servus credit union™

Management's Discussion and Analysis
Consolidated Financial Statements

For the year ended October 31, 2018

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Table of Contents

SERVUS CREDIT UNION LTD.
Management's Discussion and Analysis
For the year ended October 31, 2018

Servus Credit Union Ltd.'s (Servus or the credit union) 2018 annual report consists of Management's Discussion and Analysis and the Consolidated Financial Statements for the year ended October 31, 2018, which details our credit union's financial and operating results. This document is available on request or online at servus.ca.

Note regarding forward-looking statements:

This annual report contains forward-looking statements about the operations, objectives and expected financial performance of Servus. 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 Servus's forward-looking statements.

Member Banking

With roots that go back to 1938, Servus Credit Union has provided financial services to generations of Albertans. Over the years, Servus has grown to become Alberta's largest credit union and the first province-wide credit union in Canada. We're proud to provide personalized and exceptional service to our members, and we look forward to serving many more members in the future.

Currently, close to 380,000 members are served by nearly 2,200 hard-working and dedicated Servus employees from more than 100 locations in 59 communities across Alberta. Our regional offices in Red Deer, Lloydminster and Edmonton support the business and administrative needs of our members and employees.

Our day-to-day operations are overseen by our Executive:

- Garth Warner, President & Chief Executive Officer
- Yves Auger, Chief Information Officer
- Michelle Belland, Chief Marketing & Digital Officer (from September 2018)
- Dan Bruinooge, Chief People & Corporate Services Officer
- Ian Glassford, Chief Financial Officer (retired May 2018)
- Ryan Gobolos, Chief Financial Officer (from June 2018)
- Dion Linke, Chief Operating Officer (from January 2019)
- Taras Nohas, Senior Vice President, Strategy & Governance
- Darcy Peelar, Chief Credit, Compliance & Operational Support Officer (retired December 2018)
- Joanne Simes, Chief Credit Officer (from December 2018)
- Gail Stepanik-Keber, Chief Brand, Digital Banking & Corporate Social Responsibility Officer (to August 2018); Purpose & Innovation Officer (from September 2018)
- Caroline Ziober, Chief Operating Officer (to December 2018); Chief Member Experience Officer (from January 2019)

Guiding Our Work

Our vision, noble purpose and values tell the world who Servus is and what people can expect from us. They provide clear direction for our credit union, focus our efforts and guide our operations. The provincial, national and global economy may change, but Servus knows where it's going and how it's getting there.

Our Vision

Servus Credit Union builds a better world — one member at a time.

Our Noble Purpose

Shaping member financial fitness

Our Values

Community, Fairness, Integrity, Investing in Our People, Life/Work Balance, Member Service, Teamwork

Servus is a co-operative financial institution committed to:

- Member ownership – voluntary and open
- Democratic member control
- Member economic participation
- Autonomy and independence
- Education, training and information
- Co-operation among co-operatives
- Concern for community
- Exceptional service
- Local decision-making
- Profit Share®
- 100% deposit guarantee

Together with our vision, noble purpose and values, these principles serve as guides for the work that's done within the credit union and in our communities.

Helping Our Communities

Servus has always been a strong advocate for investing in our communities. It's one of the principles that guide our business.

This past year, the credit union worked with our not-for-profit member organizations to foster resiliency in our communities. For members and the general public, we've expanded our offerings with partners of reduced-fee or no-fee community access opportunities in small and large centers across the province. Examples include free skiing nights; public skating and swimming events; and museum, cinema and performing arts access nights. These programs help families participate in local activities and connect them to their communities for a reasonable cost. At the same time, these partnerships benefit not-for-profit organizations when local residents who might not otherwise attend are exposed to events and venues.

In 2018, we made contributions to many organizations in order to provide greater public access. These are some of our partners:

- Edmonton Heritage Festival
- Edmonton Opera
- Glenbow Museum (Calgary)
- Lethbridge arenas: Servus Sports Centre, Archie Miller Arena, Centennial Civic Centre Arena
- Nitehawk Ski Club (Grande Prairie)
- Servus Arena (Red Deer)
- Telus World of Science (Edmonton)
- The Lending Cupboard (Red Deer)
- WinSport (Calgary)

Social Impact

Servus contributes to society in many ways. The credit union participates in programs to address systemic social issues and supports employee volunteering and fundraising within Alberta's communities and abroad. Last year, the credit union:

- Supported 982 community organizations with $2.5 million in financial contributions
- Provided $16,200 in scholarships for students attending Alberta post-secondary schools
- Supported the development of credit unions internationally by hosting a credit union manager from Malawi in June at the Entwistle branch. This is part of our commitment to the Cooperative Development Foundation (CDF). Our guest was Mary Bokosi, Finance Manager for Polymed Savings and Credit Cooperative in Malawi, which is located in the southeastern part of Africa
- Offered initiatives aimed at raising employee awareness of financial fitness, work/life balance, mental wellness, diversity and inclusion, and other causes
- Continued our use of data and information security safeguards to protect personal information against loss or theft
- Provided members with information to counteract fraudulent attempts to gain access to their funds

Environmental Impact

Over the past several years, Servus has taken a number of steps to improve its environmental performance. We have identified the following key environmental impacts, measured these impacts and set targets to improve greenhouse gas emissions, energy and paper consumption, materials consumption and waste. In 2018 we:

- Decreased our year-over-year carbon footprint per member from 43 kg. to 40 kg. Our Greenhouse gas (GHG) emissions decreased significantly this year to 9.7% below FY15 baseline levels exceeding our FY20 target of a 4% reduction in absolute tonnes.
- Decreased paper use year over year by 25%, and we are now 26% below the FY15 baseline levels exceeding our target to reduce by 15% by FY20. In addition, we recycled the equivalent of 77% of all paper consumed by us and outsourced suppliers, up from 71% in FY17.
- Once again, we recycled 100% of our electronic waste and, this year, we have our first data point as a baseline for recycled comingled (general) waste — excluding confidential paper — at 7.3%, which we will monitor moving forward.

Recognizing Our Credit Union

Servus was honoured to receive a number of awards this year. We strongly believe in the work we do and appreciate the acknowledgements. During 2018, the credit union:

- Received three Achievement in Marketing Excellence (AIME) awards at the National Credit Union Awards: in the Public & Community Relations category for the Mobile Escape Room, in Direct Marketing for the First time homebuyers' cashback mortgage direct mail program, and in Television for the Profit Share® Rewards Calculator commercial.
- Re-qualified as a member of the Platinum Club of Canada's Best Managed Companies for the 9th year
- Named to Forbes 2018 Canada's Best Employers list and one of top three financial institutions
- Named one of 2018 Financial Health Leaders, and the only one in Canada, by the Centre for Financial Services Innovation
- Won Editor's Choice Award from CardRates.com for our new Servus World Elite Mastercard

Servus is most proud that credit unions were first again in Customer Service Excellence in Ipsos' Best Banking Awards.* Every year, Ipsos asks Canadians about their banking experience and, for the 14th year in a row, credit unions outperformed other Canadian financial institutions when it came to providing great service. Credit unions were also first in Branch Service Excellence for the 14th consecutive year. For us, it's always about putting our members first.

**Ipsos 2018 Best Banking Awards were based on ongoing quarterly Customer Service Index (CSI) survey results. The sample size for the total 2018 CSI program year ending with the August 2018 survey wave was 49,732 completed surveys.*

Economic Environment: 2018 Review

The global economy experienced stable growth in 2018 with GDP on pace to rise 3.7% compared with 3.8%in 2017. Global growth has been supported predominantly by developing economies (around 4.6%) compared with more advanced economies (around 2.3%).

Of the stronger advanced economies, US GDP is forecasted to grow approximately 3.0% in 2018 after achieving 2.2% growth in 2017. The strengthening economy prompted the Federal Reserve to hike interest rates four times in 2018 on top of the three rate increases in 2017. Meanwhile, the labor market in the US continued to tighten in 2018, with unemployment falling from 4.1% in 2017 to a forecast of 3.9% for 2018.

Canada's GDP growth peaked mid-year and has fallen back in the latter half of 2018. GDP growth is forecasted to finish at approximately 2.3% for the year after growing 3.0% in 2017. 2018 saw the Bank of Canada increase interest rates twice, in January and July. While this may not have come as welcome news to borrowers, it was the result of a steadily improving economy and provided some assistance to savers who have been dealing with abnormally low rates for a prolonged stretch of time.

In addition to the effects of rising interest rates, the housing market was also impacted by mortgage rule tightening at the federal level in an effort to cool increasing price activity in Canada's largest cities. On the labour front, unemployment is expected to fall under 6% by the end of the year, compared with 6.3% in 2017.

Relative to the US dollar, the Canadian dollar fell by 6 cents from $0.797 in early January to $0.734 at the end of December. This drop in the exchange rate is to be expected given that the US economy experienced stronger growth and increased interest rates twice more than Canada.

Alberta GDP growth cooled during 2018 and is expected to finish around 2.4% after a robust 4.4% growth rate in 2017.

The big story in Alberta during 2018 was the divergence between the oil prices for West Texas Intermediate and Western Canada Select. The differential reached an all-time high of $50 in October before the provincial government took action to temporarily cap output supply. As of writing, the differential now sits at $17. While 2018 opened with optimism about pipeline development, the year ended without progress and more uncertainty looking forward.

Housing starts in Alberta are forecasted to fall approximately 10% through 2018, feeling the effects of the federal mortgage rule changes, rising interest rates and a slowing economy. One economic factor that did support housing affordability was a falling unemployment rate, from 7.8% in 2017 to an expected rate of 6.7% in 2018.

Servus's Financial Highlights in 2018

The results for 2018 show measured growth, acquisition as planned of the Mastercard book of business with resulting increases to income and expenses, a continued focus on bringing new features and benefits to our members, all while managing costs. Total assets grew 4.9%. Patronage payments to our members increased $3 million or 11.0% while total Profit Share including dividends was $54.1 million.

Financial Position

Net loan growth in 2018 was $618.9 million (4.5%). The growth was a combination of measured loan growth with new and existing members and the acquisition of the Mastercard book, which added $231.7 million.

Member deposits grew $279.3 million (2.2%). As interest rates rise, more members are moving funds into more stable term deposits — both registered and non-registered.

During the year, Servus amalgamated with Inglewood Credit Union and Canada Safeway Limited Employees Savings and Credit Union Limited, both in Calgary. Through these amalgamations, a branch was added in Calgary, and additional products and services were provided to over 4,100 members who joined Servus. These amalgamations contributed $66.9 million in assets to our growth.

Capital Ratios

Servus's capital position continues to improve, with a capital position that significantly exceeds our regulatory requirements. As a financial co-operative, Servus's board and management see the importance of maintaining a generational trust with our members. The long term viability and safety of member deposits is taken very seriously. Net Income added to our retained earnings, our most stable form of capital, and improved our ratios in 2018.

	2018	2017	2018 Internal Policy Requirement	2018 Minimum Supervisory Requirement
Capital to assets	8.9%	8.8%	4.0%	4.0%
Retained earnings to assets	5.2%	5.0%	4.0%	N/A
Capital as a % of risk-weighted assets	16.00%	15.70%	13.50%	11.50%

Revenues

The purchase of the Mastercard book contributed significantly to net interest income. The remaining increase to net interest income came from changes in loan and deposit interest rates and growth in the remaining loan book. While the increase in interest rates impacts borrowers, it also benefits savers and allows the credit union to invest in technology and services for our members.

Mastercard also contributed to other income through annual fees, interchange and other card related revenues. Members continue to save through our Wealth Services and the related income continues to grow despite a poor performing Canadian market this year, which added to our other income. Despite a lackluster year in the markets, our members' total assets under administration increased to $3.4 billion. Service charge revenue also increased as we realized a full year's impact of the fee changes implemented in the middle of last year to bring us in line with market and cover rising operational expenses.

Expenses

To generate the extra Mastercard income, certain costs increased, including personnel costs, administrative and processing costs and borrowing costs associated with the acquisition of the book (increased revenues usually come with increased costs to support that revenue). The employee complement increased directly in the Cards and Payments department and in supporting areas, such as Special Loans, Call Centre, Accounting, Marketing, Information Services and Analytics.

In addition to administrative costs, loan write-offs for cards were higher than expected. As a result, the increased net interest income plus other income was partially offset by higher credit losses and administrative costs. This resulted in net income from Mastercard of approximately $7.1 million. Compared to $4.3 million net income from the CUETS relationship in the previous year, this increased our income by $2.8 million.

We have spent some time evaluating the credit losses and feel a portion of these are due to the transition after acquiring the book. New procedures for next year, including auto pay and more direct calling to remind of payments, are expected to reduce the amounts written off in 2019.

Overall, the provision for credit losses increased $15.5 million from $13.3 million to $28.8 million. This is almost entirely due to the addition of the credit card loan portfolio noted above. Despite the increase in loan delinquency, the allowance for credit losses appears sufficient for the losses incurred in the loan book, and the credit quality of the remaining book appears strong.

Other operating expense changes, beside Mastercard, include modest changes to personnel costs due to an increase in average number of employees, a cost of living adjustment and merit increases. The increase was offset by a reduction in earned incentive pay. The cumulative effect is that total personnel costs are up slightly for the year.

Spending on professional fees for initiatives also increased. With external support our Digital Banking group was able to deliver on Apple Pay debit and credit and make progress on Business Online Banking and further enhancements to mobile and online banking. New initiatives to create more efficiencies by supporting data cleansing and analytics, and making that data available to employees, were also moved forward, with delivery dates in 2019. A system to replace our electronic document software was implemented in 2018, with additional improvements planned for 2019 and 2020. The increases in technology and systems also come at a cost, as more computer systems are implemented and amortization continues to increase.

Profit Share, Operating and Net Income

A big win for our members is that patronage increased $3.0 million or 11.0% in 2018 and total Profit Share including dividends rose to $54.1 million, giving more back to our members. The Patronage Advance program was initiated in 2018 where members are able to work one-on-one with our financial advisors to receive expected patronage in advance to achieve specific financial fitness goals.

Changes to other comprehensive income are primarily from our investment in Credit Union Central of Alberta (Alberta Central). The majority of the change is a result of the creation of a new wealth management company, Aviso. This new company will have greater resources to invest in, provide more value to our members who use these services and do more to help partners compete and thrive in a rapidly changing environment. The gains realized this year are a result of increased value of the original investment Alberta Central held in one of the predecessor organizations.

Overall, net income (after dividends, patronage and taxes) increased by $3.9 million or 4.7%, reflecting increased financial fitness for members and improved financial fitness for Servus. Net income is the key to building our capital, which allows the credit union to continue to grow, continue our long-term sustainability, offer competitive services and products, and allow our team of experienced advisors to shape member financial fitness.

Key Performance Drivers

The credit union's balanced scorecard* for 2018 shows strong results in member loyalty and employee engagement.

Objective	Measure	2018 Target	2018 Result	2017 Result
The value of being a member is clear and compelling	Member Satisfaction[1]	82% (+/-2.5%)	81.5%	84.1%
Servus members as advocates	Member Loyalty Index[1]	76% (+/-2.5%)	81%	78.7%
High level employee engagement	Employee engagement	80% (+/-1.0%)	85%	83%
Positive leadership climate	Leadership Climate Index	73% (+/-1.0%)	74%	73%
Financial growth	Operating income[2]	$138.9 million	$140.8 million	$126.5 million
Reduced dependency on interest based income	Other income as a percentage of average assets[2]	0.676%	0.707%	0.636%
Leveraging assets profitably	Return on assets[2]	0.888%	0.894%	0.834%
Business process improvement for efficiency and effectiveness	Operating efficiency ratio[2, 3]	66.288%	64.598%	66.922%
	Operating expenses as a percentage of average assets[2]	2.032%	2.060%	2.06%

[1]For SIPP purposes, Servus uses a margin of error of +/-2.5% around the reported number.
[2]Results are before patronage, income taxes and extraordinary items.
[3]The operating efficiency ratio is a ratio of expenses to revenues. In essence, it measures how much the credit union spent to earn a dollar of revenue. A lower percentage reflects better results.

*For more information on the balanced scorecard, see p. 10.

Economic Environment: 2019 Outlook

The International Monetary Fund is forecasting global Gross Domestic Product (GDP) growth in the area of 3.7% again in 2019. It seems that growth may have reached a plateau, while trade tensions and other geo-political situations like Brexit have added a cloud of uncertainty to the global markets as we head into 2019. We expect heightened volatility to continue as the central theme for the foreseeable future.

A promising year for oil prices in 2018 reversed course in the last quarter of the year with West Texas Intermediate (WTI) falling from a peak of $76 in early October to a low of $42 in late December. This sudden drop exposes many 2019 forecasts to downward revisions in the $40 - $50 range.

In the US, GDP is expected to fall towards 2.5% in 2019, which is now suggesting that the Federal Reserve may slow their pace when it comes to interest rate hikes. Despite its shrinking capacity, the US labour market is expected to tighten even further in 2019, albeit, marginally.

While not in the base forecast, an all-out trade war between the US and China would ultimately derail both the global and US GDP forecasts materially. Until the situation is resolved, the threat of such a scenario continues to shed a dark cloud over the outlook for the global economy.

For Canada, forecasters are calling for further slowing in GDP for 2019, with growth expectations coming in slightly under 2%.

As recently as November, the market expected interest rates to rise two or three times in 2019. However, the economic uncertainty that crept into the markets in December has virtually wiped away those expectations at the time of writing. There is still a chance of a rate hike in 2019, but the odds of that are now below 50%. The Bank of Canada appears to be in a more neutral position and will be heavily influenced by incoming economic data. While not currently priced into market expectations, a rate cut is suddenly a possibility again if economic results continue to disappoint.

This rate outlook may offer some reprieve to borrowers and aid first-time home buyers looking to enter the market in the face of tighter mortgage qualification standards. For savers, it looks like the progress that's been made towards higher real returns on fixed-rate investments may be taking a break in 2019. Overall,we expect the interest rate environment to once again be more volatile than normal as it reacts to shifting economic and political events in the face of uncertainty.

Closer to home, Alberta's economy is projected to grow slightly in 2019. GDP growth forecasts are calling for growth in the 1% to 2% range. Lack of progress on pipeline development continues to weigh on the Alberta oil and gas sector, impacting the economy overall. The provincial government's recent caps on supply have closed the gap between WTI and Western Canada Select substantially for the time being; however, the longer term effectiveness remains to be seen.

For Servus and our members, we look to have another strong financial year in 2019, which will see us invest in our technology infrastructure and our noble purpose to help shape member financial fitness.

Setting the Direction: 2019 – 2021 Strategic Plan

In 2017, Servus veered in an exciting new direction by introducing and implementing our noble purpose: shaping member financial fitness. It was the next step in our evolution and one that we believe is right for the company and the members we serve. For us to be successful, it will require that we better understand our members' needs and goals, while simultaneously reducing back-end costs so we can make additional strategic investments to help further shape member financial fitness.

The key corporate outcomes to be achieved through our noble purpose include the following:

- Members have clearly defined Member Financial Goals (formerly called TRUE* financial goals), which are documented, and are making progress towards these goals.
- Servus members are more financially fit compared to the provincial average.
- Servus will attract and retain members in our target segments, because of our focus on financial fitness.
- Servus will be more profitable as a result of our focus on financial fitness.

*A Member Financial Goal includes the goal, the gap, the solution, and follow-up actions specifying how the member will reach the goal.

We will achieve our noble purpose and its associated outcomes through our strategic priorities. These are the key overarching and enterprise-wide areas of primary focus in which the organization must excel in order to succeed. Our strategic priorities for FY2019–2021 are as follows:

1. Member Experience: Strengthen our delivery of the desired member experience by taking a systematic and member-centric approach to delivering a differentiated experience focusing on the attributes of ease, effectiveness and emotion; financial goal-setting; and goal progression.
2. Financial Fitness Champions: Develop and enhance organizational leadership, product knowledge, noble purpose behaviors and any required knowledge, skill or ability that is needed to deliver on the noble purpose.
3. Financial Fitness Enablers: Develop and enhance internal technologies, specialized tools, processes and any other enablers that are needed to deliver on the other strategic priorities and the noble purpose.

Together, these three strategic priorities will allow us to develop the desired experience for our members while we work with them to improve their financial fitness, to develop and engage our people in delivering the noble purpose and to make the right strategic investments to increase our capacity and capability to deliver the noble purpose outcomes.

Balanced Scorecard

Servus continues to use a balanced scorecard system that measures and tracks success.

The balanced scorecard is a strategic planning and performance management system used to align the business activities of an organization to its vision and strategic direction and to monitor organizational performance against strategic goals.

Member Experience

We provide exceptional member service and are rewarded with high member satisfaction. Our decisions reflect the best interests of our members, communities, employees and our organization.

Employee Experience

We provide a positive, safe and rewarding work environment, invest in our employees by engaging, developing and advancing them, and are broadly recognized as an exceptional employer by our people, our members and our communities.

Financial Performance

As a member-owned financial institution, we strive for financial sustainability and diversity so we can be profitable and serve our members' best interests for years to come.

Business Processes

We must continuously focus attention and resources on improving our processes, automate where it makes business sense and eliminate activities that cost more than the value they bring to our members, employees and the organization.

Governance and Credit Union Relations

Our board of directors governs with a focus on organization-wide policy and strategy, recognizes its responsibility and accountability to our member-owners and is committed to continuously improving effectiveness.

Servus is a leader in our industry and provides guidance within a strong credit union system provincially, nationally and internationally.

A Framework for Success

Corporate Governance

Servus embraces the credit union principle of democratic ownership through its board of directors. The Servus Credit Union Board of Directors represents member-owners, ensuring they have a voice in the direction of the credit union. By holding to the principles of openness, transparency, accountability, ethics and rule of law, the board is a strong and effective governing body that keeps members' interests top of mind. The Servus Board of Directors approves the strategic direction and puts in place the controls necessary for the credit union to be a success.

Board Mandate

The board of directors ensures that Servus creates and maintains value for stakeholders and serves the needs of members and their communities. The board sets the credit union's strategic direction, formulates and monitors policies, evaluates organizational performance and ensures that an effective risk management framework is in place.

The board uses a Servus customized policy governance model and functions in accordance with the Credit Union Act and Servus Credit Union by-laws. It is responsible for the election of the board chair and vice-chair and for the selection of directors to represent Servus on the Credit Union Central of Alberta (CUCA) board. The board also hires and supervises the senior vice president of internal audit and the president and chief executive officer (CEO).

Board Structure

The board of directors is made up of 12 Servus member-owners and has established committees to help govern Servus effectively and to better manage risk.

There are four board committees:

Audit & Finance Committee

The Audit & Finance Committee oversees the financial reporting process and management of financial risks such as liquidity and capital, reviews financial statements, liaises with internal and external auditors and regulators and reviews internal control procedures.

Enterprise Risk Management Committee (ERM)

The Enterprise Risk Management Committee oversees the identification, understanding and management of risks that may affect Servus.

Governance & Human Resources Committee

The Governance & Human Resources Committee establishes and maintains effective governance guidelines, ensures the performance and succession of the CEO and ensures compliance with governance policies and Servus by-laws.

Nominating Committee

The Nominating Committee administers the board election process for the full board of directors.

Position Descriptions

Servus's directors provide strategic advice and oversight to the organization. They are required to act honestly and in good faith with a view to the best interests of the credit union. They must exercise care, diligence and skill.

The board regularly reviews the position descriptions for the board chair, committee chairs, directors and president and CEO.

Orientation and Education

New Servus directors must complete an orientation session within two months of their election and are encouraged to complete a policy governance course during their first year in office. They are expected to complete the online training curriculum for the Credit Union Director Achievement program within one year of their election.

These and other learning opportunities enable the directors to further develop their knowledge and skills and enhance their performance on the board. A board competency and skills matrix is used by the board to help determine training needs.

Ethical Conduct

The board is committed to ethical, professional and lawful conduct. Directors work to ensure that Servus meets all public, regulatory and member expectations in compliance with existing laws. Directors must represent loyalty without conflict to the interests of our members. This accountability comes before any personal interest. Directors are required to declare any conflicts or perceived conflicts of interest immediately upon becoming aware of them.

Nomination

Servus holds an annual election to fill vacancies on the board. The Board is transitioning to four-year terms for directors, which will be complete by the 2021 election period. Directors may run for re-election at the end of their terms. Servus currently has no limit on the number of terms a director may serve.

The Nominating Committee plays an active role in identifying potential candidates for the board. Individuals interested in serving on the board must submit nomination papers that provide detailed information such as:

- Work experience
- Educational background
- A self-assessment of skills, knowledge and experience
- Previous board and volunteer experience

Candidates must also undergo a criminal record check.

Profiles of all board candidates are provided on servus.ca and in branches. Voting is held annually at every branch and online. The Nominating Committee reviews the electoral process and makes recommendations for changes to the process to the board. Each candidate is interviewed by the Nominating Committee to confirm that the candidate's skills and competencies match those required by the organization going forward.

Director Remuneration

Servus provides each member of the board with an honorarium for their activities during the course of their term. These activities include attending board, committee and general meetings; education and planning sessions; and credit union system conferences. Directors are reimbursed for all relevant expenses and paid a meeting and travel time per diem.

Honorariums

Director:	$30,000 per annum
Board vice chair:	additional $5,000 per annum
Board chair:	additional $10,000 per annum
Committee chair:	additional $4,000 per annum
Committee vice chair:	additional $2,000 per annum

Servus's management (or a third party on behalf of Servus) conducts regular compensation reviews to help determine the appropriate rate of remuneration for the board. Servus participates in biannual national credit union surveys that look at board remuneration. Expense reimbursement is excluded, and the total is reported separately in the financial statements.

Remuneration and Attendance November 1, 2017–October 31, 2018

Director	Board Meetings*	Committee Name	Committee Meetings	Total Remuneration: Honorarium + per diem + travel time (includes CPP)
John Lamb (Board Chair)	12 of 12	Chair/Vice/CEO Audit/Finance ERM Governance & HR Central briefing CUCA AGM (days)	10 6 4 5 3 3	$70,894
Amy Corrigan (Vice Chair)	12 of 12	Chair/Vice/CEO Audit/Finance Governance & HR Nominating (C) CUCA AGM (days)	9 2 8 4 3	$63,463
Danielle Ghai	7 of 7	Audit/Finance ERM AGM 2019	3 5 2	$30,169
Darcy Mykytyshyn	12 of 12	Audit/Finance Governance & HR Nominating	3 3 4	$47,865
Dianne Brown	12 of 12	Audit/Finance Governance & HR (C) Nominating Community Council CUCA AGM (days) 2018 AGM	2 8 2 2 3 5	$55,525
Doug Bristow	12 of 12	Audit/Finance (C) ERM Community Council CUCA AGM (days)	8 2 1 1	$52,591
Doug Hastings	12 of 12	Audit/Finance ERM (C) Governance & HR Central briefing Community Council CUCA AGM (days)	2 5 1 4 1 3	$55,902
Iris Evans	12 of 12	Audit/Finance ERM Central briefing Community Council	6 3 6 1	$48,033
Jon Holt	12 of 12	Audit/Finance ERM Governance & HR Nominating Central briefing (end 03/31/18) Community Council CUCA AGM (days)	6 5 4 4 3 3 2	$59,062
Matthew Protti	7 of 7	Audit/Finance ERM Community Council	2 5 1	$29,543
Perry Dooley	12 of 12	Audit/Finance Governance & HR (C) Nominating Central briefing Community Council CUCA AGM (days)	1 8 4 4 3 3	$65,994
Simon Neigum	12 of 12	Audit/Finance ERM Nominating (C) Central briefing (end 03/31/18) Community Council CUCA AGM (days)	8 1 6 3 2 2	$67,007
Ken Cameron 11/01/17-03/30/18	3 of 4	Audit/Finance ERM	2 2	$18,750

- Board meetings include Servus's Annual General Meeting (AGM), annual board planning session, joint meeting with the CUDGC board and ad hoc board teleconferences.
- Standing board committees include the Audit & Finance, Governance & Human Resources, Enterprise Risk Management and Nominating Committees.
- The board of director chair is an ex officio member of all committees.
- Board members are assigned to one or two committees at the organizational meeting in March but can attend any committee meeting. Committee assignments can cross two fiscal years. One board member sits on the Audit & Finance and Enterprise Risk Management Committees as a crossover member.
- The Nominating Committee members are never in the final year of their term. Candidate interviews were held October 29 – October 31, 2018, in addition to a candidate orientation meeting.
- (C) stands for committee chair. Because the chair may change in March of each year, more than one committee chair may appear in the table.
- AGM 2018 and AGM 2019 denote Servus's board of directors' representative on the management AGM Committee.
- Central briefing means the board member is on the CUCA board, and there may be overlap as appointments are made for the period April 1-March 31.
- Chair/Vice/CEO refers to briefing meetings.
- There are 38 community councils around the province.

Performance Evaluation

Each year, the board members are evaluated to assess their effectiveness and to identify opportunities for improvement. Additional feedback is gathered for the board chair and each board committee chair regarding their performance and areas for improvement. The board assesses the CEO's performance each year by reviewing results against the balanced scorecard targets as well as looking at overall performance.

Board and Committee Meetings

The board of directors held 12 regular board meetings last year, which included a two-and-a-half day planning session in May. In addition, the Audit & Finance Committee met 8 times, the Enterprise Risk Management Committee met 6 times and the Governance & Human Resources Committee met 8 times. The Nominating Committee met 4 times in 2018 and conducted three days of candidate interviews. Additional ad hoc committee meetings were held as required.

Directors participated in the following:

- Servus's Annual General Meeting in March 2018
- The Credit Union Central of Alberta Conference and Annual General Meeting in April 2018
- The Canadian Credit Union Association Annual General Meeting and Conference in April – May 2018
- The World Credit Union Conference in July 2018

Risk Management

Servus has a risk management structure that enables it to adapt to changes in economic and operational environments. The following is an overview of this structure and the types of risk it is typically exposed to. (See Note 30 on Financial Risk Management in the 2018 Consolidated Financial Statements for more details.)

Enterprise Risk Management

Servus uses an enterprise-wide approach to identify, measure, monitor and manage risk that is primarily based on the International Organization for Standardization's (ISO) 31000 risk management framework.

The primary goals of risk management are to ensure that the outcomes of risk-taking activities are consistent with the credit union's objectives and risk appetite and that there is an appropriate balance between risk and reward to maximize value for our member-owners.

Servus believes that effective enterprise risk management is a journey and not a destination. The program continues to grow, evolve and adapt. The framework provides processes for identifying risks and assessing the likelihood of their occurrence and potential impact. The framework is also used to establish policies, procedures and controls to ensure that risks are managed within acceptable risk tolerances.

Servus's enterprise risk management governance model begins with oversight by the board of directors, either directly or through its committees, as shown in Figure 1.

The president and chief executive officer (CEO) is responsible and accountable for risk management. Day-to-day monitoring and reporting on risk has been delegated to the senior vice president of Risk and Audit. Four management committees — the Asset Liability Committee, the Management Credit Committee, the Management Corporate Social Responsibility Committee and the Management Risk Committee — identify, assess and monitor risks through their work. Ownership of key risks is delegated to the appropriate Executive Leadership Team member.

Figure 1: Servus Credit Union's Enterprise Risk Management Governance Model

Traditional risk management solutions tend to focus on negative events and often depend on diligent corporate compliance programs. Servus proactively elevates material risk issues to senior management and the board. This helps Servus find a better balance between loss prevention, risk mitigation efforts and entrepreneurial risk-taking.

Servus's risk management framework has four cornerstones (see Figure 2). They are reviewed and updated to ensure consistency with risk-taking activities and relevance to business and financial strategies, the Credit Union Deposit Guarantee Corporation (CUDGC) Standards of Sound Business practices and the legislative environment.

Practices and the Legislative Environment

Policies, Strategies and Limits

The governance, risk management direction and extent of Servus's risk-taking activities are established through policies, strategies and limits. Policies are also developed based on the requirements of the regulator and require input from the board of directors and senior management.

Guidelines

Guidelines are the directives provided to implement the policies. Generally, these describe specific types of risks and exposures.

Processes and Standards

Processes are the activities associated with identifying, evaluating, documenting, reporting and controlling risk. Standards define the breadth and quality of information required to make a decision and the expectations in terms of quality of analysis and presentation.

Measurement and Reporting

Servus monitors its risk exposure to ensure it is operating within approved limits or guidelines. Breaches, if any, are reported to senior management and board committees (depending on the limit or guideline). Servus's Internal Audit department independently monitors the effectiveness of risk management policies, procedures and internal controls.

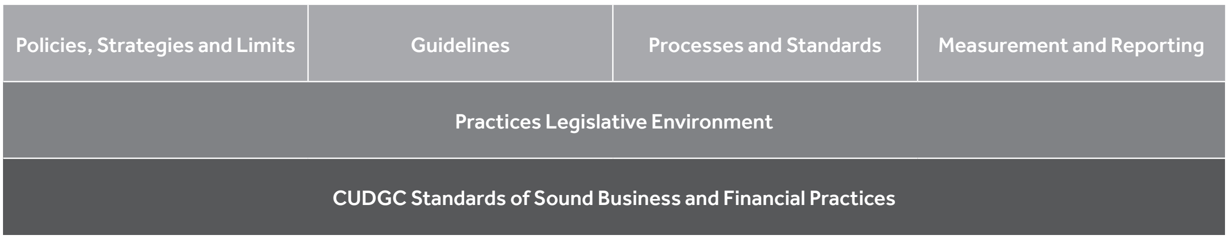

Figure 2: Servus Credit Union's Risk Management Framework

Types of Risk

Servus groups its major risks into 10 categories:

1. Information Technology Risk

Information technology risk is the risk to Servus associated with the use, ownership, operation, influence and adoption of information technology (IT) within the enterprise. It includes risks associated with the security and protection of information, availability and recovery of services, accuracy and timeliness of data, performance and scalability of services, and agility and appropriateness of adoption. It also includes the risk of IT meeting the current business needs of the organization as well as the risk of IT meeting the future strategic needs of the organization. Servus is reliant on IT for processing large volumes of transactions and storing large amounts of data. Despite a strong dedication to confronting cyber security, Servus may not be able to fully mitigate against all such risks due to the complexity and high rate of change associated with IT and cyber threats. Any significant disruption to IT infrastructure could adversely affect Servus's ability to conduct regular credit union operations. Servus maintains robust controls that guard the credit union and its members against cyber threats. These controls are regularly evaluated, updated and tested to ensure that IT risk is reduced to an acceptably low level.

2. Liquidity Risk

Liquidity risk is the risk that Servus will not be able to fund loan growth on a cost-effective basis or will be unable to generate or obtain sufficient cash to meet its short-term obligations.

Liquidity policies place limits on large individual deposits and require Servus to monitor items such as its liquidity coverage ratio, forecasted cash flows and deposit sources. These policies are designed to ensure Servus maintains sufficient amounts of operational liquidity from a stable base of core deposits spread across various sources. Servus's liquidity management strategy includes the daily monitoring of expected cash inflows and outflows, as well as the tracking and forecasting of our liquidity position on a forward 90-day rolling basis.

3. Interest Rate and Market Risk

Interest rate and market risk relates to the threat of incurring significant losses from unfavourable changes in the values of assets or liabilities from changes in market prices related to interest rates, foreign exchange rates, equity or commodity prices and in the volatility of these prices.

To manage interest rate and market risk effectively, Servus's Asset Liability Committee establishes policy guidelines and meets regularly to monitor Bank of Canada rates, economic indicators, trends in member behaviour and competitive pricing and uses these factors to determine pricing strategies. The board of directors approves and reviews interest rate risk policies at least annually, with regular reporting provided to its Enterprise Risk Management and Audit and Finance Committees.

4. Credit Risk

Credit risk is the risk of suffering a financial loss from the failure of a counterparty (e.g., borrower, debtor, issuer, guarantor, etc.) to honour its obligation to Servus. It arises any time Servus funds are extended, committed, invested or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet. Servus manages credit risk through credit risk policies and limits to ensure broad diversification across Alberta and within various industries and product mixes. Risk is also managed through maximum limits on individual and connected accounts, participation in syndicated loans and minimum standards for loan quality. As well, Servus manages this risk through well-trained and experienced lenders, clearly documented decision-making authority and approval processes that include operational oversight from the Management Credit Committee.

5. Competitive Risk

Competitive risk is the likelihood and impact that competitive forces prevent growth, stifle revenues or prevent Servus from achieving its strategic goals. Market participants, consisting of major financial institutions and other participants operating within Alberta, are highly competitive. Emerging local and global competitive challenges coming from non-traditional competitors and emerging technologies are increasing, opaque and difficult to assess. Servus manages these risks through regular market assessments, emerging risk reviews and strategic planning.

6. Reputational Risk

Reputational risk is the risk that an activity, inactivity or decision of Servus or one of its employees, business partners, affiliates or representatives will impair the perception of Servus by stakeholders and negatively impact achievement of the credit union's objectives. Reputational risk can be influenced by factors external to Servus and may not be entirely within the control of the credit union.

Servus manages and measures reputation risk by monitoring the external media environment; conducting regular surveys of members, non-members and employees; and reviewing regular reports from the Management Risk Committee. In addition, the employee code of conduct, corporate values and Corporate Social Responsibility policy reinforce the standards and sound business practices that are essential to maintaining a good reputation.

7. Strategic Risk

Strategic risk is the risk that Servus makes inappropriate strategic choices or is unable to effectively implement its strategies and achieve its strategic objectives. To mitigate this risk, Servus has adopted a comprehensive annual strategic planning process that includes board and executive leadership involvement and the use of detailed analysis such as environmental scans and SWOT analyses, as well as integration with enterprise risk management processes and oversight. Responsibility for implementing strategic priorities is mandated to executive leaders with ongoing oversight from multiple management committees and the board.

8. Regulatory and Compliance Risk

Regulatory and compliance risk is the risk of Servus failing to comply with applicable laws, rules, regulations, prescribed practices or ethical standards in any jurisdiction in which it operates. Regulatory risk differs from other banking risks, such as credit risk or market risk, in that it is typically not a risk actively or deliberately assumed by management in expectation of a return. Rather, it occurs as part of the normal course of operating a regulated entity. Servus manages its regulatory risk by maintaining a strong culture of integrity combined with sound internal controls. Individual business units are responsible for managing day-to-day regulatory and legal risk, while various compliance departments assist them by providing advice and oversight.

9. Operational Risk

Operational risk is the risk of suffering a significant loss or other damage resulting from inadequate or failed internal processes, people and/or systems or possibly from uncontrollable external events. Operational risk is segmented into several sub-categories such as business continuity risk, project risk, people risk, fraud risk and legal risk as well as many other risks specific to banking and wealth management activities. Servus manages this risk through its knowledgeable and experienced management team. The team members are committed to applying and enforcing key risk management policies and to promoting an ethical culture that guides operational risk-taking activities. Implementation of supporting policies and procedural controls includes the segregation of duties and built-in checks and balances. Additional controls include an established "whistleblower" process, an employee code of conduct, regular internal audits by an independent audit team and regular reviews and updates of systems, policies and procedures.

10. Emerging Risks

Servus monitors and reports to both the Management Risk Committee and the board Enterprise Risk Management Committee on risks that, although not fitting in any of the previous risk categories, may have an impact on its operations. These include emerging market trends, competitive forces or technologies, changing economic conditions, social and political trends, the impacts of industry and geographic concentrations, fraud and crime trends, financial system trends and other newsworthy items.

Servus Credit Union Ltd.
Consolidated Financial Statements

For the year ended October 31, 2018

Management's Responsibility for Financial Reporting

These Consolidated Financial Statements and all other information contained in the Annual Report have been prepared by the management of Servus Credit Union Ltd. (the Credit Union), who are responsible for their reliability, completeness and integrity. They were developed in accordance with requirements of the Credit Union Act of Alberta and conform in all material respects with International Financial Reporting Standards. Financial information presented elsewhere in this Annual Report is consistent with that in the Consolidated Financial Statements.

Systems of internal control and reporting procedures are designed to provide reasonable assurance that financial records are complete and accurate so as to safeguard the assets of the organization. These systems include the establishment and communication of standards of business conduct through all levels of the organization to prevent conflicts of interest and unauthorized disclosure, to provide assurance that all transactions are authorized and to ensure proper records are maintained. A function of the internal audit process is to provide management and the Board of Directors (the Board) with the ability to assess the adequacy of these controls.

The Board has approved the Consolidated Financial Statements. The Board has appointed an Audit and Finance Committee, comprising four directors, to review with management, advisers and auditors the annual Consolidated Financial Statements in detail prior to submission to the Board for final approval. The Audit and Finance Committee has also received regular reports on internal control findings from the Internal Auditor. Deloitte LLP, the independent external auditors appointed by the Board, examined the Consolidated Financial Statements and accompanying notes of the Credit Union in accordance with Canadian generally accepted auditing standards. They have had full and free access to the internal audit staff, other management staff and the Audit and Finance Committee. Their independent auditor's report outlines the scope of their examination and their opinion.

Garth Warner,
President and Chief Executive Officer

Ryan Gobolos,
Chief Financial Officer

Deloitte.

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Independent Auditor's Report

To the Members of
Servus Credit Union Ltd.

We have audited the accompanying consolidated financial statements of Servus Credit Union Ltd., which comprise the consolidated statement of financial position as at October 31, 2018, and the consolidated statement of income and comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and 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.

Auditor's 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 the auditor's 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, the auditor considers 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 financial position of Servus Credit Union Ltd. as at October 31, 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants
January 17, 2019

SERVUS CREDIT UNION LTD.
Consolidated Statement of Financial Position
(Canadian $ thousands, except per share amounts)

	Notes	October 31 2018	October 31 2017
Assets			
Cash and cash equivalents	5	**$ 136,832**	$ 104,118
Investments	6	**1,268,128**	1,181,454
Members' loans	7	**14,294,509**	13,675,636
Income taxes receivable		**8,345**	–
Assets held for sale	10	**8,086**	9,024
Other assets	11	**19,166**	18,256
Property and equipment	12	**142,936**	147,127
Investment property	13	**5,006**	7,169
Derivative financial assets	14	**5,998**	31,695
Investment in associate	15	**184,587**	172,900
Intangible assets	16	**66,273**	43,078
Deferred income tax assets	17	**607**	–
Total assets		**16,140,473**	15,390,457
Liabilities			
Borrowings	18	**250,000**	100,000
Securitization liabilities	19	**1,329,762**	1,093,288
Members' deposits	20	**12,839,376**	12,560,063
Trade payables and other liabilities	21	**178,301**	173,565
Income taxes payable		**–**	894
Derivative financial liabilities	14	**12,372**	13,006
Investment shares	23	**427**	415
Defined benefit plans	22	**7,356**	7,219
Deferred income tax liabilities	17	**11,404**	17,894
Total liabilities		**14,628,998**	13,966,344
Equity			
Share capital	23	**670,275**	659,599
Retained earnings		**833,009**	763,636
Accumulated other comprehensive income (loss)		**7,217**	(144)
Total equity attributable to members of the Credit Union		**1,510,501**	1,423,091
Non-controlling interest		**974**	1,022
Total equity		**1,511,475**	1,424,113
Total liabilities and equity		**$ 16,140,473**	$ 15,390,457

The accompanying notes are an integral part of these Consolidated Financial Statements.

Approved on behalf of the Board of Directors

John Lamb,
Chair, Board of Directors

Doug Bristow,
Chair, Audit and Finance Committee

SERVUS CREDIT UNION LTD.
Consolidated Statement of Income and Comprehensive Income
(Canadian $ thousands, except per share amounts)

	Notes		Year ended October 31 2018		Year ended October 31 2017
Interest income					
Members' loans		$	**539,391**	$	472,736
Investments	24		**16,392**		5,694
Total interest income			**555,783**		478,430
Interest expense					
Members' deposits			**137,609**		104,058
Other interest expense	25		**29,761**		18,615
Total interest expense			**167,370**		122,673
Net interest income			**388,413**		355,757
Other income	26		**114,154**		97,300
Share of profits from associate	15		**7,792**		8,233
Net interest income and other income			**510,359**		461,290
Provision for credit losses	8		**28,835**		13,297
Net interest income after provision for credit losses			**481,524**		447,993
Operating expenses					
Personnel			**200,807**		196,487
General			**72,310**		49,354
Occupancy			**20,672**		20,755
Member security			**13,889**		13,333
Depreciation	12,13		**13,203**		13,872
Organization			**4,679**		5,056
Impairment of assets	10,12,16		**925**		1,844
Amortization			**9,133**		6,496
Total operating expenses			**335,618**		307,197
Income before patronage allocation to members and income taxes			**145,906**		140,796
Patronage allocation to members	23		**30,821**		27,772
Income before income taxes			**115,085**		113,024
Income taxes	17		**28,725**		30,571
Net income		$	**86,360**	$	82,453
Other comprehensive income (loss)			**7,361**		(827)
Total comprehensive income		$	**93,721**	$	81,626
Other comprehensive income (loss) for the year, net of tax:					
Actuarial (loss) gain on defined benefit pension plans [1] (net of income tax (recovery) expense of $(18), 2017 – $118)	22		**(51)**		320
Unrealized loss and reclassification adjustments on available for sale securities (net of income tax (recovery) of $(607), 2017 – $0) [2]			**(1,641)**		–
Share of other comprehensive income (loss) from associate					
Actuarial (loss) gain on defined benefit pension plans [1] (net of income tax (recovery) expense of $(40), 2017 – $8)			**(108)**		23
Unrealized gain (loss) and reclassification adjustments on available for sale securities (net of income tax expense (recovery) of $3,388, 2017 – $(434))[2]			**9,161**		(1,170)
Total other comprehensive income (loss)		$	**7,361**	$	(827)
Total comprehensive income					
Comprehensive income attributable to members			**93,769**		81,615
Comprehensive (loss) income attributable to non-controlling interest			**(48)**		11
Total comprehensive income		$	**93,721**	$	81,626

(1) The actuarial gains/losses will not be reclassified to profit or loss at a future date.
(2) These items may be reclassed to profit or loss at a future date.

The accompanying notes are an integral part of these Consolidated Financial Statements.

SERVUS CREDIT UNION LTD.
Consolidated Statement and Changes in Equity
(Canadian $ thousands, except per share amounts)

	Notes	Common Shares	Investment Shares	Retained Earnings	Accumulated Other Comp-rehensive Income (loss)	Non-controlling Interest	Total Equity
Balance at October 31, 2016		$ 523,247	$ 115,816	$ 697,883	$ 683	$ 1,011	$ 1,338,640
Changes in equity							
Issues of share capital	23	29,683	–	–	–	–	29,683
Redemption of share capital	23	(29,191)	(2,776)	–	–	–	(31,967)
Dividends on share capital	23	17,733	5,087	–	–	–	22,820
Net income		–	–	82,442	–	11	82,453
Dividend (net of income tax recovery of $6,131)	23	–	–	(16,689)	–	–	(16,689)
Actuarial gains on defined benefit plans	22	–	–	–	320	–	320
Share of other comprehensive loss from associate	15	–	–	–	(1,147)	–	(1,147)
Balance at October 31, 2017		$ 541,472	$ 118,127	$ 763,636	$ (144)	$ 1,022	$1,424,113

	Notes	Common Shares	Investment Shares	Retained Earnings	Accumulated Other Comp-rehensive Income (loss)	Non-controlling Interest	Total Equity
Balance at October 31, 2017		**$ 541,472**	**$ 118,127**	**$ 763,636**	**$ (144)**	**$ 1,022**	**$ 1,424,113**
Changes in equity							
Issues of share capital	23	**21,477**	**–**	**–**	**–**	**–**	**21,477**
Redemption of share capital	23	**(30,328)**	**(3,766)**	**–**	**–**	**–**	**(34,094)**
Dividends on share capital	23	**18,146**	**5,147**	**–**	**–**	**–**	**23,293**
Net income (loss)		**–**	**–**	**86,408**	**–**	**(48)**	**86,360**
Dividend (net of income tax recovery of $6,258)	23	**–**	**–**	**(17,035)**	**–**	**–**	**(17,035)**
Fair value adjustment for investments		**–**	**–**	**–**	**(1,641)**	**–**	**(1,641)**
Actuarial loss on defined benefit plans	22	**–**	**–**	**–**	**(51)**	**–**	**(51)**
Share of other comprehensive income from associate	15	**–**	**–**	**–**	**9,053**	**–**	**9,053**
Balance at October 31, 2018		**$ 550,767**	**$ 119,508**	**$ 833,009**	**$ 7,217**	**$ 974**	**$ 1,511,475**

The accompanying notes are an integral part of these Consolidated Financial Statements.

SERVUS CREDIT UNION LTD.
Consolidated Statement of Cash Flows
(Canadian $ thousands, except per share amounts)

	Notes	Year ended October 31 2018	Year ended October 31 2017
Cash flows from (used in) operating activities			
Net income		$ **86,360**	$ 82,453
Adjustments for non-cash items and others			
Net interest income		**(388,413)**	(355,757)
Provision for credit losses		**28,835**	13,297
Share of profits from investment in associate		**(7,792)**	(8,233)
Depreciation and amortization		**22,336**	20,368
Impairment of assets		**925**	1,844
Gain from amalgamations		**(4,214)**	–
Gain on assets held for sale		**(56)**	(1,848)
(Gain) loss on disposal of property and equipment		**(69)**	536
Loss on disposal of intangible assets		**97**	179
Income taxes		**28,725**	30,571
Adjustments for net changes in operating assets and liabilities			
Change in members' loans		**(596,625)**	(462,763)
Change in members' deposits		**205,922**	271,967
Change in assets held for sale		**(14,302)**	(18,532)
Net change in other assets, provisions, and trade payables and other liabilities		**1,357**	27,276
Income taxes received and (paid), net		**(44,454)**	(34,524)
Interest received		**547,672**	475,498
Interest paid		**(155,226)**	(127,791)
Net cash used in operating activities		**(288,922)**	(85,459)
Cash flows from (used in) investing activities			
Additions to intangible assets		**(32,391)**	(3,021)
Additions to property and equipment, and investment property		**(5,923)**	(5,798)
Proceeds on disposal of property and equipment, and investment property		**1,492**	264
Proceeds on disposal of assets held for sale		**14,880**	23,135
Purchase of Alberta Central shares		**(1,950)**	–
Distributions from Alberta Central		**10,456**	9,424
Change in derivatives		**25,063**	2,931
Investments		**(77,269)**	(138,280)
Net cash used in investing activities		**(65,642)**	(111,345)
Cash flows from (used in) financing activities			
Term loans and lines of credit	18	**150,000**	24,000
Advances of securitization liabilities		**674,895**	539,592
Repayment of securitization liabilities		**(431,240)**	(368,519)
Repayment of obligation under finance leases		**(18)**	–
Tax recovery on dividend paid		**6,258**	6,131
Shares issued		**21,477**	29,683
Shares redeemed		**(34,094)**	(31,967)
Net cash from financing activities		**387,278**	198,920
Increase in cash and cash equivalents		**32,714**	2,116
Cash and cash equivalents, beginning of year		**104,118**	102,002
Cash and cash equivalents, end of year		$ **136,832**	$ 104,118

The accompanying notes are an integral part of these Consolidated Financial Statements.

1. REPORTING ENTITY

Servus Credit Union Ltd. (Servus or the Credit Union) is incorporated in Canada under the Credit Union Act of the Province of Alberta. The address of the Credit Union's registered office is 151 Karl Clark Road, Edmonton, Alberta. The Credit Union operates in the loans and deposit taking industry regulated under the Credit Union Act, serving members across Alberta.

The Credit Union Deposit Guarantee Corporation (the Corporation), a provincial corporation, guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. The Credit Union Act (The Act) provides that the Province of Alberta will ensure that the Corporation carries out this obligation.

2. BASIS OF PRESENTATION

These Consolidated Financial Statements (financial statements) of the Credit Union have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and use the accounting policies the Credit Union adopted for its financial statements for the year ended October 31, 2018. The significant accounting policies applied in the preparation of the financial statements are described in Note 3.

The financial statements for the year ended October 31, 2018, were authorized for issue by the Board of Directors on January 17, 2019.

Basis of Measurement

The financial statements have been prepared using the historical cost basis except for derivative and other financial instruments classified as fair value through profit or loss or fair value through other comprehensive income, which are measured at fair value.

Functional Currency

The financial statements are presented in Canadian dollars (Canadian $), which is the Credit Union's functional currency.

Use of Estimates, Assumptions and Judgments

The preparation of the financial statements requires management to make estimates, assumptions and judgments that affect the application of accounting policies and the reported amounts of assets, liabilities, income, expenses and related disclosures. Estimates and underlying assumptions required under IFRS are best estimates undertaken in accordance with the applicable standards and are reviewed on a continuous basis.

Estimates and assumptions have been used in the following areas: income taxes; deferred tax assets and liabilities; fair values of financial instruments; allowance for credit losses; measurement of provisions; the useful lives of property, equipment, and intangible assets; credit card points liability; defined benefit plans; and the fair value less costs to sell of assets held for sale. Actual results may differ significantly from these estimates, and the impact of any such differences will be recorded in future periods.

Critical Judgments

The preparation of the financial statements requires management to make critical judgments that affect the carrying amounts of certain assets, liabilities, income, expenses and related disclosures during the year. Critical judgments have been made in the following areas: impairment of non-financial and financial assets, allowance for credit losses, valuation of financial instruments, lease classification, consolidation of structured entities and accounting for investment in associate.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The financial statements of the Credit Union include the assets, liabilities, income and expenses of subsidiaries and structured entities after elimination of inter-company transactions.

Subsidiaries are entities controlled by the Credit Union. Control is achieved when all of the following conditions are met:

- Existing rights that give the investor the ability to direct the relevant activities of the investee (the activities that significantly affect the investee's returns)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect the amount of investor's return

The financial statements of subsidiaries are included in the Credit Union's Consolidated Financial Statements from the date that control commences until the date that control ceases. The financial statements of the subsidiaries have been prepared using accounting policies consistent with the Credit Union.

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Credit Union. Non-controlling interests are presented separately in the consolidated statement of income and comprehensive income and within equity in the consolidated statement of financial position but separate from members' equity.

Subsidiaries

Included in the financial statements are the accounts of the Credit Union and the following subsidiaries:

- The Credit Union's 100% ownership interest of Servus Wealth Strategies Ltd., which provides wealth management services
- The Credit Union's 51% ownership interest in 1626210 Alberta Ltd., which owns rental properties in Slave Lake
- The Credit Union controls the benefits of three registry services, which are structured entities and have been consolidated

Investment in Associate

Investment in associate include entities over which the Credit Union has significant influence but not control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Credit Union Central of Alberta (Alberta Central) is the only entity classified as investment in associate for the reporting period.

The Credit Union holds over 50% of the common shares in Alberta Central; however, the Credit Union is limited, by the bylaws, to only 5 positions out of a possible 12 appointed board members. The remaining shares are owned by various credit unions within Alberta. Based on Alberta Central's governance structure, management has concluded that the Credit Union does not control Alberta Central.

Investment in associate is accounted for using the equity method and is initially recognized at cost. Subsequent to the date of acquisition, the carrying amount is increased or decreased to recognize the Credit Union's share of the associates' net income or loss, including the proportionate share of the associates' other comprehensive income. Dividends received are recorded as a reduction in the carrying amount.

Financial Instruments — Recognition and Measurement

Financial assets and financial liabilities are classified on the consolidated financial statement of financial position based on their characteristics and management's intention. They are recognized at the trade date, when the Credit Union becomes a party to the contractual provisions of the instrument, and initially measured at fair value. Subsequent measurement is dependant on the financial instrument's classification.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transaction costs on financial instruments classified as fair value through profit or loss (FVTPL) are expensed as incurred. For all other classifications of financial instruments, initial transaction costs are capitalized.

The below table outlines how the Credit Union has classified its financial assets and liabilities.

Classification	Loans and Receivables	Available For Sale (AFS)	Held to maturity	Fair Value Through Profit or Loss (FVTPL)	Financial Liabilities
Measurement	Amortized Cost	Cost/Fair Value	Amortized Cost	Fair Value	Amortized Cost
Cash and cash equivalents	▼				
Securitized mortgage pools	▼				
Investments – other		▼			
Investments – mortgage backed security bonds		▼			
Investments – Alberta Central term deposits	▼				
Investments – held to maturity			▼		
Members' loans	▼				
Credit Card	▼				
Accounts receivable	▼				
Members' deposits					▼
Trade payables and other liabilities					▼
Borrowings and securitization liabilities					▼
Derivatives – interest rate swaps				▼	
Derivatives – equity linked options				▼	
Investment shares				▼	

Financial Instruments at Fair Value Through Profit or Loss

This category comprises two sub-categories: financial assets held for trading and financial assets designated by the Credit Union as FVTPL upon initial recognition.

A financial instrument is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments.

The Credit Union may designate any financial asset or liability as held for trading where the following conditions are met:

- The designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.
- The financial instruments are part of a portfolio of financial instruments that is risk managed and reported to senior management on a fair value basis.

In the ordinary course of business, the Credit Union enters into various derivative contracts, including interest rate forwards, swaps, caps and options. The Credit Union enters into such contracts principally to manage its exposure to interest rate fluctuations as part of its asset/liability management program. The Credit Union does not apply hedge accounting to its derivative portfolio.

Financial instruments classified as held at FVTPL consist of the liability portion of investment shares.
Gains and losses arising from changes in fair value are included in the consolidated statement of income and comprehensive income as part of net interest income. Interest income and expense on financial assets held for trading are included in net interest income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method less any impairment. If the Credit Union intends to sell in the short term, then the classification will be held for trading, which is designated as FVTPL and carried at fair value.

Interest on loans and receivables is included in the consolidated statement of income and comprehensive income as part of net interest income. In the case of impairment, the impairment loss is calculated using discounted expected cash flows and is reported as a deduction from the carrying value of the loan and recognized in the consolidated statement of financial position as an allowance for credit losses.

Held-to-Maturity-Financial Assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities. The Credit Union has the intention and ability to hold these investments to maturity. These assets are initially recognized at fair value including direct and incremental transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest on held to maturity investments are included in net interest income.

Available-for-Sale Financial Assets

Available-for-sale financial assets are not classified as loans or receivables, held to maturity investments or financial assets held at fair value through profit or loss. These assets are available to be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Debt securities and equity securities are classified as available for sale and are measured at fair value. The Credit Union uses current market interest rate quotations to estimate the fair values of these investments. Unrealized gains and losses, net of taxes, are reported in other comprehensive income.

The Credit Union holds other investments in companies that are part of the credit union system which are not traded on an active market. Since the fair value of these investments cannot be reliably measured, they are classified as available for sale and measured at cost less any accumulated impairment losses. Gains or losses are recognized in operating expenses when the investment is derecognized or impaired.

Other Financial Liabilities

Financial liabilities not classified as FVTPL fall into this category and include members' deposits, borrowings, securitization liabilities and trade payables and other liabilities. These are measured at fair value on initial recognition and subsequently at amortized cost using the effective interest method.

Financial Instruments — Derecognition

Financial assets are derecognized when the rights to receive cash flows from the asset have expired or substantially all the risks and rewards of the assets have been transferred. If the Credit Union has neither transferred nor retained substantially all the risks and rewards of the financial asset, it will assess whether it has retained control over the asset. If the Credit Union determines that control has not been retained, it will derecognize the transferred asset.

Financial liabilities are derecognized when the obligation has been discharged, cancelled or expired.

Cash and Cash Equivalents

Cash and cash equivalents, which comprise cash on hand, ATM cash, foreign exchange cash, the current account with Alberta Central and items in transit, are recorded at amortized cost in the consolidated statement of financial position. These items are highly liquid financial assets with maturities of three months or less from the acquisition date and are used by the Credit Union in the management of short-term commitments.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative Financial Instruments

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, equity instrument or index.

Derivative contracts are used to manage financial risks associated with movements in interest rates and other financial indices. The Credit Union does not use derivative instruments for trading or speculative purposes. Quotes are based on current observable market data to estimate the fair value of all derivative financial instruments on the consolidated statement of financial position.

Derivatives with positive fair values are recorded in derivative financial assets, while derivatives with negative fair values are recorded in derivative financial liabilities. The realized and unrealized gains and losses on derivative financial instruments are recorded in net interest income in the consolidated statement of income and comprehensive income.

Derivative financial instruments may also be embedded in other financial instruments. Derivative financial instruments embedded in other financial instruments are separated from the host contract and accounted for separately when their economic characteristics and risks are not closely related to the host contract, they meet the definition of a derivative financial instrument and the host contract is not classified as FVTPL.

Estimated Fair Value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When financial instruments are subsequently remeasured to fair value, quoted market prices or dealer price quotations in an active market provide the best evidence of fair value, and when such prices are available, the Credit Union uses them to measure financial instruments. The fair value of a financial asset traded in an active market generally reflects the quoted closing bid price at the reporting date. Where independent quoted market prices are not available, fair value is determined by reference to arm's-length market transactions for similar instruments, the current fair value of other instruments having substantially the same terms, conditions and risk characteristics or through the use of valuation techniques.

Through valuation techniques, fair value is estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows. Some of the inputs to these models may not be market observable and are therefore based on assumptions.

The Credit Union's financial instruments classified as FVTPL 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. These techniques are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates, which reflect varying degrees of risk. Due to this 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 level in the fair value hierarchy within which the financial assets or liabilities are categorized is based on the lowest level of input that is significant to the fair value measurement. Financial assets and liabilities held at fair value through profit or loss are classified in their entirety in only one of three levels:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Financial Assets

The Credit Union assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets, other than a financial asset held at FVTPL, is impaired. A financial asset or group of financial assets is considered to be impaired only if there is objective evidence that one or more events that occurred after the initial recognition of the asset(s) has had a negative effect on the estimated future cash flows of that asset and the impact can be reliably estimated.

The Credit Union first assesses whether objective evidence of impairment exists for assets that are individually significant and collectively for assets that are not individually significant. If management determines that no objective evidence of impairment exists for an individually assessed asset, the asset is assessed collectively in groups that share similar credit risk characteristics.

Members' Loans

The Credit Union maintains an allowance for specific and collective credit losses on members' loans, which are established as a result of reviews at either an individual loan or a loan portfolio level. The amount of the allowance is measured as the difference between the loan's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For variable rate loans, the Credit Union uses the effective interest rate at the time of impairment. Cash flow estimates from the recovery and sale of collateral are used in the calculation of the allowance, less any costs to sell the collateral. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized within the provision for credit losses in the consolidated statement of income and comprehensive income. Following impairment, interest income continues to be recognized using the original effective interest rate.

A specific allowance is recognized by reviewing the creditworthiness of the individual borrowers and the value of the collateral underlying the loan. Loans where the interest is contractually 90 days past due are considered to be impaired unless management determines that the collateral will fully cover the outstanding balance and the Credit Union will fully recover the outstanding balance. Where individual loans are not considered to be specifically impaired but are delinquent, they are placed into portfolio groups with similar risk profiles and collectively assessed.

A collective allowance is established where the Credit Union has identified objective evidence that losses in the loan portfolio have been incurred, but for which a specific provision cannot yet be determined. The collective allowance is based on observable data, including the current portfolio delinquency profile, current economic conditions, historic loss experience during economic cycles and management's evaluation of other conditions existing at the reporting date that are not reflected in historical trends. Changes in the collective allowance account are recognized within the provision for credit losses in the consolidated statement of income and comprehensive income.

The methodology and assumptions used are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Changes in assumptions used could result in a change in the allowance for loan losses and have a direct impact on the provision for credit losses in the consolidated statement of income and comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the specific allowance. The amount of the reversal is recognized within the provision for credit losses in the consolidated statement of income and comprehensive income.

The Credit Union seeks to work with members to bring their accounts to a current status before taking possession of collateral. In cases where the account cannot be made current and there is no realistic prospect of future recovery, any difference between the outstanding balance and collateral recovered is written off. The amount written off is charged to the allowance account, and the loan is extinguished.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Financial Assets

The Credit Union assesses impairment of its other financial assets by considering the significant financial difficulty of the issuer, the disappearance of an active market for a security due to financial difficulties or a significant or prolonged decline in the fair value of an asset below its cost as objective evidence of impairment.

For assets measured at amortized cost, an impairment loss is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are recognized as an operating expense. An impairment loss is reversed in other income or operating expense if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

An impairment loss in respect of an available-for-sale financial asset held at cost is calculated as the difference between its carrying value and the present value of estimated future cash flows discounted at the current market rate of return for a similar asset. The cumulative loss less any impairment loss on that financial asset previously recognized in net income is reclassified from members' equity and recognized in net income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in net income, the impairment loss is reversed through net income. Impairment losses recognized in net income on equity instruments, including available-for-sale financial assets measured at cost, are not reversed.

Assets Held for Sale

Assets that are expected to be recovered principally through sale rather than through continuing use are classified as held for sale. Assets held for sale include property and land previously used by the Credit Union and property that has been repossessed following foreclosure on loans that are in default.

Assets classified as held for sale are stated at the lower of their carrying amount and fair value less costs to sell and are not depreciated. An impairment loss is recognized for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognized for any subsequent increases in fair value less costs to sell but not exceeding any cumulative impairment losses previously recognized.

If the Credit Union has classified an asset as held for sale, but the recognition criteria are no longer met, then the Credit Union ceases to classify the asset as held for sale. The Credit Union measures an asset that ceases to be classified as held for sale at the lower of either:

(i) The carrying amount before the asset was classified as held for sale, adjusted for any depreciation that would have been recognized had the asset not been classified as held for sale

(ii) Its recoverable amount at the date of the subsequent decision not to sell

Any required adjustments to the carrying amount of an asset that ceases to be classified as held for sale will be recognized in general operating expense in the period in which the recognition criteria are no longer met.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures and borrowing costs that are directly attributable to the acquisition of the assets. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing items and restoring the site on which they are located.

When parts of property and equipment have different useful lives, they are accounted for as separate items of property and equipment. Additions and subsequent expenditures are capitalized if they enhance the future economic benefits expected to be derived from the assets. The cost of day-to-day servicing of property and equipment is recognized as general operating expenses as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depreciation is calculated based on the depreciable amount, which is the cost of an asset less its residual value. Depreciation is recorded commencing in the month the asset becomes available for use; no depreciation is recorded in the month of disposal. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized within general operating expenses.

Depreciation is recognized within operating expenses on a straight-line basis over the estimated useful life of each part of an item of property and equipment. Land is not depreciated.

The estimated useful lives are as follows:

Buildings	10 to 40 years
Furniture, office equipment and vehicles	4 to 15 years
Leasehold improvements	Lesser of lease term and useful life
Computer equipment	3 to 5 years

Depreciation rates, methods and the residual values underlying the calculation of depreciation of items of property and equipment are reviewed annually.

Investment Property

The Credit Union's investment property consists of land and buildings held to earn rental income. Investment property is measured at cost less accumulated depreciation and accumulated impairment losses. Property held partly to earn rental income and partly for use in the supply of service to members or for administrative use is allocated between investment property and property and equipment, based on the floor space usage. If less than 10% of the property is held to earn rental income, the property is classified as property and equipment.

Depreciation is recorded commencing in the month the asset becomes available for use. No depreciation is recorded in the month of disposal. An investment property is derecognized upon disposal or the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses arising from the disposal of investment property are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized within general operating expenses in the year of the disposal.

Depreciation is recognized within operating expenses on a straight-line basis over the estimated useful life of the investment property. Land is not depreciated.

Depreciation rates, methods and the residual values underlying the calculation of depreciation of items of investment property are reviewed annually.

Intangible Assets

Intangible assets with a finite life are measured at cost less accumulated amortization and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset and borrowing costs. The cost of internally generated assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Intangible assets that are developed for internal use are capitalized only if it is probable that future economic benefits will be obtained from use of the asset and that the development costs can be measured reliably. Other development expenditures are recognized within operating expenses as incurred. Additions and subsequent expenditures are capitalized only when it increases the future economic benefits expected to be derived from the specific asset to which it relates.

Amortization is calculated based on the amortizable amount, which is the cost of an asset less its residual value. Amortization is recorded commencing in the month the asset becomes available for use; no amortization is recorded in the month of disposal. Gains and losses on disposal of an intangible asset are determined by comparing the proceeds from disposal with the asset's carrying amount and are recognized within general operating expenses.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amortization is recognized within operating expenses on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives for the current and comparative periods are as follows:

Computer software and development costs	5 to 15 years
Credit card related intangible	10 years

Amortization rates, methods and the residual values underlying the calculation of amortization of items of intangible assets are reviewed annually.

Impairment of Non-Financial Assets

The Credit Union assesses at each reporting date whether there is an indication that an asset may be impaired. If there is an indication of impairment, the Credit Union performs an impairment test. In addition, intangible assets that are not yet available for use or that have indefinite lives are tested for impairment annually.

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 its fair value less costs to sell and value in use. Fair value is estimated based on recent transactions for similar assets within the same industry. Value in use is estimated based on discounted net cash flows from continuing use and the ultimate disposal of an asset.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is performed on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows.

The Credit Union also assesses at each reporting date whether the conditions that caused a previous impairment to be recognized no longer exist. If the conditions that cause an impairment no longer exist, the recoverable amount is reassessed and the previous impairment loss reversed. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Impairments and reversals of impairment are recognized within impairment expense in the consolidated statement of income and comprehensive income.

Securitization Liabilities

Securitization of residential mortgage loans guaranteed by the Canada Mortgage and Housing Corporation through the Canada Mortgage Bonds program, or to third party investors provide the Credit Union with additional sources of liquidity. 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. The mortgages are not derecognized as the Credit Union has retained all the risks and rewards, and a liability for cash proceeds from securitization is recognized in the consolidated statement of financial position.

Leases

The Credit Union as a Lessee

Arrangements containing leases that transfer substantially all the benefits and inherent risks of ownership of the property to the Credit Union are classified as finance leases. The asset is recorded within property and equipment at the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. The corresponding liability to the lessor is included in other liabilities in the consolidated statement of financial position.

The discount rate used in calculating the present value of the minimum lease payment is either the interest rate implicit in the lease, if it is practicable to determine, or the incremental borrowing rate.

Other arrangements containing leases are operating leases. Payments made under operating leases are recognized as occupancy expense on a straight-line basis over the term of the lease. Lease incentives received are recognized on a straight-line basis over the term of the lease.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Credit Union as a Lessor

Rentals received under operating leases are recognized in other income on a straight-line-basis over the term of the lease. Lease incentives provided are recognized on a straight-line basis over the term of the lease.

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. The amount recognized as a provision is the present value of the expected amount required to settle the obligation, taking into account the risks and uncertainties surrounding the obligation.

Employee Benefits

The Credit Union provides certain pension and other benefits to employees as follows:

Short-Term Employee Benefits

Short-term employee benefits, such as salaries, incentive pay programs, vacation, medical benefits, allowances, paid absences, and other benefits including any related payroll taxes, are accounted for on an accrual basis over the period in which employees provide the related services. The benefits are expensed as part of personnel expenses in the consolidated statement of income and comprehensive income.

Termination Benefits

Termination benefits are recognized when the Credit Union is committed to terminating the employment of a current employee according to a formal plan without possibility of withdrawal.

Post-Employment Benefits

Defined Contribution Registered Retirement Savings Plan
The Credit Union offers employees a defined contribution registered retirement savings plan where contributions are made by both the Credit Union and the employee. Contributions are based on a percentage of salary, and no further contributions are required once the employee retires or leaves the Credit Union. Obligations for contributions to defined contribution plans are recognized in personnel expense in the consolidated statement of income and comprehensive income when they are due.

Defined Benefit Plans
The Credit Union provides a defined benefit supplemental pension plan and a post-retirement benefits plan to qualifying employees. Post-retirement benefits include extended health care, dental care and life insurance. The Credit Union's net obligation in respect of both defined benefit plans is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of turnover rates, salary escalation, retirement ages, expected health care costs and other actuarial factors. The present value of the obligation is determined by discounting the estimated future cash outflows. The discount rate is the yield at the reporting date on high-quality fixed income investments that have maturity dates approximating the terms of the Credit Union's obligations.

Past service costs are recognized immediately within personnel expense, unless the changes to the plan are conditional on employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period. The Credit Union recognizes all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Members' Shares

Members' share capital includes common and investment shares. Dividends on shares are recognized as a liability in the year in which they are declared by the Board of Directors. Dividends will be calculated on the Credit Union fiscal year and paid annually.

Shares that provide the member with the right to request redemption subject to the Credit Union maintaining adequate regulatory capital are accounted for using the partial treatment requirements of International Financial Reporting Interpretations Committee 2, Members' Shares in Co-operative Entities and Similar Instruments. The liability element of the share, which is the portion that a member can request for redemption, is initially measured at the fair value of a similar liability that does not have an equity conversion option. The remaining equity component is measured as the difference between the fair value of the share as a whole and the fair value of the liability element. All cash dividends are recorded through retained earnings.

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. The principal sources of revenue are interest income, account service charges, and commissions and fees income.

Interest Income and Expense

Interest income and expense earned and charged on members' loans, deposits and investments are recognized within interest income and interest expense using the effective interest method. The effective interest method calculates the amortized cost of a financial asset or financial liability and allocates the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts the estimated future cash receipts through the expected life of the financial asset or liability. The calculation of the effective interest rate includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

Account Service Charges

Account service charges are recognized as income when charged to members.

Commissions and Fees

Commissions and fees that are considered an integral part of the effective interest rate are amortized over the life of the loan and included in net interest income. Typically, commissions and fees that are not an integral part of the effective interest rate, including insurance commissions and mortgage prepayment penalties, are recognized as income when charged to members. Other fees and commissions, such as mutual fund trailer fees, are recognized when earned.

Patronage Allocation to Members

Patronage allocations to members are recognized in the consolidated statement of income and comprehensive income when circumstances indicate that the Credit Union has a constructive obligation where it has little or no discretion to deny payment and where it can make a reasonable estimate of the amount required to settle the obligation.

Income Taxes

Income tax expense comprises current and deferred tax and is recognized in the consolidated statement of income and comprehensive income except to the extent that it relates to items that are recognized in other comprehensive income or directly in equity. Tax impacts that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustments to tax payable in respect of previous years. Current tax for current and prior years is recognized as a liability to the extent that it is unpaid.

Deferred tax is recognized in respect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured on the tax rates that are expected to be in effect in the period the asset is realized or the liability is settled, based on the tax rate and tax laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities and they relate to income taxes levied by the same authority on the same taxable entity or on different tax entities but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Financial Guarantees

Financial guarantees represent an irrevocable obligation to make payments to a third party in certain situations. Guarantees include contracts or indemnities that contingently require the Credit Union to make payments (either in the form of an asset or in the form of services) to another party based on changes in an asset, liability or equity the other party holds; failure of a third party to perform under an obligation agreement; or failure of a third party to pay its indebtedness when due. The term of these guarantees varies according to the contract.

Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the reporting date. Income and expenses denominated in foreign currencies are translated into Canadian dollars at average rates for the year. Gains and losses resulting from translation are recorded in other income.

4. CURRENT AND FUTURE ACCOUNTING CHANGES

Adoption of Standards in the Current Year

IAS 7 Statement of Cash Flows

Amendments to IAS 7, requiring specific disclosures for movements in certain liabilities on the statement of cash flows are effective November 1, 2017. The additional disclosures required by the amendments are included in Notes 18 and 19.

Future Accounting Changes

- **Effective for the Credit Union — November 1, 2018**

The Credit Union has assessed the following standards which will have an impact on the financial statements, as identified below:

- **IFRS 15 Revenue from Contracts with Customers**

  In May 2014, the IASB Issued IFRS 15, which 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. In April 2016 the IASB issued amendments to IFRS 15 to clarify the underlying principles of the standard in regards to the identification of performance obligations, application guidance on principal versus agent and licences of intellectual property.

  IFRS 15 will impact the recognition of revenue related to credit cards. Revenue from interchange fees will be deferred related to loyalty points and will be recognized as points are redeemed, along with the related expense. The Credit Union is in the process of finalizing the assessment of the impact of IFRS 15.

- **IFRS 9 Financial Instruments**

  In July 2014, the IASB issued the complete version of IFRS 9, first issued in November 2009, as part of its plan to replace IAS 39 Financial Instruments: Recognition and Measurement. In October 2017, the IASB issued amendments to IFRS 9 to address prepayment features with negative compensation.

  The Credit Union is required to adopt IFRS 9 retrospectively as at November 1, 2018. However, the restatement of comparative periods is not mandatory, as the standard includes an exemption under which comparative periods may be presented using the previous accounting framework and any adjustment recognized in the opening balance sheet. The Credit Union does not intend to restate comparatives.

  Classification and Measurement
  IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. All financial assets, including hybrid contracts, are measured at FVTPL, fair value through other comprehensive income (FVTOCI) or amortized cost. For financial liabilities, the classification and measurement remain largely unchanged from IAS 39, except for when the fair value option is elected. The Credit Union has concluded that there will be no adjustment to opening retained earnings as a result of adoption of the classification and measurement requirements.

  Impairment
  IFRS 9 introduces an expected loss impairment model that will replace the incurred loss model used in IAS 39. The model will apply to all financial assets that are not measured at FVTPL, including off-balance-sheet commitments and specified financial guarantees.

4. CURRENT AND FUTURE ACCOUNTING CHANGES (CONTINUED)

The impairment model follows a three-stage approach based on changes in expected credit losses of a financial instrument that determine the recognition of impairment and the recognition of interest revenue. The three stages are as follows: 1) on initial recognition, 12-month expected credit losses are recognized in profit or loss and a loss allowance is established; 2) if credit risk increases significantly and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized; and 3) when a financial asset is considered credit impaired, interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount. A financial asset can move between the stages, both forwards and backwards, depending on the improvement or deterioration in credit risk.

The Credit Union estimates that the expected credit loss model will result in a decrease in opening retained earnings of between $9,600 and $10,700, as at November 1, 2018.

Hedging
IFRS 9 also introduces a new model designed to enhance disloscures to better reflect hedge accounting in the financial statements. This significant overhaul better aligns the accounting treatment with risk management activities. There will be no adjustment to opening retained earnings for hedging as the Credit Union currently does not apply hedge accounting.

The Credit Union has assessed that the following future accounting standards will not have an impact on the financial statements:

- **IFRS 2 Share-based Payment**

  In June 2016, the IASB issued amendments to IFRS 2 relating to accounting for cash-settled, share-based payment transactions that include a performance condition; classification of share-based payment transactions with net settlement features for withholding tax obligations; and accounting for modification to terms and conditions of share-based payment transactions from cash settled to equity settled.

- **IAS 40 Investment Property**

  In December 2016, the IASB issued amendments to IAS 40 to clarify that transfers of property to or from investment property occur only when there is evidence of a change in use. A change in use occurs if property meets, or no longer meets, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.

- **IFRIC 22 Foreign Currency Transactions and Advance Consideration**

  In December 2016, the International Financial Reporting Interpretations Committee (IFRIC) issued IFRIC 22 to clarify the accounting for transactions that include the receipt or payment of advance consideration for a non-monetary asset or a non-monetary liabilty in a foreign currency.

- **Effective for the Credit Union — November 1, 2019**

  The impact to the Credit Union of the standards effective November 1, 2019 is not yet assessed:

  - **IFRS 16 Leases**

    In January 2016, the IASB issued IFRS 16, which sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard removes the current requirement for lessees to classify leases as finance leases or operating leases by introducing a single lessee accounting model that requires the recognition of lease assets and lease liabilities on the balance sheet for most leases. Lessees will also recognize depreciation expense on the lease asset and interest expense on the lease liability in the statement of income. There are no significant changes to lessor accounting aside from enhanced disclosure requirements.

4. CURRENT AND FUTURE ACCOUNTING CHANGES (CONTINUED)

- **IFRIC 23 Uncertainty over Income Tax Treatments**

  In June 2017, IFRIC issued IFRIC 23 to clarify the application of recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. The interpretation specifically addresses whether tax treatments should be considered separately or collectively; the assumptions an entity makes about the examination of tax treatments by taxation authorities; how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credit and tax rates; and how an entity considers changes in facts and circumstances.

- **IFRS 3 Business Combinations**

  In December 2017, the IASB issued amendments to IFRS 3 to clarify that when an entity subsequently obtains control of a business that is a joint operation, it must remeasure previously held interests in that business.

- **IFRS 11 Joint Arrangements**

  In December 2017, the IASB issued amendments to IFRS 11 to clarify that when an entity subsequently obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

- **IAS 12 Income Taxes**

  In December 2017, the IASB issued amendments to IAS 12 to clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. As a result, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income, or the statement of changes in equity according to where the entity originally recognized those past transactions or events.

- **IAS 23 Borrowing Costs**

  In December 2017, the IASB issued amendments to IAS 23 to clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

- **IAS 19 Employee Benefits**

  In February 2018, the IASB issued amendments to IAS 19 to clarify that when a Plan Amendment, Curtailment or settlement occurs, a company is required to remeasure the net defined benefit liability or asset by using updated assumptions to determine current service cost and net interest for the reporting period after the change occurs.

- **Effective for the Credit Union — November 1, 2020**

  The impact to the Credit Union of the standards effective November 1, 2020 is not yet assessed:

  - **IFRS 9 Financial Instruments**

    In October 2017, the IASB issued amendments to IFRS 9 to clarify that a financial asset that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature with negative compensation may be measured at amortized cost or at fair value through other comprehensive income when eligibility conditions are met. The amendment also clarifies that the accounting for a modification or exchange of a financial liability measured at amortized cost that does not result in the derecognition of the financial liability is recognized in profit or loss at the date of the modification or exchange.

  - **IAS 28 Investments in Associates and Joint Ventures**

    In October 2017, the IASB issued amendments to IAS 28 to clarify that an entity applies IFRS 9 Financial Instruments, including its impairment requirements, to long-term interests in an associate or joint venture to which the equity method is not applied.

4. CURRENT AND FUTURE ACCOUNTING CHANGES (CONTINUED)

- **Conceptual Framework**

  In March 2018, the IASB issued the revised Conceptual Framework for financial reporting, which includes revised definitions of an asset and a liability as well as new guidance on measurement and derecognition, presentation, and disclosure. The conceptual framework is used to develop accounting policies when no IFRS applies to a transaction.

- **IFRS 3 Business Combinations**

  In October 2018, the IASB issued amendments to IFRS 3 aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments include changes to Appendix A Defined Terms, the application guidance, and the illustrative examples of IFRS 3 only.

- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors**

  In October 2018, the IASB issued amendments to IAS 1 and IAS 8 to clarify the definition of 'material' and to align the definition used in the Conceptual Framework and the standards themselves.

(Canadian $ thousands, except per share amounts)

5. CASH AND CASH EQUIVALENTS

		As at October 31 2018		As at October 31 2017
Cash on hand	$	15,529	$	15,720
ATM cash		10,346		10,110
Foreign exchange cash		683		588
Cash with Alberta Central		110,589		78,680
Cheques and items in transit		(315)		(980)
Total	$	136,832	$	104,118

6. INVESTMENTS

		As at October 31 2018		As at October 31 2017
Term deposits with Alberta Central	$	1,090,060	$	1,178,579
Mortgage backed security bonds		174,079		–
Other		1,022		794
		1,265,161		1,179,373
Accrued interest		2,967		2,081
Total	$	1,268,128	$	1,181,454

7. MEMBERS' LOANS

		Gross Amount		Specific Allowance		Collective Allowance		Net Amount		Impaired Loans
As at October 31, 2018										
Residential mortgages	$	8,226,490	$	373	$	1,172	$	8,224,945	$	1,602
Commercial mortgages and loans		4,411,062		9,286		4,364		4,397,412		12,986
Consumer loans		1,021,359		2,949		7,415		1,010,995		3,670
Agricultural mortgages and loans		397,125		420		159		396,546		1,066
Credit card		231,695		3,240		10,166		218,289		3,240
		14,287,731		16,268		23,276		14,248,187		22,564
Accrued interest		48,289		1,239		728		46,322		–
Total	$	14,336,020	$	17,507	$	24,004	$	14,294,509	$	22,564

		Gross Amount		Specific Allowance		Collective Allowance		Net Amount		Impaired Loans
As at October 31, 2017										
Residential mortgages	$	7,959,489	$	56	$	1,009	$	7,958,424	$	570
Commercial mortgages and loans		4,337,661		21,479		1,808		4,314,374		30,634
Consumer loans		996,818		2,384		7,539		986,895		3,936
Agricultural mortgages and loans		377,098		–		100		376,998		500
		13,671,066		23,919		10,456		13,636,691		35,640
Accrued interest		41,064		1,558		561		38,945		–
Total	$	13,712,130	$	25,477	$	11,017	$	13,675,636	$	35,640

(Canadian $ thousands, except per share amounts)

8. ALLOWANCE FOR CREDIT LOSSES

Specific Allowance

	Residential	Commercial	Consumer	Agricultural	Credit Card	Interest	Total
As at October 31, 2017	$ 56	$ 21,479	$ 2,384	$ –	$ –	$ 1,558	$ 25,477
Credit card allowance	–	–	–	–	2,416	–	2,416
Recoveries of previous loan write-offs	10	169	1,635	–	1,098	–	2,912
Allowance charged to net income	1,687	1,521	6,582	442	12,344	1,787	24,363
	1,753	23,169	10,601	442	15,858	3,345	55,168
Loans written off	(1,380)	(13,883)	(7,652)	(22)	(12,618)	(2,106)	(37,661)
As at October 31, 2018	**$ 373**	**$ 9,286**	**$ 2,949**	**$ 420**	**$ 3,240**	**$ 1,239**	**$ 17,507**

	Residential	Commercial	Consumer	Agricultural	Credit Card	Interest	Total
As at October 31, 2016	$ 421	$ 13,456	$ 2,990	$ 71	$ –	$ 1,470	$ 18,408
Recoveries of previous loan write-offs	5	201	1,382	–	–	–	1,588
Allowance charged to net income	1,091	13,827	7,627	296	–	646	23,487
	1,517	27,484	11,999	367	–	2,116	43,483
Loans written off	(1,461)	(6,005)	(9,615)	(367)	–	(558)	(18,006)
As at October 31, 2017	$ 56	$ 21,479	$ 2,384	$ –	$ –	$ 1,558	$ 25,477

Collective Allowance

	Residential	Commercial	Consumer	Agricultural	Credit Card	Interest	Total
As at October 31, 2017	$ 1,009	$ 1,808	$ 7,539	$ 100	$ –	$ 561	$ 11,017
Credit card & Safeway CU allowance	–	–	84	–	8,431	–	8,515
Allowance charged to net income	163	2,556	(208)	59	1,735	167	4,472
As at October 31, 2018	**$ 1,172**	**$ 4,364**	**$ 7,415**	**$ 159**	**$ 10,166**	**$ 728**	**$ 24,004**

	Residential	Commercial	Consumer	Agricultural	Credit Card	Interest	Total
As at October 31, 2016	$ 1,292	$ 6,477	$ 12,633	$ 17	$ –	$ 788	$ 21,207
Allowance charged to net income	(283)	(4,669)	(5,094)	83	–	(227)	(10,190)
As at October 31, 2017	$ 1,009	$ 1,808	$ 7,539	$ 100	$ –	$ 561	$ 11,017

(Canadian $ thousands, except per share amounts)

9. CREDIT QUALITY OF MEMBERS' LOANS

The following analysis includes individual loans that are impaired, or potentially impaired, based on the age of repayments outstanding in determining the specific allowance. Risk categories are defined by the Corporation and allow management to monitor credit risk.

As at October 31, 2018	Residential	Commercial	Consumer	Agricultural	Credit Card	Total
Risk Categories						
1 to 5 – Satisfactory risk	$ –	$ 4,319,517	$ –	$ 392,232	$ –	$ 4,711,749
6 – Watch list	–	38,082	–	3,052	–	41,134
8 – Impaired risk-performing	–	31,811	–	–	–	31,811
7 and 9 – Unacceptable/impaired risk-non–performing	–	8,666	–	775	–	9,441
Loans without risk rating	8,224,888	–	1,017,689	–	228,455	9,471,032
Loans not impaired	8,224,888	4,398,076	1,017,689	396,059	228,455	14,265,167
Loans specifically impaired	1,602	12,986	3,670	1,066	3,240	22,564
Sub Total	8,226,490	4,411,062	1,021,359	397,125	231,695	14,287,731
Accrued interest	13,923	16,008	12,073	4,659	1,626	48,289
Total	$ 8,240,413	$ 4,427,070	$ 1,033,432	$ 401,784	$ 233,321	$ 14,336,020

As at October 31, 2017	Residential	Commercial	Consumer	Agricultural	Credit Card	Total
Risk Categories						
1 to 5 – Satisfactory risk	$ –	$ 4,282,832	$ –	$ 374,984	$ –	$ 4,657,816
6 – Watch list	–	8,804	–	–	–	8,804
8 – Impaired risk–performing	–	3,319	–	170	–	3,489
7 and 9 – Unacceptable/impaired risk–non-performing	–	12,072	–	1,444	–	13,516
Loans without risk rating	7,958,919	–	992,882	–	–	8,951,801
Loans not impaired	7,958,919	4,307,027	992,882	376,598	–	13,635,426
Loans specifically impaired	570	30,634	3,936	500	–	35,640
Sub Total	7,959,489	4,337,661	996,818	377,098	–	13,671,066
Accrued interest	12,530	14,238	10,195	4,101	–	41,064
Total	$ 7,972,019	$ 4,351,899	$ 1,007,013	$ 381,199	$ –	$ 13,712,130

- Risk Rating 6: This category includes accounts where there is not a risk for principal or interest at present, but the performance trend is negative and unless reversed could lead to losses for Servus. This is a transitional rating since the expectation is to be able to upgrade the account within the next 12-month period.
- Risk Rating 7: These members exhibit the characteristics in the Risk 6 category, but one or more of the following apply:
  a. Interest is 60 or more days in arrears. (30 days for term loans subject to annual payments).
  b. The collection of interest is in doubt, but there is no exposure for principal.
- Risk Rating 8: The deterioration in value of the security could make a loss in principal likely. However, the loan is still performing with payments being applied against principal and interest within the contractual terms.
- Risk Rating 9: This category uses the same criteria that is established for Risk 7, but there is deterioration in the value of the security that could make a loss in principal likely.

(Canadian $ thousands, except per share amounts)

9. CREDIT QUALITY OF MEMBERS' LOANS (CONTINUED)

Loans past due, as at October 31, 2018

	Residential	Commercial	Consumer	Agricultural	Credit Card	Total
Past due up to 29 days	**$ 114,772**	**$ 17,816**	**$ 14,846**	**$ 2,967**	**$ 15,400**	**$ 165,801**
Past due 30 – 59 days	**41,878**	**20,357**	**6,125**	**4,404**	**6,090**	**78,854**
Past due 60 – 89 days	**19,135**	**4,575**	**2,953**	**960**	**2,899**	**30,522**
Past due over 90 days	**30,369**	**52,355**	**3,770**	**4,833**	**5,402**	**96,729**
Total	**$ 206,154**	**$ 95,103**	**$ 27,694**	**$ 13,164**	**$ 29,791**	**$ 371,906**

Loans past due, as at October 31, 2017

	Residential	Commercial	Consumer	Agricultural	Credit Card	Total
Past due up to 29 days	$ 108,702	$ 12,024	$ 15,432	$ 3,185	$ –	$ 139,343
Past due 30 – 59 days	42,700	17,986	7,127	423	–	68,236
Past due 60 – 89 days	17,417	2,351	2,576	30	–	22,374
Past due over 90 days	20,795	36,184	3,840	2,092	–	62,911
Total	$ 189,614	$ 68,545	$ 28,975	$ 5,730	$ –	$ 292,864

Loans Past Due but Not Impaired

Members' loans are considered past due when payments have not been received by the contractual due date. The following table presents the carrying value of members' loans that are past due but not classified as impaired because they are either (i) less than 90 days past due unless there is information to the contrary that an impairment event has occurred or (ii) fully secured and collection efforts are reasonably expected to result in full repayment.

Loans past due but not impaired, as at October 31, 2018

	Residential	Commercial	Consumer	Agricultural	Credit Card	Total
Past due up to 29 days	**$ 114,772**	**$ 17,571**	**$ 14,722**	**$ 2,967**	**$ 15,400**	**$ 165,432**
Past due 30 – 59 days	**41,878**	**20,187**	**6,065**	**4,404**	**6,090**	**78,624**
Past due 60 – 89 days	**19,135**	**4,408**	**2,572**	**960**	**2,899**	**29,974**
Past due over 90 days	**28,767**	**42,431**	**675**	**3,767**	**2,162**	**77,802**
Total	**$ 204,552**	**$ 84,597**	**$ 24,034**	**$ 12,098**	**$ 26,551**	**$ 351,832**

Loans past due but not impaired, as at October 31, 2017

	Residential	Commercial	Consumer	Agricultural	Credit Card	Total
Past due up to 29 days	$ 108,702	$ 11,755	$ 15,389	$ 3,185	$ –	$ 139,031
Past due 30 – 59 days	42,700	17,836	6,823	423	–	67,782
Past due 60 – 89 days	17,417	1,627	2,326	30	–	21,400
Past due over 90 days	20,225	9,672	932	1,591	–	32,420
Total	$ 189,044	$ 40,890	$ 25,470	$ 5,229	$ –	$ 260,633

The Credit Union has documented policies and procedures in place for the valuation of financial and non-financial collateral. For impaired loans, an assessment of the collateral is taken into consideration when estimating the net realizable amount of the loans.

The amount and types of collateral required depend on the Credit Union's assessment of members' credit quality and repayment capacity. Non-financial collateral taken by the Credit Union includes vehicles, residential real estate, real estate under development, business assets such as trade receivables, inventory, and property and equipment. The main types of financial collateral taken by the Credit Union include mortgage, cash, negotiable securities and investments. Guarantees are also taken to reduce credit risk exposure risk.

(Canadian $ thousands, except per share amounts)

9. CREDIT QUALITY OF MEMBERS' LOANS (CONTINUED)

	As at October 31 2018	As at October 31 2017
Loans by security		
Insured loans and mortgages	$ 2,801,700	$ 2,759,164
Secured by mortgage	9,416,496	8,900,893
Secured by other	1,018,589	1,238,908
Unsecured	1,099,235	813,165
Total	$ 14,336,020	$ 13,712,130

10. ASSETS HELD FOR SALE

	As at October 31 2018	As at October 31 2017
Foreclosed property	$ 7,047	$ 8,378
Other land and buildings	1,039	646
Total	$ 8,086	$ 9,024

Management has concluded that an impairment on assets held for sale was required to be recorded by the Credit Union. An impairment loss of $909 (2017 – $501) has been recorded in the consolidated statement of income and comprehensive income.

11. OTHER ASSETS

	As at October 31 2018	As at October 31 2017
Accounts receivable	$ 5,551	$ 6,668
Prepaid items	13,615	11,588
Total	$ 19,166	$ 18,256

(Canadian $ thousands, except per share amounts)

12. PROPERTY AND EQUIPMENT

	Land	Buildings	Leasehold Improve-ment	Furniture, Office Equipment and Vehicles	Computer Equipment	Leased Equipment	Total
Cost							
Balance as at October 31, 2016	$ 25,380	$ 152,001	$ 45,282	$ 30,553	$ 20,606	$ –	$ 273,822
Additions	329	1,751	198	1,423	2,097	–	5,798
Impairment losses	–	(10)	–	–	–	–	(10)
Disposals	–	(543)	(1,904)	(2,605)	(3,053)	–	(8,105)
Transfer to assets held for sale	–	–	–	(2)	–	–	(2)
Transfer to investment property	–	(277)	–	–	–	–	(277)
Other transfers	–	1,389	(1,389)	(218)	218	–	–
Balance as at October 31, 2017	$ 25,709	$ 154,311	$ 42,187	$ 29,151	$ 19,868	$ –	$ 271,226
Amalgamation additions	1,025	1,012	38	224	92	–	2,391
Additions	–	2,047	490	2,033	1,353	896	6,819
Disposals	–	(525)	(855)	(2,618)	(1,354)	–	(5,352)
Transfer to assets held for sale	(45)	(670)	–	(58)	–	–	(773)
Transfer from investment property	190	1,815	–	–	–	–	2,005
Other transfers	–	(427)	(349)	776	19	–	19
Balance as at October 31, 2018	**$ 26,879**	**$ 157,563**	**$ 41,511**	**$ 29,508**	**$ 19,978**	**$ 896**	**$ 276,335**
Accumulated depreciation							
Balance as at October 31, 2016	$ –	$ 56,161	$ 27,568	$ 22,245	$ 12,237	$ –	$ 118,211
Depreciation	–	5,175	2,545	2,465	3,217	–	13,402
Disposals	–	(299)	(1,813)	(2,553)	(2,871)	–	(7,536)
Transfer to assets held for sale	–	–	–	(4)	–	–	(4)
Transfer from investment property	–	26	–	–	–	–	26
Other transfers	–	878	(878)	(399)	399	–	–
Balance as at October 31, 2017	$ –	$ 61,941	$ 27,422	$ 21,754	$ 12,982	$ –	$ 124,099
Amalgamation additions	–	146	38	190	85		459
Depreciation	–	5,032	2,312	2,564	2,860	19	12,787
Disposals	–	(311)	(836)	(2,550)	(1,344)	–	(5,041)
Transfer to assets held for sale	–	(249)	–	(30)	–	–	(279)
Transfer from investment property	–	1,370	–	–	–	–	1,370
Other transfers	–	(99)	(129)	228	4	–	4
Balance as at October 31, 2018	**$ –**	**$ 67,830**	**$ 28,807**	**$ 22,156**	**$ 14,587**	**$ 19**	**$ 133,399**
Net Book Value							
At October 31, 2017	25,709	92,370	14,765	7,397	6,886	–	147,127
At October 31, 2018	**26,879**	**89,733**	**12,704**	**7,352**	**5,391**	**877**	**142,936**

(Canadian $ thousands, except per share amounts)

13. INVESTMENT PROPERTY

		Land		Buildings		Total
Cost						
Balance as at October 31, 2016	$	1,835	$	11,098	$	12,933
Transfer from property and equipment		–		277		277
Transfer from assets held for sale		–		494		494
Disposals		–		(231)		(231)
Balance as at October 31, 2017		1,835		11,638		13,473
Transfer to property and equipment		(190)		(1,815)		(2,005)
Disposals		–		(1,313)		(1,313)
Balance as at October 31, 2018	**$**	**1,645**	**$**	**8,510**	**$**	**10,155**
Accumulated depreciation						
Balance as at October 31, 2016	$	–	$	5,833	$	5,833
Depreciation		–		470		470
Transfer from assets held for sale		–		27		27
Transfer to property and equipment		–		(26)		(26)
Balance as at October 31, 2017		–		6,304		6,304
Depreciation		–		416		416
Transfer to property and equipment		–		(1,370)		(1,370)
Disposals		–		(201)		(201)
Balance as at October 31, 2018	**$**	**–**	**$**	**5,149**	**$**	**5,149**
Net Book Value						
At October 31, 2017		1,835		5,334		7,169
At October 31, 2018		**1,645**		**3,361**		**5,006**

During the year, four condo units that were originally acquired to provide housing in the town of Slave Lake were subsequently sold for a loss of $112, which was included in general operating expenses in the consolidated statement of income and comprehensive income.

The fair value of investment property held is $11,239 (2017 – $13,502) and is determined by external valuation on a rotating basis every three years. A valuation was performed in 2018.

Income Related To Investment Property		**October 31 2018**		October 31 2017
Rental income	**$**	**1,083**	$	1,407
Direct operating expense from property generating rental income		**955**		1,129
Total	**$**	**128**	$	278

Future rental payments receivable are as follows:

		October 31 2018		October 31 2017
Less than 1 year	**$**	**768**	$	800
Between 1 and 5 years		**1,076**		1,555
More than 5 years		**–**		45
Total	**$**	**1,844**	$	2,400

(Canadian $ thousands, except per share amounts)

14. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

As at October 31, 2018	**Equity-linked Options**	**Interest Rate Swaps**	**Total**
Derivative Financial Asset amounts not subject to enforceable netting arrangements	**$ 5,998**	**$ –**	**$ 5,998**
Derivative Financial Liabilities			
Gross amounts of financial assets before statement of financial position offsetting	**$ –**	**$ (10,533)**	**$ (10,533)**
Gross amounts of financial liabilities before statement of financial position offsetting	**–**	**16,963**	**16,963**
Net amount of financial liabilities presented on the statement of financial position	**–**	**6,430**	**6,430**
Amounts not subject to enforceable netting arrangements	**5,942**	**–**	**5,942**
Total	**$ 5,942**	**$ 6,430**	**$ 12,372**

As at October 31, 2017	Equity-linked Options	Embedded Purchase Option	Interest Rate Swaps	Total
Derivative Financial Assets				
Gross amounts of financial assets before statement of financial position offsetting	$ –	$ –	$ 8,575	$ 8,575
Gross amounts of financial liabilities before statement of financial position offsetting	–	–	(7,918)	(7,918)
Net amount of financial assets presented on the statement of financial position	–	–	657	657
Amounts not subject to enforceable netting arrangements	7,958	23,080	–	31,038
Total	$ 7,958	$ 23,080	$ 657	$ 31,695
Derivative Financial Liabilities				
Gross amounts of financial assets before statement of financial position offsetting	$ –	$ –	$ (11,733)	$ (11,733)
Gross amounts of financial liabilities before statement of financial position offsetting	–	–	16,850	16,850
Net amount of financial liabilities presented on the statement of financial position	–	–	5,117	5,117
Amounts not subject to enforceable netting arrangements	7,889	–	–	7,889
Total	$ 7,889	$ –	$ 5,117	$ 13,006

The notional amounts of derivative financial instrument contracts maturing at various times are:

	1 to 3 months	**3 to 12 months**	**1 to 5 years**	**As at October 31 2018**	As at October 31 2017
Interest rate swaps receive fixed, pay floating	**$ 500,000**	**$ 200,000**	**$ 300,000**	**$ 1,000,000**	$ 1,000,000
Equity-linked options	**–**	**17,020**	**70,855**	**87,875**	80,615
Total	**$ 500,000**	**$ 217,020**	**$ 370,855**	**$ 1,087,875**	$ 1,080,615

(Canadian $ thousands, except per share amounts)

14. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Equity-linked Options

Equity-linked options are used to fix costs on term deposit products that pay a return to the deposit holder based on the change in equity market indexes. The embedded derivative in the term deposit product and the option derivative are marked to market through interest income investments and have similar principal values and maturity dates. The fair value of the equity-linked derivative contract is separately presented as part of derivative instrument assets.

Interest Rate Swaps

Interest rate swaps are agreements where two counterparties exchange a series of interest payments based on different interest rates applied to a notional amount.

Due to the increase in interest rates, the fair value of all interest rate swaps for the Credit Union are in a liability position.

15. INVESTMENT IN ASSOCIATE

Alberta Central, the central banking facility, service bureau and trade association for Alberta credit unions, is the only entity classified as investment in associate for the reporting period. The proportion of ownership interest held by the Credit Union as at October 31, 2018, is 58.1% (2017 – 57.8%).

	As at October 31 2018	As at October 31 2017
Alberta Central		
Opening balance	$ **172,900**	$ 175,664
Purchase of additional shares	**1,950**	–
Share of profits	**7,792**	8,233
Share of other comprehensive income (loss)	**12,401**	(1,573)
Distributions	**(10,456)**	(9,424)
Total	$ **184,587**	$ 172,900

Financial Information for Alberta Central	**As at October 31 2018 (Unaudited)**	As at October 31 2017 (Unaudited)
Assets	$ **3,329,955**	$ 3,034,724
Liabilities	**3,003,589**	2,727,092
Revenues	**45,955**	33,395
Income before distributions	**9,103**	10,484
Other comprehensive income (loss)	**21,470**	(2,718)

(Canadian $ thousands, except per share amounts)

15. INVESTMENT IN ASSOCIATE (CONTINUED)

The summary of outstanding balances in the consolidated statement of financial position and transactions in the consolidated statement of income and comprehensive income with associate is as follows:

Alberta Central	As at October 31 2018	As at October 31 2017
Cash	$ 97,368	$ 67,933
Term deposits	1,090,060	1,178,579
Accrued interest on term deposits	2,606	2,081
Other assets	2,720	2,477
Trade payables and other liabilities	2,074	640

	2018	2017
Interest income	$ 16,677	$ 10,114
Interest expense	1,416	1,620
Other income	642	333
Data processing, memberships fees and other	10,544	10,542

16. INTANGIBLE ASSETS

	Purchased Software & Other	Internally Developed Software	Computer Software Under Development	Credit Card Related Intangible	Total
Cost					
Balance as at October 31, 2016	$ 2,646	$ 67,816	$ 2,412	$ –	$ 72,874
Adjustments	–	(9)	–	–	(9)
Additions	334	–	2,687	–	3,021
Disposals	–	(185)	–	–	(185)
Impairment	–	–	(615)	–	(615)
Transfers	–	1,887	(1,887)	–	–
Balance as at October 31, 2017	2,980	69,509	2,597	–	75,086
Amalgamation Balances	214	–	–	–	214
Additions	400	183	3,101	28,707	32,391
Disposals	(253)	(741)	–	–	(994)
Impairment	(16)	–	–	–	(16)
Transfers	(7)	3,544	(3,555)	–	(18)
Balance as at October 31, 2018	**$ 3,318**	**$ 72,495**	**$ 2,143**	**$ 28,707**	**$ 106,663**
Accumulated amortization					
Balance as at October 31, 2016	$ 1,067	$ 24,451	$ –	$ –	$ 25,518
Amortization	471	6,025	–	–	6,496
Disposals	–	(6)	–	–	(6)
Balance as at October 31, 2017	1,538	30,470	–	–	32,008
Amalgamation Balances	150	–	–	–	150
Amortization	549	6,431	–	2,153	9,133
Disposals	(198)	(699)	–	–	(897)
Transfers	(4)	–	–	–	(4)
Balance as at October 31, 2018	**$ 2,035**	**$ 36,202**	**$ –**	**$ 2,153**	**$ 40,390**
Net Book Value					
As at October 31, 2017	1,442	39,039	2,597	–	43,078
As at October 31, 2018	**1,283**	**36,293**	**2,143**	**26,554**	**66,273**

(Canadian $ thousands, except per share amounts)

16. INTANGIBLE ASSETS (CONTINUED)

On February 1, 2018, Servus completed the purchase of the MasterCard portoflio from CUETS Financial Ltd. (a division of TD Bank) for a purchase price of $223 million. This transaction was treated as an asset purchase and the difference on the date of acquisition of the fair value of assets over the transaction price was set up as an intangible asset.

Management has concluded that an impairment on other intangible assets was required to be recorded by the Credit Union. An impairment loss of $16 (2017 – $615) has been recorded in the consolidated statement of income and comprehensive income.

17. INCOME TAXES

(a) Income tax expense

The significant components of tax expense included in the consolidated statement of income and comprehensive income are:

Income Tax Expense		**2018**		2017
Current tax expense				
Based on current year taxable income	**$**	**38,404**	$	30,652
Adjustments for under (over) provision in prior periods		**141**		(240)
Sub Total		**38,545**		30,412
Deferred tax expense				
Origination and reversal of temporary differences		**(8,271)**		(159)
Adjustments for (over) under provision in prior periods		**(1,549)**		318
Sub Total		**(9,820)**		159
Total	**$**	**28,725**	$	30,571

(b) Reconciliation of effective tax rate:

		2018			2017	
Income before income taxes	**$**	**115,088**		$	113,024	
Income tax expense based on statutory rate		**31,074**	**27.00%**		30,370	26.87%
Effect on non-deductible expenses		**155**	**0.13%**		135	0.12%
Adjustments for (over) under provision in prior periods		**(1,408)**	**(1.22%)**		78	0.07%
Non-taxable gain on amalgamations		**(1,138)**	**(0.99%)**		–	0.00%
Other		**42**	**0.04%**		(12)	(0.01%)
Total income tax expense	**$**	**28,725**	**24.96%**	$	30,571	27.05%

(Canadian $ thousands, except per share amounts)

17. INCOME TAXES (CONTINUED)

(c) Deferred tax assets and liabilities

The movement in deferred tax assets and liabilities is:

Deferred Tax Assets and Liabilities	**As at October 31 2017**	**Recognized in Net Income**	**Recognized in OCI**	**As at October 31 2018**
Servus deferred tax asset:				
Mortgage backed security bonds	**–**	**–**	**607**	**607**
Total	**–**	**–**	**607**	**607**
Servus deferred tax liability:				
Member loans	**3,711**	**3,256**	**–**	**6,967**
Property and equipment	**(12,246)**	**(4,508)**	**–**	**(16,754)**
Derivative instruments	**(4,944)**	**6,680**	**–**	**1,736**
Investment in associate	**(8,173)**	**719**	**(3,348)**	**(10,802)**
Employee benefits & other payables	**3,758**	**3,673**	**18**	**7,449**
Total	**(17,894)**	**9,820**	**(3,330)**	**(11,404)**
Net consolidated deferred tax	**$ (17,894)**	**$ 9,820**	**$ (2,723)**	**$ (10,797)**

	As at October 31 2016	Recognized in Net Income	Recognized in OCI	As at October 31 2017
Servus deferred tax liability:				
Member loans	6,251	(2,540)	–	3,711
Property and equipment	(13,144)	898	–	(12,246)
Derivative instruments	(5,904)	960	–	(4,944)
Investment in associate	(9,135)	536	426	(8,173)
Employee benefits & other payables	3,889	(13)	(118)	3,758
Non-capital losses	–	–	–	–
Total	(18,043)	(159)	308	(17,894)
Net consolidated deferred tax	$ (18,043)	$ (159)	$ 308	$ (17,894)

18. BORROWINGS

	Average Effective Interest Rate	**As at October 31 2017**	**Cash Inflows**	**Cash Outflows**	**As at October 31 2018**	**Interest Payments**
Line of Credit	Alberta Central prime	**$ –**	**$ 1,015,753**	**$ (1,015,753)**	**$ –**	**$ 161**
Term Loans	2.6193%	**100,000**	**602,000**	**(452,000)**	**250,000**	**5,528**
Total		**$ 100,000**	**$ 1,617,753**	**$ (1,467,753)**	**$ 250,000**	**$ 5,689**

	Average Effective Interest Rate	As at October 31 2016	Cash Inflows	Cash Outflows	As at October 31 2017	Interest Payments
Line of Credit	Alberta Central prime	$ –	$ 2,141,020	$ (2,141,020)	$ –	$ 479
Term Loans	1.7612%	76,007	781,000	(757,007)	100,000	1,509
Total		$ 76,007	$ 2,922,020	$ (2,898,027)	$ 100,000	$ 1,988

18. BORROWINGS (CONTINUED)

Alberta Central

The Credit Union has a credit facility agreement with Alberta Central in the aggregate amount of $1,180,000 comprising a revolving demand operating line of credit and revolving term loans. Included in the $1,180,000 available loan is a US dollar line of credit up to a Canadian-dollar equivalent of $7,250. Interest on the line of credit is payable monthly at Alberta Central's prime rate for Canadian-dollar advances and Alberta Central's US base rate on US-dollar advances, in both cases plus or minus the applicable discount or margin of Alberta Central in effect from time to time. The facility is renewable annually.

Revolving term loans are due on demand or repayable in terms of 1 to 24 months for each advance with interest calculated at Alberta Central's prime rate plus or minus the applicable discount or margin of Alberta Central in effect from time to time or, at the option of the Credit Union, for terms of more than 30 days at a fixed rate equal to Alberta Central's money market deposit rate or the equivalent paid fixed swap rate for the term plus the applicable discount or margin. A general assignment of book debts and hypothecation of investments with Alberta Central are pledged as collateral.

Caisse Centrale Desjardins

The Credit Union has a credit facility agreement with Caisse Central Desjardins (CCD). The facility consists of a three year revolving term loan available in Canadian dollars, with a maximum credit available of $75,000.

The loans may be structured as either due on demand or repayable for periods of one to three months for each advance. Interest is calculated at CCD prime rate or CCD cost of funds depending on the facility and duration chosen as determined from time to time.

Borrowings are secured by eligible residential mortgages and by a debenture in favour of CCD, creating a floating charge over eligible residential mortgages of the Credit Union.

Canadian Imperial Bank of Commerce

Revolving Credit Facility

The Credit Union has a credit facility agreement with the Canadian Imperial Bank of Commerce (CIBC). The facility allows for multiple advances within 364 days available in Canadian dollars renewable annually, with a maximum credit available of $200,000.

The advances drawn may be structured as either due on demand or repayable for periods of one to three months for each advance. Interest is calculated at CIBC prime rate or banker's acceptances depending on the facility and duration chosen as determined from time to time.

Borrowings are secured by eligible residential mortgages and by a debenture in favour of CIBC, creating a floating charge over eligible residential mortgages of the Credit Union.

Non-Revolving Credit Facility

The Credit Union has a $250,000 loan facility that was funded with CIBC on February 1, 2018.

The facility consists of three tranches that are non-revolving credit facilities and interest is calculated at banker's acceptance rates that reset quarterly. The advances drawn are structured in three different tranches repayable from two to five years, with the final tranche being paid in full on February 1, 2023.

Borrowings are secured by eligible residential mortgages and by a debenture in favour of CIBC, creating a floating charge over eligible residential mortgages of the Credit Union.

(Canadian $ thousands, except per share amounts)

19. SECURITIZATION LIABILITIES

	Maturity Date	Interest Rate	As at October 31 2018	As at October 31 2017
Securitization liabilities	Nov 2, 2018 to Sep 1, 2023	0.9900% to 2.4100%	$ **1,329,762**	$ 1,093,288

Securitization liabilities interest payments for the year are $20,199 (2017 – $13,946).

The Credit Union periodically enters into asset transfer agreements with third parties, which include securitization of residential mortgages. The carrying amount as at October 31, 2018, of the associated residential mortgages held as security is $1,416,344 (2017 – $1,125,397). As a result of the transaction, the Credit Union receives the net differential between the monthly interest receipts of the mortgages and the interest expense on the liabilities.

20. MEMBERS' DEPOSITS

	As at October 31 2018	As at October 31 2017
Demand accounts	$ **6,517,424**	$ 6,693,231
Term deposits	**4,381,486**	4,081,799
Registered plans	**1,881,169**	1,738,346
Other deposits	**12,492**	12,026
	12,792,571	12,525,402
Accrued interest	**46,805**	34,661
Total	$ **12,839,376**	$ 12,560,063

21. TRADE PAYABLES AND OTHER LIABILITIES

	As at October 31 2018	As at October 31 2017
Cheques and other items in transit	$ **14,682**	$ 22,976
Accounts payable	**117,080**	117,453
Credit card points liability	**8,847**	–
Dividend and patronage to members	**30,902**	27,873
Deferred income	**5,737**	5,194
Obligations under finance lease	**878**	–
Provisions	**175**	69
Total	$ **178,301**	$ 173,565

(Canadian $ thousands, except per share amounts)

22. EMPLOYEE BENEFITS

	2018	2017
Short-term employee benefits	$ 189,288	$ 185,640
Post-employment benefits	8,984	8,855
Termination benefits	1,173	763
Total	$ 199,445	$ 195,258

Other expenses related to employees that are not classified as the type of benefits listed above are also included in personnel expenses.

Plan Cost	Pension Plans	Other Benefit Plans	2018	2017
Net benefit plan cost in net income				
Current service cost	$ 163	$ –	$ 163	$ 161
Interest cost	182	67	249	211
Total	345	67	412	372
Defined contribution registered retirement savings plan – Credit Union contributions	9,014	–	9,014	8,897
Total	9,359	67	9,426	9,269
Actuarial loss (gain) recognized in other comprehensive income	665	(607)	58	(11)
Total	$ 10,024	$ (540)	$ 9,484	$ 9,258

Accrued Benefit Obligation and Liability	Pension Plans	Other Benefit Plans	As at October 31 2018	As at October 31 2017
Unfunded accrued benefit obligation				
Balance, beginning of year	$ 5,244	$ 1,975	$ 7,219	$ 7,630
Current service cost	163	–	163	161
Interest cost	182	67	249	211
Benefits paid	(247)	(97)	(344)	(345)
Actuarial loss (gain)	52	17	69	(438)
Balance, end of year	$ 5,394	$ 1,962	$ 7,356	$ 7,219

	Pension Plans	Other Benefit Plans	2018	2017
Included in personnel expense				
Current service cost	$ 163	$ –	$ 163	$ 161
Interest cost	182	67	249	211
Benefits paid	(247)	(97)	(344)	(345)
Total	$ 98	$ (30)	$ 68	$ 27

	Pension Plans		Other Benefit Plans	
	2018	2017	2018	2017
Discount rate	3.50%	3.0% to 3.6%	3.40%	3.50%

(Canadian $ thousands, except per share amounts)

22. EMPLOYEE BENEFITS (CONTINUED)

Changes in the assumed health care cost trend rates for the post-retirement benefit plans for the year ended October 31, 2018, are:

Effect on inflation:	1% increase	1% decrease
Accrued benefit obligation	$ 25	$ 181

Experience adjustments	2018	2017
Accrued benefit obligation and plan deficit	$ 7,356	$ 7,219
Experience loss (gain)	69	(438)
Tax (recovery) expense	(18)	118
Net experience loss (gain)	51	(320)

Defined benefit contributions expected to be paid in 2019	$ 344

23. SHARE CAPITAL

Common Shares

Common shares have the following characteristics:

a) Authorized for issue in unlimited number
b) A par value of $1, but issuable as fractional shares
c) Transferable in restricted circumstances
d) Non-assessable
e) Redeemable at par value, subject to the Credit Union's redemption policy, which includes approval of the Board of Directors and restrictions contained in the Act and Regulations, including limitation to 10% of outstanding balances
f) Adult members must hold a minimum of one share to retain membership in the Credit Union
g) Carries the right to vote at a general meeting

Series A to G Investment Shares

Series A to G Investment Shares have the following characteristics:

a) No par value
b) No voting rights
c) Non-assessable
d) Transferable under limited circumstances
e) Callable at the discretion of the Credit Union upon five years' written notice
f) Dividends are not cumulative and subject to the Credit Union's dividend policy and approval of the Board of Directors
g) Redeemable at $1 subject to the Credit Union's redemption policy, including limitation to no more than 10% of the outstanding balance and approval by the Board of Directors

In addition to the above, Series E Investment Shares contain a right to redemption. A financial liability representing the right to redemption of these shares has been recognized.

(Canadian $ thousands, except per share amounts)

23. SHARE CAPITAL (CONTINUED)

	Issued and Outstanding as at October 31 2017	Issued	Redeemed and Transferred	Dividends Declared	Issued and Outstanding as at October 31 2018	Investment Share Liability Portion
Common shares total	$ 541,472	$ 21,477	$ (30,328)	$ 18,146	$ 550,767	
Investment shares						
Series A	52,378	–	(1,566)	2,279	53,091	–
Series B	7,920	–	(100)	351	8,171	–
Series C	20,764	–	(832)	893	20,825	–
Series D	31,906	–	(1,123)	1,380	32,163	–
Series E	4,179	–	(88)	203	4,294	427
Series F	599	–	(33)	25	591	–
Series G	381	–	(24)	16	373	–
Investment shares total	$ 118,127	$ –	$ (3,766)	$ 5,147	$ 119,508	$ 427
Share capital total	$ 659,599	$ 21,477	$ (34,094)	$ 23,293	$ 670,275	$ –

	Issued and Outstanding as at October 31 2016	Issued	Redeemed and Transferred	Dividends Declared	Issued and Outstanding as at October 31 2017	Investment Share Liability Portion
Common shares total	$ 523,247	$ 29,683	$ (29,191)	$ 17,733	$ 541,472	
Investment shares						
Series A	51,192	–	(1,062)	2,248	52,378	–
Series B	7,694	–	(114)	340	7,920	–
Series C	20,701	–	(828)	891	20,764	–
Series D	31,212	–	(675)	1,369	31,906	–
Series E	4,039	–	(57)	197	4,179	415
Series F	591	–	(18)	26	599	–
Series G	387	–	(22)	16	381	–
Investment shares total	$ 115,816	$ –	$ (2,776)	$ 5,087	$ 118,127	$ 415
Share capital total	$ 639,063	$ 29,683	$ (31,967)	$ 22,820	$ 659,599	$ –

Total patronage and dividends payable in cash or shares	**2018**	2017
Patronage allocation to members in cash	$ 30,821	$ 27,772
Common share dividend	18,146	17,733
Investment share dividend	5,147	5,087
	$ 54,114	$ 50,592

Common share dividends are paid to members by the issuance of additional common shares and are allocated to members' accounts as determined by the Board of Directors. Series A, B, C, D, E, F and G investment share dividends are paid in additional Series A, B, C, D, E, F and G investment shares, respectively.

Dividend rate (%)	**2018**	2017
Common share	3.50%	3.50%
Investment share	4.50%	4.50%

(Canadian $ thousands, except per share amounts)

24. INVESTMENT INCOME

		2018		2017
Investment income on loans and receivables other than members' loans	$	**20,797**	$	9,721
Unrealized loss on derivative instruments		**(1,975)**		(4,741)
Realized (loss) gain on derivative instruments		**(2,430)**		714
Total	$	**16,392**	$	5,694

25. OTHER INTEREST EXPENSE

		2018		2017
Term loans	$	**5,538**	$	1,500
Line of credit		**161**		479
Securitization liabilities		**24,062**		16,636
Total	$	**29,761**	$	18,615

26. OTHER INCOME

		2018		2017
Commissions and fees	$	**53,445**	$	55,739
Account service charges		**34,962**		33,591
Credit Card fee revenue		**17,787**		63
Foreign exchange income		**3,418**		3,507
Operating lease income		**939**		1,195
Gain on amalgamations		**4,214**		–
Other		**(611)**		3,205
Total	$	**114,154**	$	97,300

27. CAPITAL MANAGEMENT

The Credit Union provides financial services to its members and is subject to capital requirements set out in the Act and as may be established by the Corporation. The Credit Union has complied with all requirements as set out in the Act.

Objectives, Policy and Processes

The purpose of the Credit Union's Capital Policy, in addition to complying with the Act, is to provide an overall framework for ensuring the Credit Union has:

- Sufficient capital to remain viable through periods of economic weakness and to maintain the security of member deposits
- Clear direction on the desired composition of the Credit Union's capital
- A capital plan that can be used to help make appropriate patronage and profitability decisions

The Credit Union's policy is to hold capital in a range of different forms and from diverse sources. Retained earnings represent the highest quality, most stable and least expensive form of permanent capital. The Credit Union's long-term plan is to maintain adjusted retained earnings at an amount sufficient on its own to meet regulatory requirements for capital as a percent of total assets.

The Credit Union has established processes to meet its objectives and comply with regulation and policies that are approved by the Board of Directors. Management reviews capital levels on a regular basis and reports capital adequacy and financial results to the Board of Directors or its committees. Management also sets budgets and reports variances to these budgets. Financial results and capital adequacy are reported to the Corporation. The capital plan is updated annually and provides a forecast of capital requirements over a three-year planning cycle. The Board has approved an Internal Capital Adequacy Assessment Process that takes a long-term perspective of capital requirements using various scenarios.

Should the Credit Union not comply with its legislated capital adequacy requirements, the Chief Executive Officer and Chief Financial Officer would immediately notify the Board Chair, the Audit and Finance Committee Chair and the Corporation. The Board of Directors would be informed at its next scheduled meeting. Per the Act, redemption of common shares would be suspended. An explanation and action plan would be presented and enacted. Finally, the Credit Union may be subjected to intervention of the Corporation as provided for in the Act.

Regulatory Capital

Capital requirements are established by the Act and regulated by the Corporation using a risk-weighted and total asset approach. Total capital consists of both primary and secondary capital.

Primary capital consists of adjusted retained earnings, common shares and investment shares (including the portion classified as liabilities). It is offset by goodwill and intangible assets, investments in subsidiaries and deferred income tax assets.

Secondary capital consists of deferred income tax liabilities and the collective allowance for credit losses.

Risk-weighted assets are determined by reviewing each grouping of loans and other assets and assigning a risk weighting using definitions and formulas set out in the Act and by the Corporation. The more risk associated with an asset, the higher the weighting assigned. The total amount of capital is then divided into this figure. This method allows the Credit Union to measure capital relative to the possibility of loss, with more capital required to support assets that are seen as being high risk.

It is the Credit Union's policy to comply at all times with regulatory requirements establishing required capital balances.

(Canadian $ thousands, except per share amounts)

27. CAPITAL MANAGEMENT (CONTINUED)

As at October 31, 2018, and 2017, the Credit Union's capital ratio was greater than the minimum requirement. Regulatory and internal management capital requirements are noted in the chart below.

	As at October 31 2018	As At October 31 2017
Primary Capital:		
Adjusted retained earnings [1]	**$ 802,239**	$ 713,957
Common shares	**550,767**	541,472
Investment shares	**119,935**	118,542
Total primary capital	**1,472,941**	1,373,971
Secondary Capital:		
Collective allowance for credit losses	**24,004**	11,017
Deferred income tax liabilities	**11,404**	17,894
Total secondary capital	**35,408**	28,911
Less Deductions:		
Intangible assets	**(66,273)**	(43,078)
Deferred income tax asset	**(607)**	–
Total Capital Available	**$ 1,441,469**	$ 1,359,804
Capital as % of Risk Weighted Assets		
Total capital as % of risk weighted assets	**16.00%**	15.70%
Legislated minimum	**8.00%**	8.00%
Minimum supervisory requirement	**11.50%**	11.50%
Management internal minimum	**13.50%**	13.50%
Capital as % of Total Assets		
Total capital as % of assets	**8.93%**	8.84%
Legislated minimum	**4.00%**	4.00%

(1) Retained earnings less fair value of derivative assets and liabilities, investments and net share of associate's assets

28. GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES

Guarantees

A guarantee is a contract that contingently requires the guarantor to make payments to a third party based on:

(i) Changes in an underlying interest rate or other variable, including the occurrence or non-occurrence of an event that is related to an asset or liability held by the guaranteed party

(ii) An indemnification provided to a third party with the characteristics listed above

(iii) Another entity's failure to perform under an obligation agreement

(iv) Another party's failure to fulfil their related debt obligations

The various guarantees and indemnifications that the Credit Union provides to its members and other third parties are not required to be recorded in the financial statements but are presented in the tables below.

Standby Letters of Credit and Letters of Guarantee

Standby letters of credit and letters of guarantee are issued at the request of a Credit Union member in order to secure the member's payment or performance obligations to a third party. These guarantees represent an irrevocable obligation of the Credit Union to pay the third party beneficiary upon presentation of the guarantee and satisfaction of the documented requirements stipulated therein, without investigation as to the validity of the beneficiary's claim against the member.

Generally, the term of these guarantees does not exceed three years. The types and amounts of collateral security held by the Credit Union for these guarantees is generally the same as for loans. Standby letters of credit and letters of guarantee outstanding were $51,664. This represents the maximum potential amount of future payments.

Indemnification of Directors and Officers

The Credit Union has directors' and officers' insurance coverage that limits its exposure to certain events or occurrences while the director or officer is or was serving at the Credit Union's request. This insurance coverage enables the Credit Union to recover a portion of any future amounts paid. The maximum potential amount of future payments is $20,000 per claim subject to an annual maximum of $30,000.

Other Indirect Commitments

In the normal course of business, various indirect commitments are outstanding that are not reflected on the consolidated statement of financial position. These may include:

(i) Commercial letters of credit that require the Credit Union to honour drafts presented by a third party when specific activities are completed

(ii) Commitments to extend credit that represent undertakings to make credit available in the form of loans or other financings for specific amounts and maturities, subject to specific conditions

The financial commitments are subject to the Credit Union's normal credit standards, financial controls and monitoring procedures. The following table provides a detailed breakdown of the Credit Union's other indirect commitments expressed in terms of the contractual amounts of the related commitment or contract that are not reflected on the consolidated statement of financial position.

(Canadian $ thousands, except per share amounts)

28. GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES(CONTINUED)

Commitments to extend credit	As at October 31 2018	As at October 31 2017
Original term to maturity of one year or less	$ 3,215,109	$ 2,577,547
Original term to maturity of more than one year	22,434	51,309
Total	$ 3,237,543	$ 2,628,856

Property and equipment and intangible assets expenditure commitments	As at October 31 2018	As at October 31 2017
Total contractual amount	$ 309	$ 920
Cost to date	168	833
Remaining commitment	$ 141	$ 87

The Credit Union also has a callable unfunded capital commitment of $143 to a co-operative investment fund.

Contractual Obligations

The Credit Union has various obligations under long-term, non-cancellable contracts, which include service contracts, operating leases for buildings and equipment and other leases. The future minimum payments for such obligations for each of the next five fiscal years and thereafter are as follows:

	Property Operating Leases	Other Contractual Obligations	Total
Within 1 year	$ 10,214	$ 12,959	$ 23,173
Between 1 and 5 years	27,274	13,891	41,165
After 5 years	7,451	4,276	11,727
Total	$ 44,939	$ 31,126	$ 76,065

Contingent Liabilities

In the ordinary course of business, Servus and its subsidiaries are party to legal and regulatory proceedings. Based on current knowledge, Servus does not expect the outcome of any of these proceedings to have a material effect on the consolidated financial position or results of operations.

(Canadian $ thousands, except per share amounts)

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

		As at October 31, 2018		
	Note	**Carrying Value**	**Fair Value**	**Fair Value Difference**
Financial Instrument Assets				
Cash and cash equivalents	a	$ 136,832	$ 136,832	$ –
Interest bearing deposits with financial institutions	c	1,092,665	1,090,417	(2,248)
Assets at amortized cost	e	1,384	1,384	–
Assets at fair value through OCI	f	174,079	174,079	–
Assets at fair value through profit or loss	d	5,998	5,998	–
Members' loans	b,c	14,294,509	14,185,296	(109,213)
Other	a	5,551	5,551	–
		15,711,018	15,599,557	(111,461)
Financial Instrument Liabilities				
Members' deposits	b,c	12,839,376	12,827,691	11,685
Liabilities at fair value through profit or loss	d	12,372	12,372	–
Borrowings	a	250,000	250,000	–
Securitization liabilities	c	1,329,762	1,296,564	33,198
Trade payables and other liabilities	a	178,552	178,552	–
		$ 14,610,062	$ 14,565,179	$ 44,883

		As at October 31, 2017		
	Note	Carrying Value	Fair Value	Fair Value Difference
Financial Instrument Assets				
Cash and cash equivalents	a	$ 104,118	$ 104,118	$ –
Interest bearing deposits with financial institutions	c	1,180,660	1,180,634	(26)
Assets at amortized cost	e	794	794	–
Assets at fair value through profit or loss	d	31,695	31,695	–
Members' loans	b,c	13,675,636	13,606,998	(68,638)
Other	a	6,668	6,668	–
		14,999,571	14,930,907	(68,664)
Financial Instrument Liabilities				
Members' deposits	b,c	12,560,063	12,555,294	4,769
Liabilities at fair value through profit or loss	d	13,006	13,006	–
Borrowings	a	100,000	100,000	–
Securitization liabilities	c	1,093,288	1,083,871	9,417
Trade payables and other liabilities	a	173,912	173,912	–
		$ 13,940,269	$ 13,926,083	$ 14,186

(Canadian $ thousands, except per share amounts)

29. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) The fair values of cash, other financial assets, borrowings and other liabilities are assumed to approximate book values, due to their short-term nature.

(b) The estimated fair values of floating rate member loans and member deposits are assumed to equal their book values since the interest rates automatically reprice to market.

(c) The estimated fair values of interest-bearing deposits with financial institutions, fixed-rate member loans, fixed-rate member deposits and securitization liabilities are determined by discounting the expected future cash flows of these loans and deposits based on yield curves of financial assets and liabilities with similar terms and credit risks.

(d) The fair values of derivative financial instruments are calculated based on valuation techniques using inputs reflecting market conditions at a specific point in time and may not be reflective of future fair values.

(e) The fair values of assets at amortized cost are assumed to equal their book values since a fair value adjustment cannot be supported because there is no available market to purchase the assets.

(f) The fair value of mortgage backed security bonds is based on quoted market prices for identical bonds traded in an active market.

The following table provides an analysis of the financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which fair value is observable:

As at October 31, 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative assets	$ –	$ 5,998	$ –	$ 5,998
Mortgage-backed security bonds	174,079	–	–	174,079
Financial assets held at fair value	**$ 174,079**	**$ 5,998**	**$ –**	**$ 180,077**
Member shares – Series E	–	(427)	–	(427)
Derivative liabilities	–	(12,372)	–	(12,372)
Financial liabilities held at fair value	**$ –**	**$ (12,799)**	**$ –**	**$ (12,799)**

Fair value measurements using Level 3 inputs	
Balance at October 31, 2017	$ 23,080
Loss included in profit and loss	(1,612)
Purchase option exercised for embedded derivative asset	(21,468)
Balance at October 31, 2018	**$ –**

As at October 31, 2017	Level 1	Level 2	Level 3	Total
Derivative assets	$ –	$ 8,615	$ –	$ 8,615
Embedded derivative assets	–	–	23,080	23,080
Financial assets held at fair value	$ –	$ 8,615	$ 23,080	$ 31,695
Member shares – Series E	–	(415)	–	(415)
Derivative liabilities	–	(13,006)	–	(13,006)
Financial liabilities held at fair value	$ –	$ (13,421)	$ –	$ (13,421)

Fair value measurements using Level 3 inputs	
Balance at October 31, 2016	$ 21,262
Gain included in profit and loss	1,818
Balance at October 31, 2017	$ 23,080

30. FINANCIAL RISK MANAGEMENT

The Credit Union is exposed to the following risk 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 exposure to them.

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 may arise principally in lending activities that lead to loans and advances and investments that bring debt securities, derivative counterparties and other investments into the Credit Union's asset portfolio.

Risk Measurement

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 portfolio. Qualitative and quantitative analyses of a borrower's financial information are important factors used in determining the financial state of the counterparty.

Loan exposures are managed and monitored through facility limits for individual borrowers and a credit review process. These reviews ensure that the borrower complies with internal policy and underwriting standards. The Credit Union relies on collateral security typically in the form of a fixed and floating charge over the assets and underwriting of its borrowers. Credit risk is also managed through regular analysis of the ability of members and potential members to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Credit risk for counterparties in other financial instruments, such as investments and derivatives, is assessed through published credit ratings.

Credit Quality Performance

Refer to Note 9 for additional information on the credit quality performance of the members' loans.

Objectives, Policies and Processes

The Credit Union employs and is committed to a number of important principles to manage credit risk exposure as follows:

- Credit risk assessment includes policies related to credit risk analysis, risk rating and risk scoring.
- Credit risk mitigation includes credit structuring, collateral and guarantees.
- Credit risk approval limits include credit risk limits and exceptions.
- Credit risk documentation focuses on documentation and administration.
- Credit review and deterioration include monitoring and review.

Market Risk

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

Risk Measurement

The Credit Union's risk position is measured based on rates charged to members. The Treasury department manages day-to-day market risk within approved policies and reports on a regular basis to management's Asset Liability Committee (ALCO) to ensure policy compliance. Management provides quarterly reports on these matters to the Board's Audit and Finance Committee. Tools to measure this risk include gap analysis, which shows the sensitivity between interest-sensitive assets and interest-sensitive liabilities, and income sensitivity analysis (Note 31).

(Canadian $ thousands, except per share amounts)

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

Objectives, Policies and Processes

The Treasury department is responsible for managing the Credit Union's interest rate risk, monitoring approved limits and maintaining compliance with policies. The Credit Union manages market risk by developing and implementing asset and liability management policies. These policies are approved by the Board and monitored by ALCO. The Credit Union's goal is to achieve adequate profitability, liquidity and stability. The Credit Union makes use of financial modelling based on possible interest rate scenarios and matching analysis to measure and manage its market risk. At least annually, the Board's Audit and Finance Committee reviews the Credit Union's investment and asset liability management policies.

Since October 31, 2017, there were no significant changes in the Credit Union's market risk policies and procedures.

The following table provides the potential before-tax impact of an immediate and sustained 1% increase or decrease in interest rates on net interest income. These measures are based on assumptions made by senior management and validated by experience. All interest rate risk measures are based upon exposures at a specific time and continuously change as a result of business activities and risk management initiatives.

		2018		2017
Before tax impact of:				
1% increase in rates	**$**	**12,283**	$	3,478
1% decrease in rates	**$**	**(16,731)**	$	(3,135)

Foreign exchange risk

Foreign exchange risk is the risk that the fair value of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange risks exist mainly as a result of the existence of financial assets, derivatives and financial liabilities denominated in foreign currencies. The risk associated with changing foreign currency values is managed under the Credit Union's foreign exchange risk management policy. As at October 31, 2018, the Credit Union's net difference between assets and liabilities in foreign currencies was $1,129 (2017 – $1,621).

Liquidity Risk

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

Risk Measurement

The assessment of the Credit Union's liquidity position reflects management's estimates, assumptions and judgment pertaining to current and prospective market conditions and the related behaviour of its members and counterparties. The Credit Union measures and manages its liquidity position from three perspectives:

- Structural liquidity risk, which addresses the risk due to mismatches in effective maturities between assets and liabilities, more specifically the risk of over-reliance on short-term liabilities to fund long-term illiquid assets
- Tactical liquidity risk, which addresses the day-to-day funding requirements that are managed by imposing prudential limits on net fund outflows
- Contingent liquidity risk, which assesses the impact of and the intended responses to sudden stressful events

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

Objectives, Policies and Processes

The acceptable amount of risk is defined by policies approved by the Board and monitored by ALCO.

The Credit Union's liquidity policies and practices include:

- Measurement and forecast of cash flows
- Maintenance of a pool of high-quality liquid assets
- A stable base of core deposits from retail and commercial customers
- Limits on single deposits and sources of deposits
- Monitoring of wholesale demand and term deposits
- Diversification of funding resources

The Credit Union manages liquidity by monitoring, forecasting and managing cash flows and the concentration of loans and deposits within approved policies. The Treasury department manages day-to-day liquidity within these policies and reports regularly to ALCO to ensure policy compliance. Management provides monthly reports on these matters to the Board's Audit and Finance Committee.

The Credit Union will at all times maintain statutory liquidity levels as required by regulations. The Act requires that statutory liquidity deposits be held with Alberta Central at a minimum rate of 9.0% of average liabilities for the second prior month. Statutory liquidity includes eligible deposits and shares of Alberta Central. Immediate corrective action will be taken if the ratio approaches the regulatory minimum. Based on the average liabilities at August 2018, the Credit Union's liquidity as at October 31, 2018, exceeds the minimum requirement.

Key features of liquidity management include:

- Daily monitoring of expected cash inflows and outflows, as well as tracking and forecasting the liquidity position on a 90-day rolling basis
- Consideration of the term structure of loans and deposits, with emphasis on deposit maturities, as well as expected loan funding and other commitments to ensure the Credit Union can maintain required levels of liquidity while meeting its obligations

The following table comprises aggregating cash flows into maturity dates of the Credit Union's non-derivative financial assets and financial liabilities. Subject to member behaviour and applicability to the Credit Union's asset and liability management policy, this table represents the position as at the close of business day.

Financial Assets

- Fixed and variable rate assets, such as residential mortgage loans, consumer loans, commercial loans and investments are reported based on scheduled repayments and maturities.

Financial Liabilities

- Fixed and variable rate liabilities, such as term deposits, securitization financing and borrowings are reported at scheduled maturity.
- Payables and other liabilities with no defined maturity are reported within the non-maturities category.

(Canadian $ thousands, except per share amounts)

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

As at October 31, 2018	Non-Maturities	Less than 1 year	1 – 3 years	3 – 5 years	Over 5 years	Total
Financial Assets						
Cash and cash equivalents	$ 136,832	$ –	$ –	$ –	$ –	$ 136,832
Investments	303	1,105,547	32,673	129,605	–	1,268,128
Members' loans	2,607,842	3,856,946	5,023,247	2,695,599	110,875	14,294,509
Accounts receivable	–	5,160	–	–	–	5,160
Total Financial Assets	$ 2,744,977	$ 4,967,653	$ 5,055,920	$ 2,825,204	$ 110,875	$ 15,704,629
Financial Liabilities						
Members' deposits	6,918,939	3,819,839	1,872,902	226,605	1,091	12,839,376
Trade payables and other liabilities	427	172,389	–	–	–	172,816
Borrowings	–	–	150,000	100,000	–	250,000
Securitization liabilities	–	368,269	658,468	303,025	–	1,329,762
Total Financial Liabilities	$ 6,919,366	$ 4,360,497	$ 2,681,370	$ 629,630	$ 1,091	$ 14,591,954
Net Maturities	$ (4,174,389)	$ 607,156	$ 2,374,550	$ 2,195,574	$ 109,784	$ 1,112,675

As at October 31, 2017	Non-Maturities	Less than 1 year	1 – 3 years	3 – 5 years	Over 5 years	Total
Financial Assets						
Cash and cash equivalents	$ 104,118	$ –	$ –	$ –	$ –	$ 104,118
Investments	293	1,180,660	–	–	501	1,181,454
Members' loans	2,418,538	3,828,270	4,596,528	2,736,711	95,589	13,675,636
Accounts receivable	–	6,536	–	–	–	6,536
Total Financial Assets	$ 2,522,949	$ 5,015,466	$ 4,596,528	$ 2,736,711	$ 96,090	$ 14,967,744
Financial Liabilities						
Members' deposits	7,109,773	3,900,841	1,335,766	213,445	238	12,560,063
Trade payables and other liabilities	415	168,302	–	–	–	168,717
Borrowings	–	100,000	–	–	–	100,000
Securitization liabilities	–	338,544	529,369	225,375	–	1,093,288
Total Financial Liabilities	$ 7,110,188	$ 4,507,687	$ 1,865,135	$ 438,820	$ 238	$ 13,922,068
Net Maturities	$ (4,587,239)	$ 507,779	$ 2,731,393	$ 2,297,891	$ 95,852	$ 1,045,676

(Canadian $ thousands, except per share amounts)

31. INTEREST RATE SENSITIVITY

The principal values of interest rate-sensitive assets and liabilities and the notional amount of swaps and other derivative financial instruments used to manage interest rate risk are presented below in the periods in which they next reprice to market rates or mature. These are summed to show the interest rate sensitivity gap. Accrued interest amounts are included in the non-interest-sensitive section. The average rates presented are weighted average effective yield based on the maturity dates. Additional information on how the Credit Union uses derivative financial instruments to manage interest rate risk is included in Note 14. Information on how the Credit Union manages interest rate risk is included in Note 30.

As at October 31, 2018	Floating Rate	0–3 months	3–6 months	6–12 months	More Than 1 Year	Non Interest Sensitive	Total
Assets							
Cash and cash equivalents	$ 97,158	$ –	$ –	$ –	$ –	$ 39,674	$ 136,832
Effective yield (%)	*0.25%*	–	–	–	–	–	*0.18%*
Investments in associates	–	–	–	–	–	184,587	184,587
Investments	–	1,085,806	3,632	13,142	162,279	3,269	1,268,128
Effective yield (%)	–	*1.89%*	*2.24%*	*2.43%*	*2.39%*	–	*1.96%*
Members' loans	4,377,019	681,016	543,031	1,427,121	7,027,615	238,707	14,294,509
Effective yield (%)	*4.84%*	*3.71%*	*3.61%*	*3.59%*	*3.41%*	–	*3.83%*
Other assets	–	–	–	–	–	256,417	256,417
	4,474,177	1,766,822	546,663	1,440,263	7,189,894	722,654	16,140,473
Liabilities and Equity							
Members' deposits	5,005,353	1,502,305	828,945	1,445,680	3,076,208	980,885	12,839,376
Effective yield (%)	*0.88%*	*1.92%*	*1.88%*	*2.04%*	*1.63%*	–	*1.31%*
Other liabilities	–	–	–	–	–	209,860	209,860
Borrowings	–	250,000	–	–	–	–	250,000
Effective yield (%)	–	*2.62%*	–	–	–	–	*2.62%*
Securitization liabilities	–	93,295	72,037	202,937	961,493	–	1,329,762
Effective yield (%)	–	*1.84%*	*1.50%*	*1.59%*	*1.93%*	–	*1.85%*
Equity	–	–	–	–	–	1,511,475	1,511,475
	5,005,353	1,845,600	900,982	1,648,617	4,037,701	2,702,220	16,140,473
Off Statement of Financial Position							
Notional value of assets derivative financial instruments	–	500,000	200,000	–	300,000	–	1,000,000
Notional value of liabilities derivative financial instruments	–	(1,000,000)	–	–	–	–	(1,000,000)
Sub Total	–	(500,000)	200,000	–	300,000	–	–
Net 2018 Position	$ (531,176)	$ (578,778)	$ (154,319)	$ (208,354)	$ 3,452,193	$(1,979,566)	$ –

(Canadian $ thousands, except per share amounts)

31. INTEREST RATE SENSITIVITY (CONTINUED)

As at October 31, 2017	Floating Rate	0–3 months	3–6 months	6–12 months	More Than 1 Year	Non Interest Sensitive	Total
Assets							
Cash and cash equivalents	$ 67,933	$ –	$ –	$ –	$ –	$ 36,185	$ 104,118
Effective yield (%)	*0.25%*	–	–	–	–	–	*0.16%*
Investments in associates	–	–	–	–	–	172,900	172,900
Investments	–	968,047	134,208	76,324	–	2,875	1,181,454
Effective yield (%)	–	*1.21%*	*1.09%*	*1.30%*	–	–	*1.20%*
Members' loans	4,517,619	662,167	573,954	1,421,776	6,495,549	4,571	13,675,636
Effective yield (%)	*4.09%*	*3.58%*	*3.45%*	*3.36%*	*3.33%*	–	*3.60%*
Other assets	–	–	–	–	–	256,349	256,349
	4,585,552	1,630,214	708,162	1,498,100	6,495,549	472,880	15,390,457
Liabilities and Equity							
Members' deposits	5,083,899	1,396,367	970,606	1,511,345	2,603,681	994,165	12,560,063
Effective yield (%)	*0.58%*	*1.51%*	*1.53%*	*1.49%*	*1.11%*	–	*0.93%*
Other liabilities	–	–	–	–	–	212,993	212,993
Borrowings	–	100,000	–	–	–	–	100,000
Effective yield (%)	–	*1.76%*	–	–	–	–	*1.76%*
Securitization liabilities	–	70,282	74,842	193,421	754,743	–	1,093,288
Effective yield (%)	–	*1.30%*	*1.29%*	*1.32%*	*1.62%*	–	*1.52%*
Equity	–	–	–	–	–	1,424,113	1,424,113
	5,083,899	1,566,649	1,045,448	1,704,766	3,358,424	2,631,271	15,390,457
Off Statement of Financial Position							
Notional value of assets derivative financial instruments	–	–	–	–	1,000,000	–	1,000,000
Notional value of liabilities derivative financial instruments	–	(1,000,000)	–	–	–	–	(1,000,000)
Sub Total	–	(1,000,000)	–	–	1,000,000	–	–
Net 2017 Position	$ (498,347)	$ (936,435)	$ (337,286)	$ (206,666)	$ 4,137,125	$(2,158,391)	$ –

32. RELATED PARTY DISCLOSURES

Related parties of the Credit Union include subsidiaries, key management personnel, close family members of key management personnel, entities subject to significant influence and employees of the Credit Union.

Associates

Refer to Note 15 for a summarization of related party transactions with Alberta Central.

Key Management Personnel

During the year, the following compensation amounts were included in personnel expense in the consolidated statement of income and comprehensive income for directors and management personnel of the Credit Union who have the authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly.

(Canadian $ thousands, except per share amounts)

32. RELATED PARTY DISCLOSURES (CONTINUED)

	Salary & Bonus	Benefits	Post Employment Benefits	2018
Chief Executive Officer (CEO)	$ 1,085	$ 64	$ 240	$ 1,389
Chief Financial Officer (CFO) (1)	343	20	15	378
Chief Financial Officer (CFO) (2)	197	11	11	219
Chief Operating Officer (COO)	548	33	26	607
Chief Information Officer (CIO)	501	30	26	557
Chief Credit, Compliance, & Operational Support Officer (CCCO)	501	30	26	557
Chief People & Corporate Services Officer (CPO)	480	35	26	541
Chief Brand, Digital Banking, & Corporate Social Responsibility Officer (CBO) (3)	438	34	22	494
Chief Brand & Digital Banking Officer (CBO) (4)	167	5	5	177
	$ 4,260	$ 262	$ 397	$ 4,919

(1) The CFO position was occupied by 2 officers during the year. Amount reported relates to the prior officer.
(2) The CFO position was occupied by 2 officers during the year. Amount reported relates to current officer.
(3) The CBO position was revised and occupied by 2 officers during the year. Amount reported relates to prior officer.
(4) The CBO position was revised and occupied by 2 officers during the year. Amount reported relates to current officer.

	Salary & Bonus	Benefits	Post Employment Benefits	2017
Chief Executive Officer (CEO)	$ 1,104	$ 63	$ 223	$ 1,390
Chief Financial Officer (CFO)	545	33	26	604
Chief Operating Officer (COO)	549	31	26	606
Chief Information Officer (CIO)	521	30	26	577
Chief Credit, Compliance, & Operational Support Officer (CCCO)	516	29	26	571
Chief People & Corporate Services Officer (CPO)	499	34	26	559
Chief Brand, Digital Banking, & Corporate Social Responsibility Officer (CBO)	514	31	26	571
	$ 4,248	$ 251	$ 379	$ 4,878

Directors' compensation and expenses	**2018**	2017
Compensation to directors	$ 665	$ 688
Expenses incurred by directors	115	98
Total	$ 780	$ 786

Compensation to directors ranged from $19 (2017 – $24) to $71 (2017 – $74) with an average of $51 (2017 – $53).

Short-term employee benefits include employee benefits that are payable within 12 months after October 31 of each year and include salary, bonus, benefits and allowances. Post-employment benefits are employee benefits that are payable after the completion of employment and include compensation made to retirement and pension plans. Other long-term benefits are benefits that are payable more than 12 months after October 31 of each year. Termination benefits are benefits payable as a result of an employee's employment being terminated and include severance payments and accruals for pending severance offers.

The Credit Union makes loans, primarily residential mortgages, and offers deposits, primarily fixed-term deposits, to its management and employees at various preferred rates and terms. The value of the difference in rates is included in short-term employee benefits (see Note 22). Board of Director loans and deposits are at member rates. All loans are in good standing and are granted in accordance with the Credit Union's standard credit practices.

(Canadian $ thousands, except per share amounts)

32. RELATED PARTY DISCLOSURES (CONTINUED)

Members' loans		As at October 31 2018		As at October 31 2017
Key management personnel	$	**2,392**	$	1,880
Board of directors		**3,986**		3,648
Other employees		**373,995**		406,992
Total	$	**380,373**	$	412,520

Members' deposits		As at October 31 2018		As at October 31 2017
Key management personnel	$	**12,276**	$	10,444
Board of directors		**2,086**		1,926
Other employees		**161,834**		163,630
Total	$	**176,196**	$	176,000

33. AMALGAMATIONS

Inglewood Credit Union Merger

On March 1, 2018, the Credit Union amalgamated with Inglewood Credit Union (Inglewood) acquiring 100% ownership under the name Servus Credit Union. Inglewood approached the Credit Union to amalgamate as a preferred partner as there was a strong correlation of culture, goals and objectives. This allows Inglewood to ensure the long term needs of its members are met and fits into the Credit Union's plans to expand further into the Calgary area.

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and any goodwill or gain on bargain purchase are as follows:

		Book Value		Adjustments		Fair Value Recognized on Acquisition
Assets						
Cash and cash equivalents	$	783	$	–	$	783
Investments		4,790		–		4,790
Members' loans		15,065		(66)		14,999
Other assets		45		–		45
Property and equipment		1,532		416		1,948
Deferred income tax assets		41		–		41
		22,256		350		22,606
Liabilities						
Members' deposits		20,632		(35)		20,597
Trade payables and other liabilities		333		–		333
		20,965		(35)		20,930
Total Identifiable Net Assets	$	**1,291**	$	**385**	$	**1,676**

Consideration in the amalgamation consists of Servus issuing the existing Inglewood members common shares totaling $521.

The amalgamation did not result in any goodwill being recognized, but had a gain on amalgmation of $1.2 million.

A separate transaction of $227 was also recorded to purchase the registered products of a few Inglewood members from Concentra. This was a separate agreement between the Credit Union and Concentra as the products were owned by Concentra not Inglewood.

Total amalgamation costs for the Ingelwood Credit Union amalgamation were $184.

(Canadian $ thousands, except per share amounts)

33. AMALGAMATIONS (CONTINUED)

Safeway Credit Union Merger

On June 1, 2018, the Credit Union amalgamated with Canada Safeway Limited Employees Savings and Credit Union Limited (Safeway) acquiring 100% ownership under the name Servus Credit Union. Safeway approached the Credit Union to amalgamate as a preferred partner as there was a strong correlation of culture, goals and objectives. This allows Safeway to ensure the long term needs of its members are met and fits into the Credit Union's plans to expand further into the Calgary area.

Details of the fair value of identifiable assets and liabilities acquired and gain on amalgamation are as follows:

	Book Value	FV Adjustments	Fair Value Recognized on Acquisition
Assets			
Cash and cash equivalents	$ 8,738	$ –	$ 8,738
Investments	5,977	–	5,977
Members' loans	28,555	304	28,859
Other assets	715	–	715
Property and equipment	48	–	48
	44,033	304	44,337
Liabilities			
Members' deposits	40,735	(85)	40,650
Trade payables and other liabilities	458	–	458
	41,193	(85)	41,108
Total Identifiable Net Assets	**$ 2,840**	**$ 389**	**$ 3,229**

Consideration in the amalgamation consists of Servus issuing the existing Safeway members common shares totaling $37.

The amalgamation did not result in any goodwill being recognized, but had a gain on amalgamation of $3.0 million.

A transaction of $162 was also recorded to purchase the registered products of Safeway members from Concentra. This was a separate agreement between the Credit Union and Concentra.

Total amalgamation costs for the Safeway Credit Union amalgamation were $156.

34. COMPARATIVE FIGURES

Derivatives classification on the Consolidated Statement of Cash Flows has been reclassified from operating activities to investing activities due to the nature of the underlying derivatives.

Certain other comparative figures in the note disclosures have been restated to comply with current year presentation.

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