,004	309,357	307,170	295,124	–	2,367,440
Other	0.00%	–	–	–	–	–	–	48,852	48,852
	3.46%	**1,030,911**	**446,472**	**364,004**	**309,357**	**307,170**	**295,124**	**59,197**	**2,812,235**
Liabilities and Equity									
Deposits	1.25%	1,357,806	680,008	220,445	103,542	35,120	32,378	174,900	2,604,199
Other	0.00%	–	–	–	–	–	–	208,036	208,036
	1.16%	**1,357,806**	**680,008**	**220,445**	**103,542**	**35,120**	**32,378**	**382,936**	**2,812,235**
Balance Sheet Mismatch		(326,895)	(233,536)	143,559	205,815	272,050	262,746	(323,739)	–
Derivatives		(125,000)	50,000	–	50,000	–	25,000	–	–
Net mismatch		(451,895)	(183,536)	143,559	255,815	272,050	287,746	(323,739)	–

19. CREDIT FACILITIES

The Credit Union has certain credit facilities in place allowing it to borrow funds on a short-term basis from Central. These facilities are classified as financial liabilities measured at amortized cost. As at October 31, 2014, the following facilities were in place:

(a) A line of credit authorized to a maximum amount of $150,000 that is repayable on demand and bears interest at prime less one-half of one percent.

(b) A term loan with an authorized limit of $100,000 that is repayable in equal monthly installments over the term of the loan and bears interest at bankers' acceptance plus 0.25 percent for terms of less than one year and Government of Canada bonds plus 0.50 percent for terms of one year and over.

As at October 31, 2014, an amount of $0 (2013 - $ 0) is outstanding.

The total guaranteed commitment level for the above facilities at October 31, 2014 is set at 5% of the Credit Union's assets or $146,545. 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 amounts do not include the fair value of items that are not considered financial assets or financial liabilities, such as premises and equipment and equity instruments.

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

The Credit Union's interest rate swaps and available for sale investments other than Central shares are reported in the consolidated statement of financial position at fair value. Fair value is a point-in-time estimate that may change in subsequent reporting periods, primarily in response to changes in market interest rates. A fair value hierarchy is used to categorize the inputs used in valuation techniques to measure fair value. The fair value of interest rate swaps and available for sale term deposits was measured with internal models using observable future interest rates as inputs (level 2 of the hierarchy). Available for sale – other investment is measured at fair value using inputs that are unobservable (level 3 of the fair value hierarchy), as there are no observable market prices for the investment. Valuation techniques include net present value and discounted cash flow models. During the year, available for sale – other investment was transferred from Level 2 to Level 3 and an increase in fair value of $488 was recorded in other comprehensive income.

2014
Assets

	Notes	Carrying Value	Fair Value	Favourable/ (Unfavourable)
Investments	5	348,686	348,144	(542)
Loans to Members	6	2,475,268	2,483,760	8,429
Liabilities				
Members' Deposits	9	2,714,898	2,685,323	(29,575)

2013
Assets

	Notes	Carrying Value	Fair Value	Favourable/ (Unfavourable)
Investments	5	385,226	385,317	91
Loans to Members	6	2,367,440	2,378,524	11,084
Liabilities				
Members' Deposits	9	2,604,199	2,610,090	(5,891)

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 reprice 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.

2014

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

2013

	Notional Amount	Positive Fair Value
Interest Rate Swaps	125,000	2,617

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, 2014, outstanding interest rate swaps resulted in realized gains of $1,709 (2013 - $2,767) and unrealized losses of $638 (2013 - $2,091). 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

2014	Consumer loans and residential mortgages	Commercial mortgages and loans	Total
Grades			
1 to 5 - satisfactory risk		875,090	875,090
6 unimpaired		7,639	7,639
7-9 impaired		11,550	11,550
Commercial mortgages and loans		894,279	894,279
Residential mortgages and loans	1,581,995		1,581,955
Impaired loans	3,594		3,594
Allowance for impaired loans	(964)	(3,597)	(4,560)
	1,584,586	**890,682**	**2,475,268**

2013	Consumer loans and residential mortgages	Commercial mortgages and loans	Total
Grades			
1 to 5 - satisfactory risk		821,701	821,701
6 unimpaired		36,949	36,949
7-9 impaired		23,226	23,226
Commercial mortgages and loans		881,876	881,876
Residential mortgages and loans	1,498,891		1,498,891
Impaired loans	3,344		3,344
Allowance for impaired loans	(1,394)	(15,277)	(16,671)
	1,500,841	**866,599**	**2,367,440**

Aging of overdue but not impaired loans:

2014

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

2013

Loan Type	30 to 59 days	60 to 89 days	Total
Commercial	–	–	–
Consumer	314	104	418
Residential	4,953	874	5,827
Total	**5,267**	**978**	**6,245**

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		2014	2013
Commercial:			
	Real Estate, rental & leasing	506,072	529,581
	Construction	84,637	108,339
	Accommodation & food services	75,524	79,935
	Health Care & social assistance	78,245	41,951
	Retail trade	31,035	23,079
	Finance & insurance	32,787	14,670
	Other	79,756	75,468
		888,056	**873,023**
Retail:			
	Mortgages	1,410,972	1,370,954
	Dealer loans and leases	117,792	78,342
	Unsecured lending	35,340	33,627
	Secured lending	22,312	20,499
		1,586,416	1,503,422
		2,474,472	**2,376,445**

Credit Risk Management

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

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

The collateral and other enhancements held by First Calgary 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.

The Credit Union's policy is to pursue timely realization of the collateral in an orderly manner.

b) Market Risk

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

Risk Management

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

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

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

The following table provides the potential before-tax impact of a 100 basis point ("bps") increase or 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:	2014
100 basis point increase in rates	3,004
100 basis point decrease in rates	(3,305)

c) Liquidity Risk

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

The desired liquidity level above the statutory requirement is determined by taking into account the balance between the cost of liquidity and the yield achieved. The Credit Union will at all times maintain statutory liquidity levels as required by regulations. Immediate corrective action will be taken if the ratio approaches the regulatory minimum. The Act requires that statutory liquidity deposits be held with Central. Statutory liquidity includes eligible deposits and shares of Central. The statutory liquidity ratio is 9.0% of average deposits and borrowings for the second prior month. Based on average deposits and borrowings for August 2014 the Credit Union's liquidity as at October 31, 2014 exceeds minimum requirements by $136,920.

22. INVESTMENT INCOME

During the fiscal year, the Credit Union received patronage dividends of $1.3 million (2013 - $5.9 million) from Central. These distributions have been recorded in interest and dividends on investments in the statement of comprehensive income.

23. SUBSEQUENT EVENT

Subsequent to year end, on November 1, 2014, the Credit Union amalgamated with Chinook Credit Union Ltd. ("Chinook") to form Connect First Credit Union Limited ("Connect First"). Pursuant to the terms of the amalgamation, all members of First Calgary and Chinook exchanged their common shares and investment shares of the predecessor credit unions for shares of Connect First on a one for one basis.

The business combination will be accounted for using the acquisition method, with the Credit Union acquiring 100% of the net assets of Chinook. Chinook operates branches in several communities in Southern Alberta.

The new credit union will create new economies of scale that will drive enhanced profitability and the ability to invest in returns to members, enhance products and services, and support both local communities. Leveraging the best of both legacy credit unions, the core financial strategy for the new credit union will be to share resources across a larger asset base, expand lending opportunities across the region and retain a diversified, well managed portfolio of assets.

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